

Tuesday, January 22, 2019

Market Themes/Strategy/Trading Ideas

- The USD drifted in a range to end mixed to higher amid the long weekend in NY and as China data points continued to point to a decelerating economy (with no bottoming in sight just yet) while the IMF downgraded its global growth forecasts again (global growth projection cut to 3.5% from 3.7% in October 2018). Not surprisingly, the cyclicals underperformed across the board.
- On the UK front, **PM May** on Monday did not explicitly rule out a no-deal Brexit nor an extension of the 29 March Brexit deadline. At this juncture, markets continue to pin hopes on an extension of the deadline (EU appears open, question is how long an extension), propping up the GBP-USD in the interim.
- With EZ equities down on Monday and US equity futures in the red early Tuesday in Asia, the **FXSI (FX Sentiment Index)** ticked marginally higher but remained in Risk-Neutral territory on Monday. However, markets may remain under a cloud of caution in view of the IMF growth downgrades.
- With regards to the **IMF growth downgrades**, note significant cut to Germany's GDP growth by 0.6 percentage points and the EZ's by 0.3 percentage points – potentially weighing further on the common unit ahead of the ECB this week, where the markets' eyes and ears will be tuned towards detecting any hints of an easing of the ECB's rate path. Meanwhile, the IMF also shaved EM growth for 2019 by 0.2 percentage points.
- **As noted previously, the DXY may remain on track to target its 55-day MA (96.613). To this end, look to fade upside in the EUR-USD, with the pair in danger of veering further south of its 55-day MA (1.1382). Similarly, USD-JPY may be tempted to attempt a breach of 110.00 before a reassessment. With growth concerns at the forefront intra-day, any uptick in the AUD-USD towards its 100-day MA (0.7171) is likely to be defeated by offers, with risk-reward favoring 0.7135 instead.**

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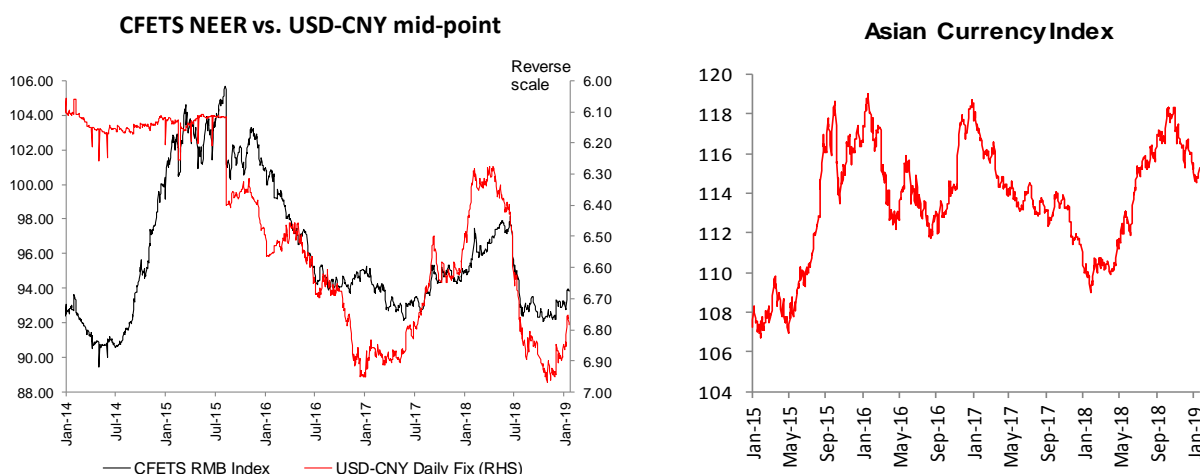
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Asian Markets

- In the current environment, expect the USD to remain relatively resilient in Asia on Tuesday with USD-CNH still holding north of 6.8000. Despite some renewed skepticism over Sino-US trade talks over the issue of intellectual property, overall sentiments appear not to be severely impinged. Meanwhile, hopes of significant progress resulting from vice premier Liu He’s visit next week continue to swirl in the background.
- On the portfolio flow front, net inflows for South Korea continue to deteriorate to near neutral levels despite improving net equity inflows with net bond flows (on a 20-day rolling sum basis) dipping into a net outflow balance. Taiwan meanwhile has finally flipped to a net inflow balance for net equity inflows. Meanwhile, net bond inflows from Indonesia seem to be stabilizing at fairly strong levels at this juncture (with net equity inflows also improving). For India, net bond flows have dropped to a neutral balance while net equity inflows stand at a minor negative. In Thailand, small net outflows for bonds and equities are attempting to compress.
- **SGD NEER:** The SGD NEER firmed to +1.76% above its perceived parity (1.3827), with the NEER-implied USD-SGD thresholds firmer again. Expect the 200-day MA (1.3621) to attract in the interim, with downside support coming in at around 1.3556.
- **CFETS RMB Index:** The USD-CNY mid-point was fixed higher again this morning, as expected, at 6.7854, compared to 6.7774 previously. The CFETS RMB Index slid to 93.85 from 93.88 yesterday. With the Index relatively static, expect the USD-CNY to carry the weight of broad USD movements for now.



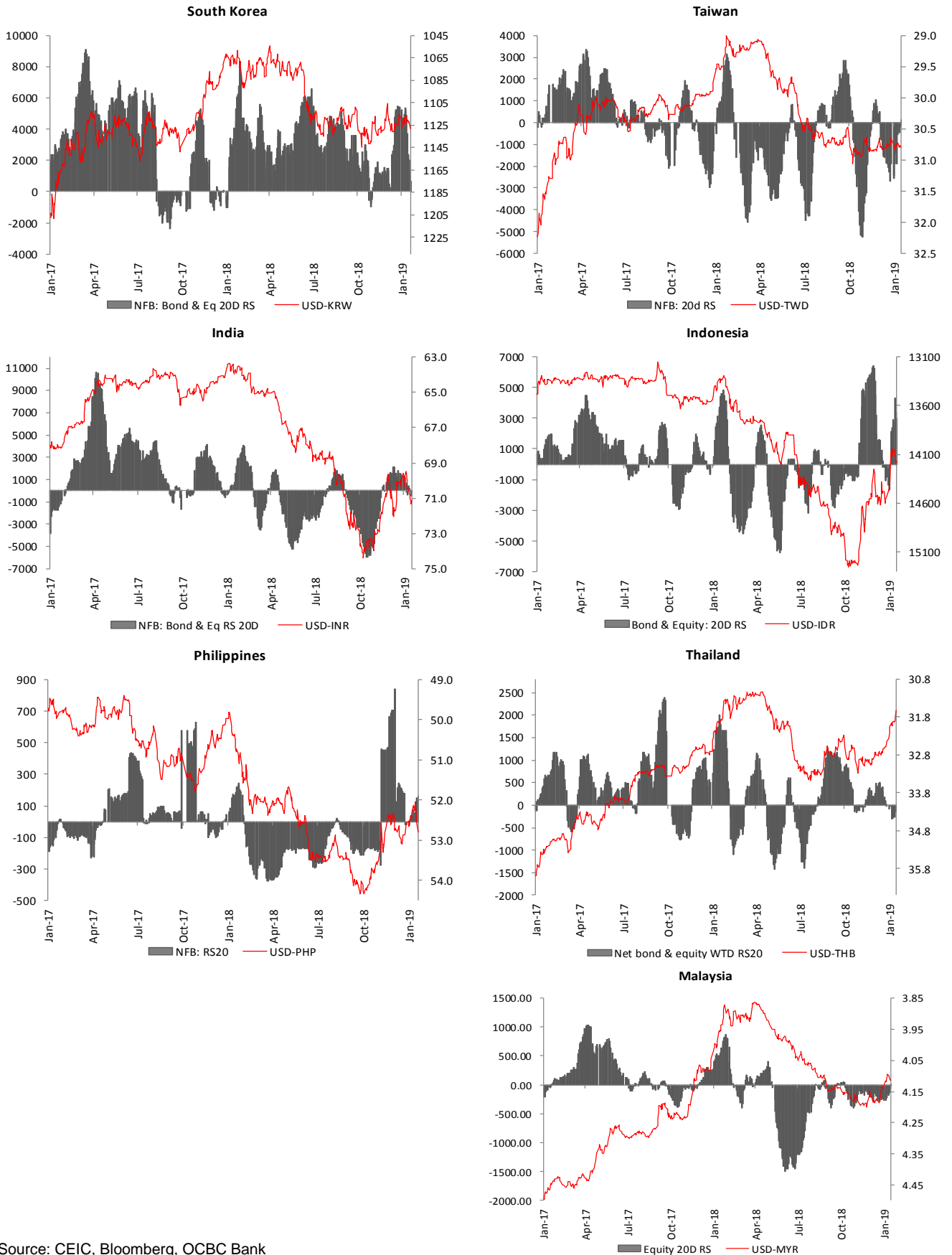
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
China	↔	↔/↓	Record liquidity injection in open market operations on 16 Jan. Officials on 15 Jan indicate that taxes will be cut “on a larger scale” and the PBOC stated that it would guide funding costs lower and strengthen counter cyclical adjustments. PBOC announces RRR cut on 04 Jan. NBS sees downside pressure on the economy in 2019. 4Q GDP as expected at 6.4% yoy. Dec monetary aggregates show new yuan loans and aggregate financing beating expectations. Dec CPI/PPI decelerate further, Dec exports and imports surprised with a contraction. Dec retail sales and industrial production in-line to stronger than expected.
S. Korea	↔	↔/↑	BOK hiked 25bps as expected in Nov; characterized as a one-off dovish hike. Dec CPI softer than expected at 1.3% yoy but core held at 1.3% yoy, BOK expects softer crude to impinge on price pressures. Dec exports go into contraction at -1.2% yoy. Dec manufacturing PMI firms to 49.8 from 48.6. Nov current account surplus shrank to lowest level since April. 4Q GDP higher than expected at +3.1% yoy on the back of fiscal support.
Taiwan	↔/↓	↔/↓	CBC static at 1.375% in Dec 2018. CBC governor ambivalent on the benchmark rate. Some CBC members looking towards policy normalization to afford the authority eventual downside wiggle room. Dec manufacturing PMI drops to 47.7. Price pressures soften and Dec CPI surprises with a -0.05% contraction. Political premium being built in. Dec exports orders slump -10.5% yoy.
India	↔	↔/↓	Fiscal slippage concerns may alleviate somewhat following indications that the farmer package maybe smaller than expected. Dec WPI significantly softer than expected while CPI was marginally cooler than expected, although RBI governor see core inflation remaining sticky at a high 6%. 3Q GDP weaker than expected. RBI static in Dec (new governor perceived to be more dovish). Dec manufacturing PMI slips to 53.2 from 54.0; Dec merchandise trade deficit came in lower than expected. Budget to be tabled on 1 Feb, with govt spending expected to increase with the general elections in Apr/May in mind.
Singapore	↔	↔/↑	SGD NEER veering away from the extreme end of its fluctuation abnd. Expect declines in the USD-SGD to track broad USD weakness, and not on discretionary SGD strength. 4Q GDP surprises on the downside at 1.6% saar, though 3Q GDP was revised higher to 3.5% saar.
Malaysia	↔/↓	↔/↓	BNM expected to be static in Jan 2019. BNM static in November, highlighting the drag from the fiscal front. Frosty market reception to the latest budget announcement (significantly larger than expected 2018 budget deficit penciled in). Dec manufacturing PMI falls to 47.7 from 48.4. Nov export growth decelerates sharply to +1.6% yoy.
Indonesia	↔/↓	↔/↑	BI remained static on its policy rate in Jan as expected after the pre-emptive Nov 18 hike. Primary policy focus remains centred on current account deficit containment and maintaining a sufficient yield buffer. BI governor reiterates that the benchmark rate is already near its peak although stance is still characterized as “hawkish”. If the Fed is in fact static in March, BI may relent and turn neutral. Dec CPI readings came in mixed, export (contraction)/import performance weakens. Elections slated for 17 April 2019.
Thailand	↓	↔	BOT governor reiterates accommodative policy is still important, perhaps highlighting a shift back to a neutral stance after the 25bps hike in Dec 2018. Stronger than expected Oct exports offset weak 3Q GDP. Dec headline and core inflation softer than expected while manufacturing PMI picked up to 50.3.
Philippines	↔	---	BSP remained static in Dec as expected. BSP governor open to RRR cut. 3Q GDP prints below expectations. Dec manufacturing PMI weakens to 53.2 from 54.2. Dec CPI softer than expected at +5.1% yoy.

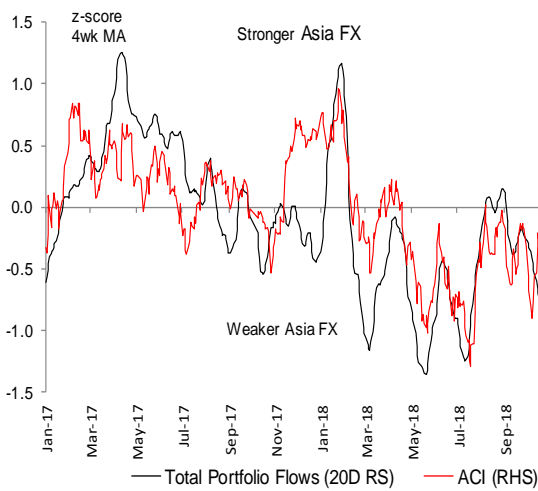
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



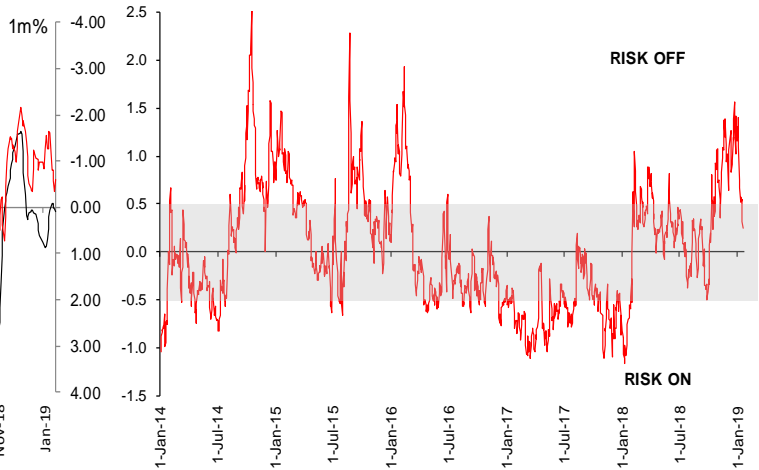
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.124	0.572	-0.548	-0.453	-0.582	0.708	-0.632	0.648	0.447	0.631	-0.827
SGD	0.853	0.081	0.816	-0.833	-0.7	-0.815	0.752	-0.844	0.925	0.714	0.851	-0.444
IDR	0.81	-0.051	0.763	-0.81	-0.667	-0.802	0.665	-0.861	0.924	0.729	0.811	-0.415
CHF	0.777	0.099	0.857	-0.874	-0.745	-0.807	0.728	-0.879	0.955	0.774	0.869	-0.41
MYR	0.708	0.638	0.443	-0.407	-0.213	-0.407	1	-0.476	0.69	0.271	0.479	-0.386
JPY	0.705	-0.151	0.817	-0.818	-0.75	-0.913	0.617	-0.913	0.861	0.809	0.841	-0.193
THB	0.678	0.396	-0.067	0.053	0.25	0.068	0.436	0.135	0.105	-0.26	-0.093	-0.883
PHP	0.631	-0.187	0.988	-0.843	-0.874	-0.88	0.479	-0.866	0.825	0.836	1	-0.177
CNH	0.583	-0.017	0.671	-0.833	-0.353	-0.665	0.436	-0.703	0.717	0.312	0.694	-0.401
CNY	0.582	0.008	0.868	-0.883	-0.833	-0.894	0.609	-0.925	0.928	0.87	0.862	-0.103
CAD	0.572	-0.163	1	-0.859	-0.893	-0.896	0.443	-0.888	0.819	0.842	0.988	-0.206
KRW	0.269	-0.004	0.232	-0.341	-0.1	-0.167	0.025	-0.198	0.262	-0.011	0.236	-0.402
USGG10	0.124	1	-0.163	0.237	0.452	0.321	0.638	0.164	0.084	-0.431	-0.187	-0.107
TWD	-0.018	-0.157	-0.186	0.095	0.152	0.212	-0.309	0.197	-0.214	-0.27	-0.18	-0.348
INR	-0.122	0.389	-0.817	0.658	0.809	0.767	-0.127	0.706	-0.533	-0.768	-0.765	-0.287
NZD	-0.498	0.33	-0.853	0.759	0.907	0.797	-0.242	0.763	-0.688	-0.891	-0.859	0.033
AUD	-0.691	0.248	-0.754	0.571	0.628	0.713	-0.393	0.598	-0.562	-0.586	-0.79	0.47
GBP	-0.704	0.359	-0.861	0.804	0.834	0.893	-0.422	0.845	-0.768	-0.842	-0.906	0.28
EUR	-0.827	-0.107	-0.206	0.161	0.072	0.172	-0.386	0.116	-0.214	-0.013	-0.177	1

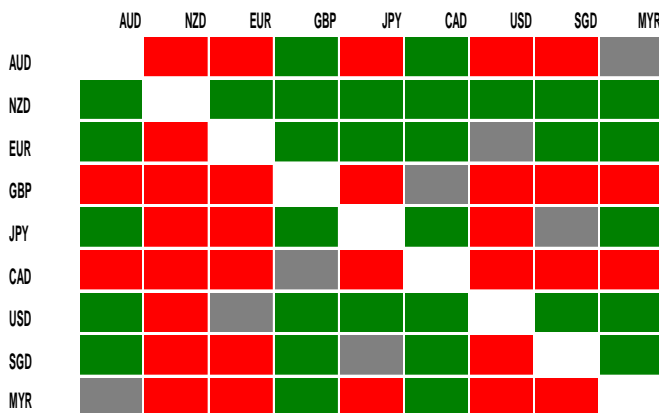
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1300	1.1318	1.1369	1.1388	1.1400
GBP-USD	1.2747	1.2800	1.2890	1.2900	1.2985
AUD-USD	0.6982	0.7100	0.7149	0.7181	0.7200
NZD-USD	0.6658	0.6700	0.6730	0.6775	0.6796
USD-CAD	1.3180	1.3300	1.3303	1.3358	1.3400
USD-JPY	107.34	109.00	109.52	110.00	111.05
USD-SGD	1.3499	1.3500	1.3590	1.3600	1.3621
EUR-SGD	1.5400	1.5419	1.5450	1.5500	1.5572
JPY-SGD	1.2300	1.2400	1.2408	1.2500	1.2608
GBP-SGD	1.7431	1.7500	1.7517	1.7581	1.7600
AUD-SGD	0.9555	0.9700	0.9715	0.9800	0.9813
Gold	1251.49	1263.41	1277.60	1300.00	1300.40
Silver	14.82	15.20	15.24	15.30	15.34
Crude	51.34	53.30	53.39	53.40	54.24

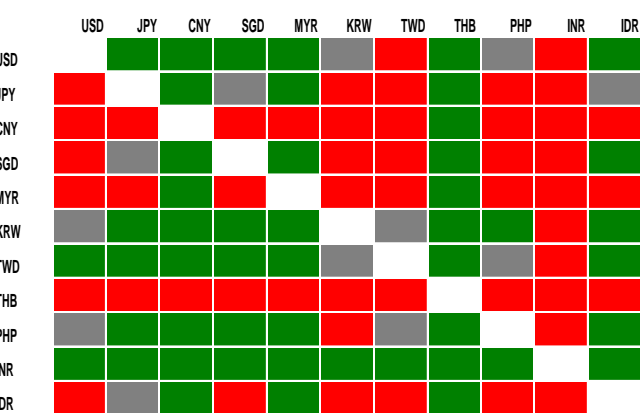
Source: OCBC Bank

G10 FX Heat Map



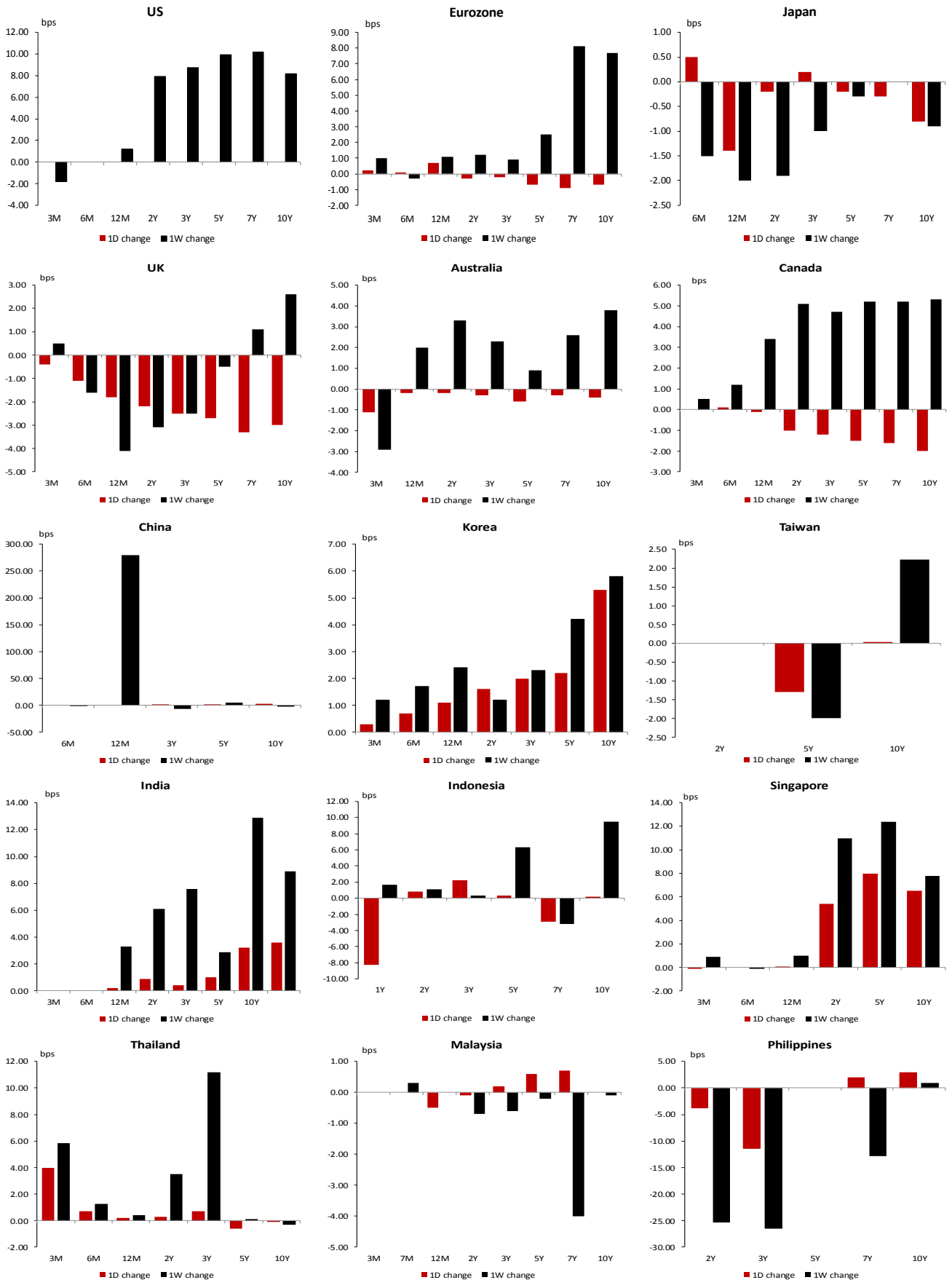
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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