

Wednesday, January 23, 2019

Market Themes/Strategy/Trading Ideas

- Despite negative global equities and softer global yields, our **FXSI (FX Sentiment Index)** dipped lower within the Risk-Neutral zone. Nevertheless, we think the overall risk sentiment is edgy, and may deteriorate quickly if global growth concerns become even more entrenched post the IMF growth downgrades. UST yields fell (weaker than expected December 2018 existing home sales) with the 7y sector outperforming while the 10y yield dipped below 2.75%, with global companion yield curves also softening.
- Sentiment also soured further after the FT reported that the Trump administration had rejected preparatory Sino-US talks this week (subsequently denied by the WH) ahead of Chinese vice premier Liu He's visit on 30-31 Jan.
- While the EUR-USD (mixed January German ZEW) remained suppressed, the cyclicals (AUD, CAD) underperformed significantly with the JPY and CHF benefitting as risk appetite fizzled out. The GBP was the exception with November 2018 labor market numbers surprising on the strong side, permitting the GBP-USD to surface above 1.2950. Late Tuesday, the NZD-USD blipped higher on warmer than expected 4Q CPI readings (+1.9% yoy).
- **Pending further headlines, expect more of the same today in view of market nervousness. To this end, the AUD-USD may continue to remain top heavy with the 100-day MA (0.7170) and the 55-day MA (0.7182) capping with risks tilted towards 0.7030.**
- **With risks of the ECB to surprise on the dovish side at its policy meeting tomorrow, we think markets may be underpricing downside risks to the EUR-USD (and bund yields) and look to fade upticks towards the 55-day MA (1.1381) for 1.1300 instead intra-day.**
- Elsewhere, the **Bank of Japan** is scheduled to meet today, although we do not expect any shift in policy parameters. Look instead, for any (slight) shift in Kuroda's rhetoric regarding the BOJ's expansionary stance in response to the global slowdown and the Sino-US trade talks.

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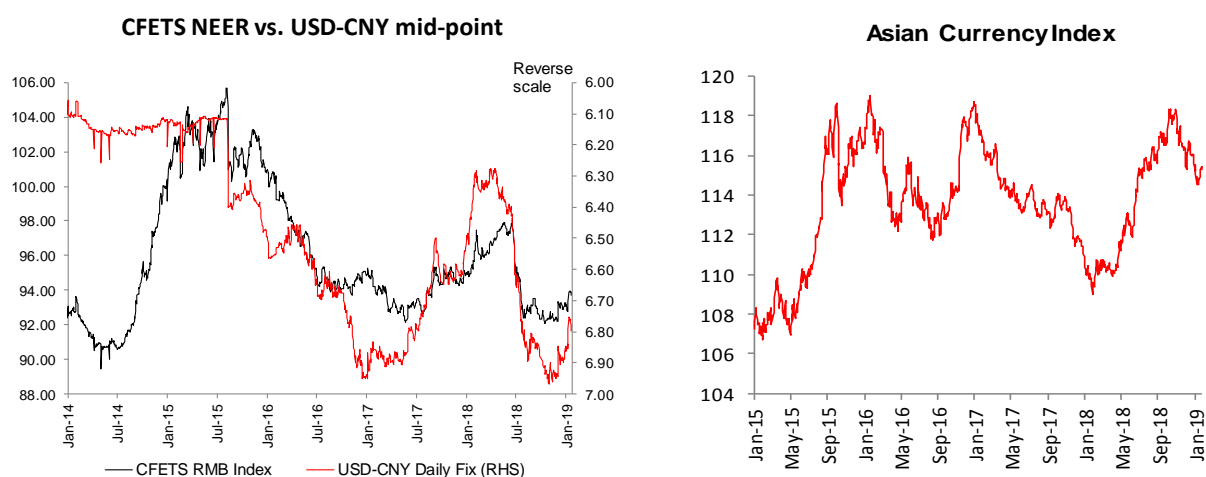
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Asian Markets

- USD-CNH circulated in a firmer range on Tuesday and may continue to set the tone pending further gyrations in risk appetite levels. **With regards to regional currencies, the INR, KRW, and TWD may remain relatively more vulnerable to the USD, while the IDR remains a favored outperformer.**
- On the **portfolio flow front**, net inflows for South Korea continue to deteriorate to near neutral levels, with improving net equity inflow momentum insufficient to offset outflows on the bond front (on a 20-day rolling sum basis). Positives for Taiwan though, with net inflow momentum further extending into positive territory. The flipside, however, for India, with net outflow momentum deepening on the back of equity outflows.
- **SGD NEER:** The SGD NEER stands at +1.73% above its perceived parity (1.3833), with the NEER-implied USD-SGD thresholds marginally firmer again. December 2018 CPI readings are due today (0500 GMT) and downside surprises may continue to keep the NEER away from the extreme strong end of its fluctuation band. **In the interim, base build for the USD-SGD, still targeting the 200-day MA (1.3623).**
- **CFETS RMB Index:** The USD-CNY mid-point was fixed higher again this morning, as expected, at 6.7969, compared to 6.7854 previously. The CFETS RMB Index slid to 93.73 from 93.85 yesterday. At this juncture, expect the USD-CNH to consolidate above the 6.8000 plane, with an upside bias, given the ongoing concerns in the Sino-US trade front.



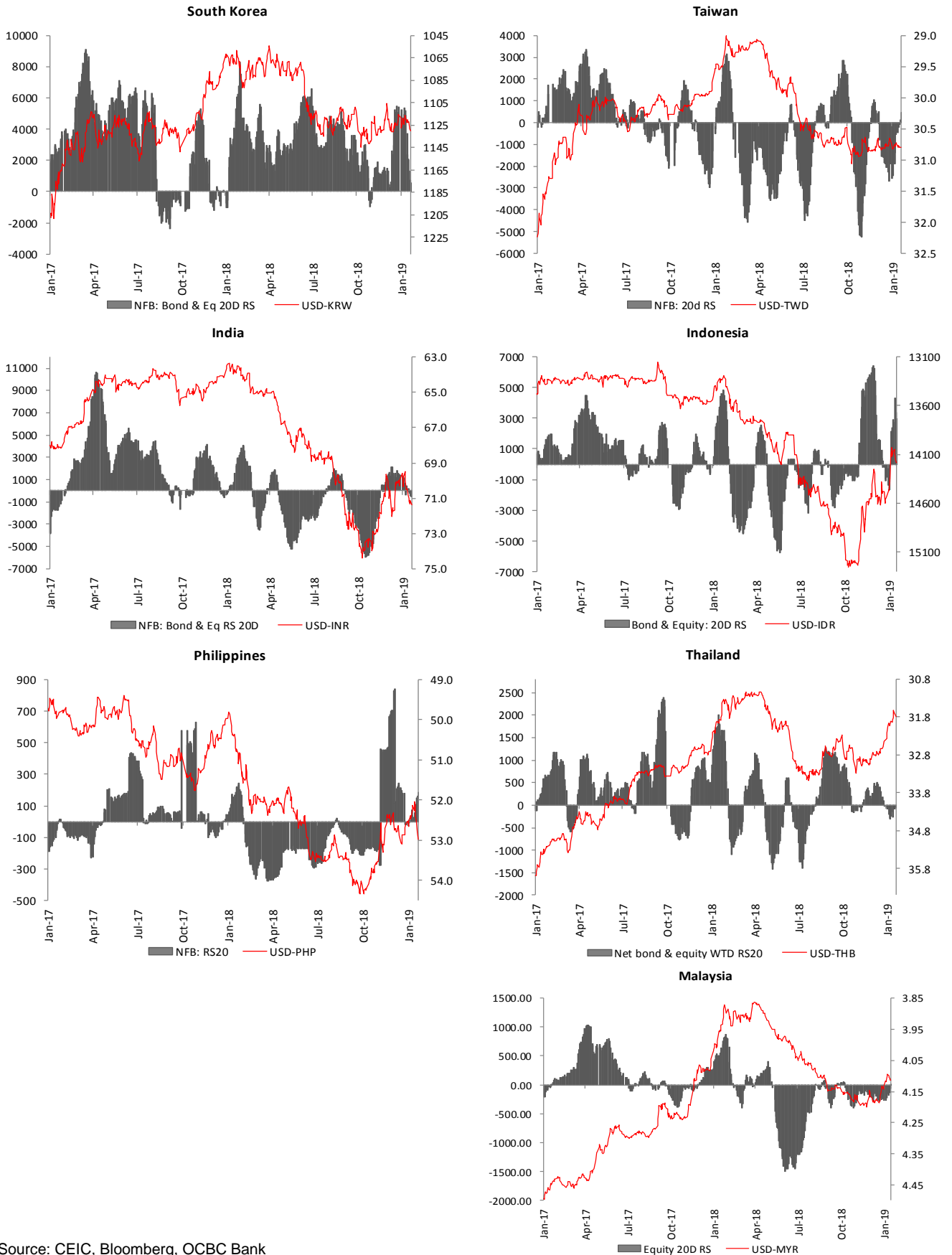
Source: OCBC Bank, Bloomberg

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 sees 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.

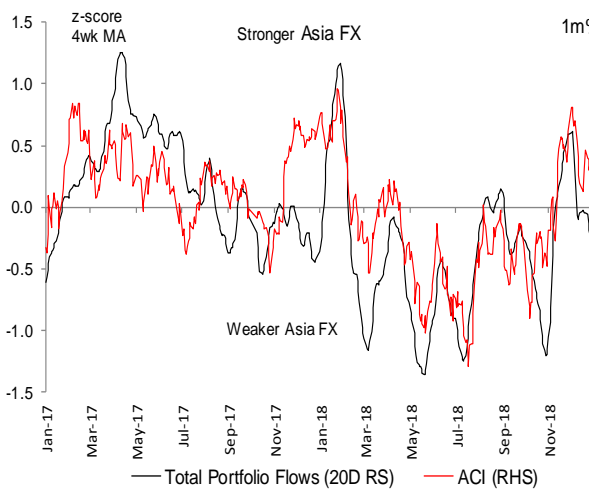
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



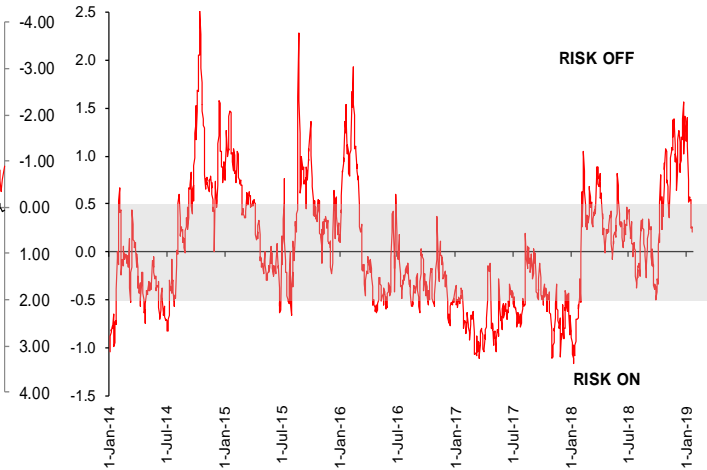
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.14	0.545	-0.503	-0.408	-0.547	0.709	-0.539	0.633	0.406	0.603	-0.811
SGD	0.839	0.07	0.813	-0.811	-0.679	-0.801	0.753	-0.834	0.923	0.696	0.85	-0.421
IDR	0.785	-0.065	0.764	-0.79	-0.652	-0.794	0.645	-0.833	0.924	0.714	0.813	-0.358
MYR	0.775	0.107	0.838	-0.837	-0.691	-0.783	0.728	-0.805	0.948	0.723	0.852	-0.399
JPY	0.709	0.64	0.421	-0.383	-0.198	-0.389	1	-0.469	0.683	0.255	0.479	-0.378
CAD	0.681	-0.167	0.818	-0.805	-0.736	-0.903	0.622	-0.9	0.861	0.796	0.84	-0.177
CHF	0.643	0.418	-0.131	0.153	0.332	0.148	0.416	0.187	0.056	-0.336	-0.108	-0.891
CNH	0.603	-0.206	0.988	-0.833	-0.858	-0.875	0.479	-0.861	0.826	0.824	1	-0.152
PHP	0.582	0.101	0.48	-0.316	-0.131	-0.401	0.457	-0.268	0.543	0.112	0.515	-0.52
CNY	0.545	-0.183	1	-0.85	-0.877	-0.892	0.421	-0.876	0.821	0.832	0.988	-0.143
THB	0.514	-0.039	0.862	-0.89	-0.84	-0.898	0.547	-0.933	0.92	0.876	0.852	0.01
KRW	0.29	0.077	0.115	-0.129	0.066	-0.02	0.073	0.065	0.165	-0.147	0.131	-0.5
USGG10	0.14	1	-0.183	0.256	0.457	0.336	0.64	0.215	0.073	-0.438	-0.206	-0.152
TWD	0.04	-0.064	-0.232	0.195	0.258	0.276	-0.226	0.333	-0.23	-0.353	-0.217	-0.448
INR	-0.078	0.395	-0.777	0.684	0.827	0.765	-0.106	0.722	-0.518	-0.788	-0.734	-0.358
GBP	-0.378	0.361	-0.812	0.775	0.914	0.799	-0.205	0.774	-0.667	-0.898	-0.815	-0.085
NZD	-0.673	0.259	-0.754	0.554	0.607	0.699	-0.376	0.651	-0.561	-0.57	-0.815	0.405
AUD	-0.692	0.363	-0.856	0.782	0.805	0.877	-0.431	0.817	-0.766	-0.816	-0.902	0.28
EUR	-0.811	-0.152	-0.143	0.077	-0.011	0.102	-0.378	0.058	-0.178	0.061	-0.152	1

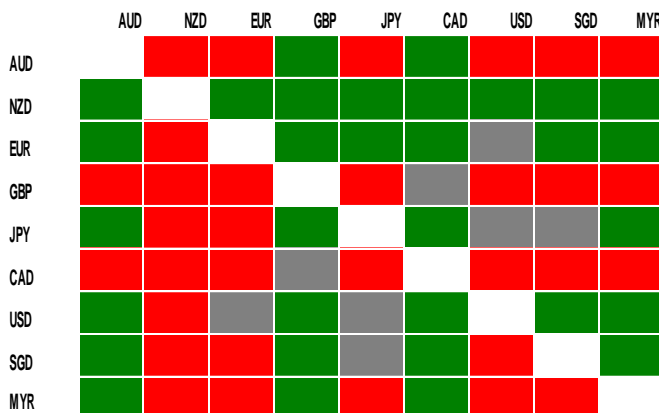
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1300	1.1318	1.1363	1.1388	1.1400
GBP-USD	1.2747	1.2900	1.2953	1.3000	1.3001
AUD-USD	0.6987	0.7100	0.7132	0.7178	0.7200
NZD-USD	0.6661	0.6700	0.6766	0.6772	0.6796
USD-CAD	1.3180	1.3300	1.3333	1.3361	1.3400
USD-JPY	107.52	109.00	109.68	110.00	110.68
USD-SGD	1.3499	1.3500	1.3595	1.3600	1.3623
EUR-SGD	1.5400	1.5419	1.5449	1.5500	1.5569
JPY-SGD	1.2300	1.2316	1.2395	1.2400	1.2602
GBP-SGD	1.7427	1.7600	1.7610	1.7638	1.7639
AUD-SGD	0.9555	0.9600	0.9695	0.9700	0.9811
Gold	1252.79	1270.89	1284.10	1299.47	1300.00
Silver	15.30	15.33	15.38	15.40	15.96
Crude	51.17	53.00	53.04	53.10	54.02

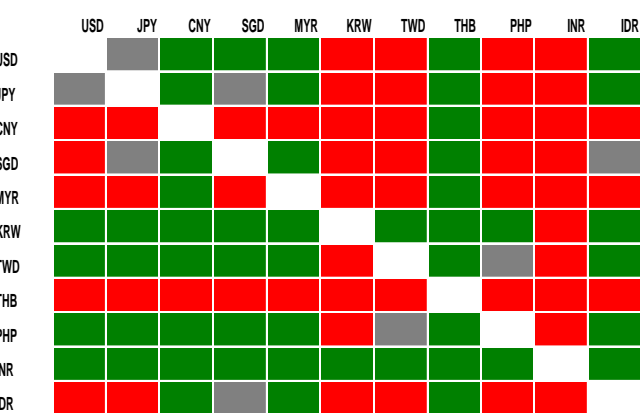
Source: OCBC Bank

G10 FX Heat Map



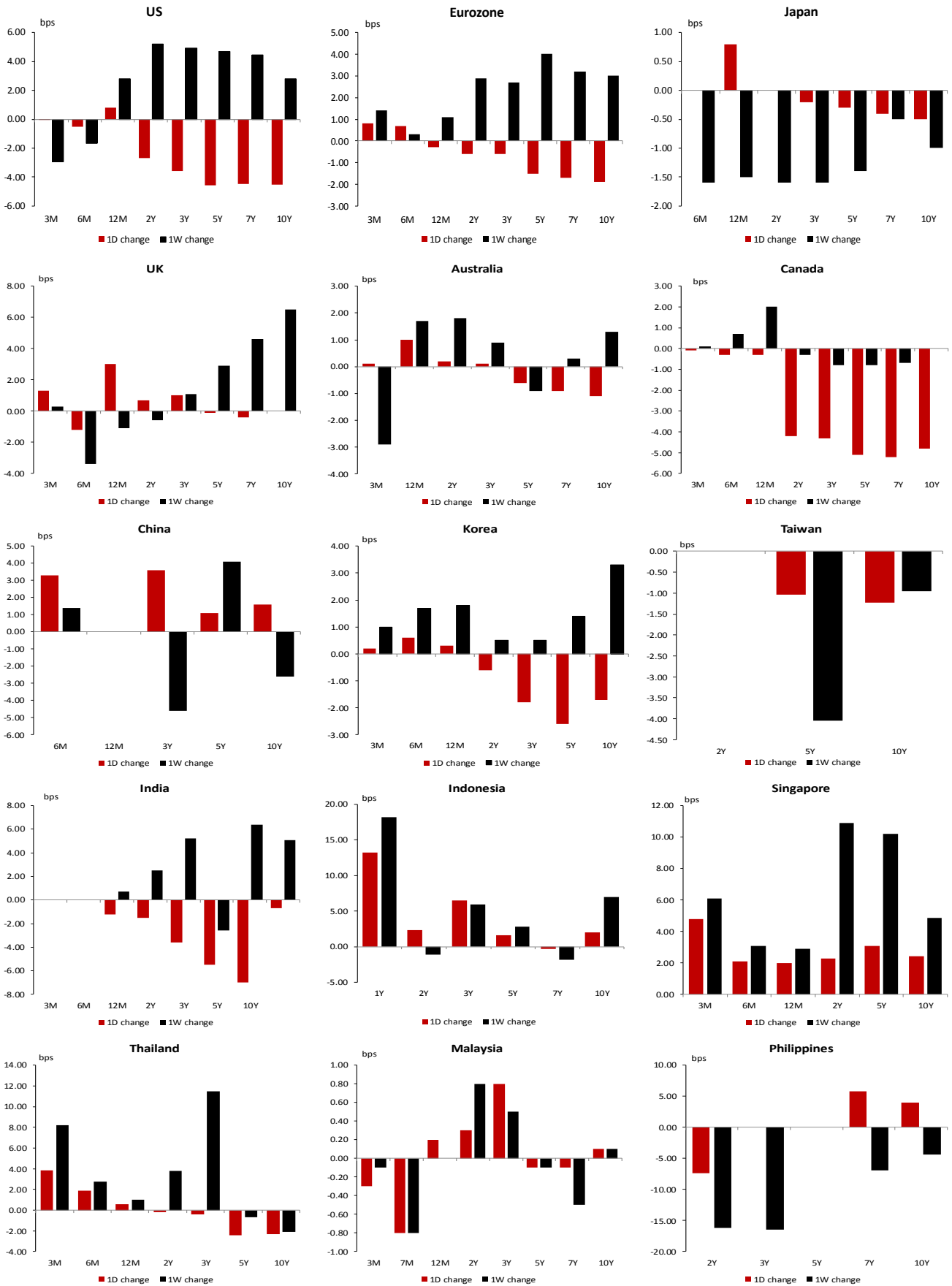
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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