

Thursday, January 24, 2019

**Market Themes/Strategy/Trading Ideas**

- The USD saw renewed weakness in NY on the back of ongoing trade war uncertainty (more Trump tweets) and as investors paused after the DXY's recent run-up. The GBP climbed across the board amid diminished prospects of a no-deal **Brexit** and indications that the EU may be amenable to a delay.
- On the risk appetite front, our **FX Sentiment Index (FXSI)** held near recent levels within the Risk-Neutral zone, despite a mixed showing in global equities.
- The **BOJ** at its MPC on Wednesday lowered significantly its core inflation forecasts while maintaining a dovish stance. This saw the JPY underperforming against its peers. On other fronts, softer crude and fairly neutral comments from the BOC's Poloz also saw the USD-CAD lifting higher on the day. UST yields came off intra-day highs to end largely unchanged despite the January Richmond Fed improving from the previous month.
- Today, a planned Democrat-backed vote on legislation in the **Senate** to re-start funding for the government (partial shutdown for the 33<sup>rd</sup> day yesterday) for the next 3 weeks.
- Meanwhile, the **ECB** meeting (1245 GMT) will be expected to be a primary focus for markets and we remain wary for any dovish surprises with the 55-day MA (1.1381) not seen offering any decent support in that eventuality.
- Range trading conditions meanwhile may persist elsewhere. Undue negativity for the **JPY** may cease to reverberate beyond the short term and the pair may resume to reacting to USD prospects or risk aversion instead. Expect 110.00 to shelter for the USD-JPY in the interim. Elsewhere, despite strong Dec job numbers, expect **AUD-USD** to remain hesitant above its 100-day MA (0.7170) and 55-day MA (0.7181).
- Going ahead, **GBP-AUD** may potentially have some further upside in the near term. Background optimism (avoidance of "no-deal" Brexit and/or extension of the 29 March deadline) towards the GBP coupled with inherent vulnerability of the AUD (global growth concerns) we think is a nice set up for a push higher. From a spot ref of 1.8159 on Wednesday, we target 1.8745 and place a stop at 1.7865.

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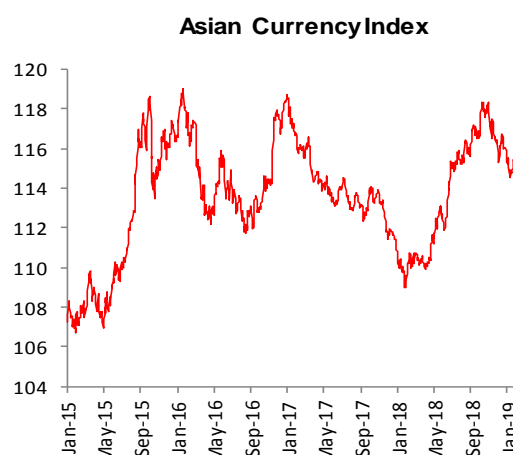
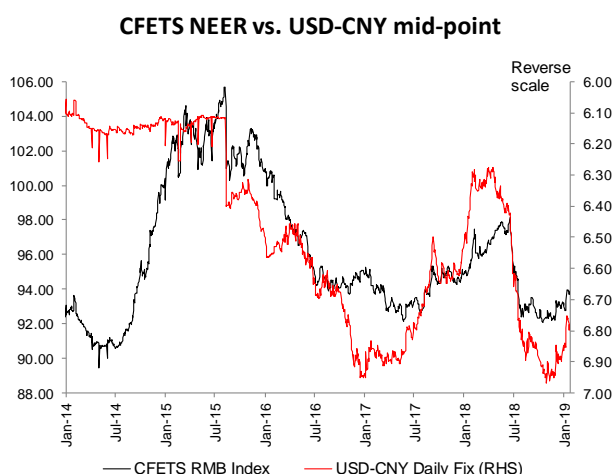
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## Asian Markets

- USD-CNH detached lower again on Wednesday and coupled with a slightly soggy dollar complex, USD-Asia may follow suit today. However, we note that sensitivity to risk aversion remains a caveat.
- On the **portfolio flow front**, the moderation in net inflows for South Korea seems to be stabilizing while net equity inflows for Taiwan continue to improve. Indonesia is exhibiting a renewed pick up in net inflows while minor net outflows for Thailand continue to compress. India however is printing slightly deeper net overall outflows on the back of net bond outflows.
- On the central bank front, expect **BNM** (0700 GMT) to remain static at its policy meeting today. Domestic real interest rates remain elevated relative to the macro fundamentals, with perhaps fiscal considerations driving a wedge at the back-end. Meanwhile, the **BOK** expectedly kept its policy rate unchanged at 1.75% this morning, while downgrading its 2019 growth and inflation forecasts. Expect the BOK to retain an accommodative policy stance for now, even though the governor highlighted that it is still “not right time” for further monetary easing.
- **SGD NEER**: The SGD NEER stands at around +1.70% above its perceived parity (1.3805), plying a relatively narrow range over the past two sessions. The NEER-implied USD-SGD thresholds eased lower on the back of the broad USD sell-off. At this juncture, we continue to expect the USD-SGD to move in-line with the broad USD, with no explicit SGD-centric driver for now. Fade any upticks to the 200-day MA (1.3626) and expect risks toward 1.3550 instead.
- Singapore Dec 2018 CPI readings (headline: 0.5% yoy, core: 1.9% yoy) were stronger than expected. Nonetheless, this may not dissuade nascent expectations that the MAS may stand pat at its April MPS (Monetary Policy Statement).
- **CFETS RMB Index**: The USD-CNY mid-point expectedly eased this morning, after five consecutive sessions of higher fixes, at 6.7802, compared to 6.7969 previously. The CFETS RMB Index firmed to 93.80 from 93.73 yesterday.



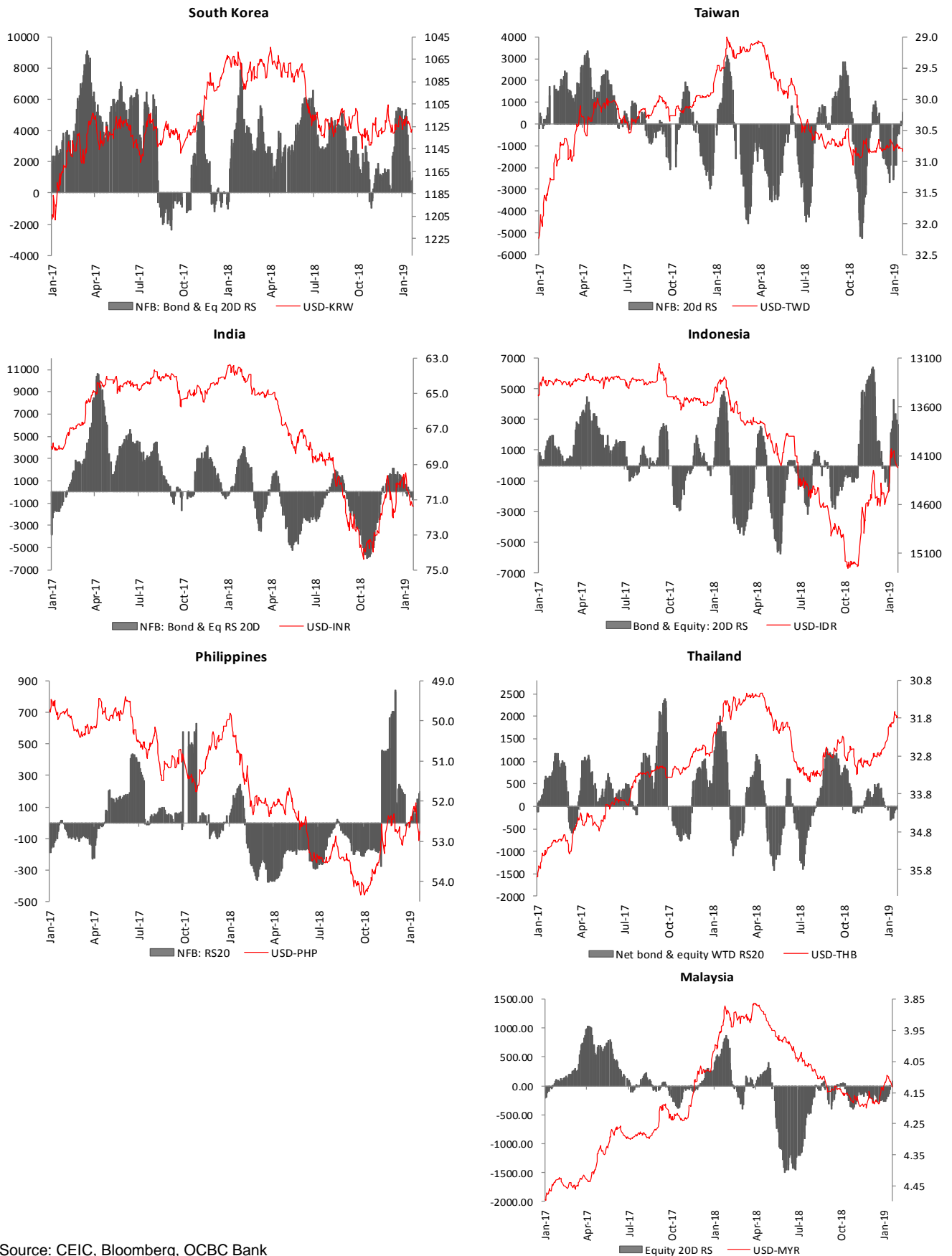
Source: OCBC Bank, Bloomberg

### Short term Asian FX/bond market views

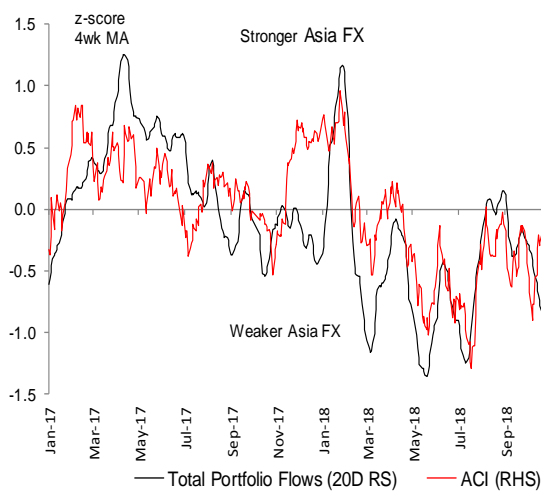
	USD-Asia	10y govie (%)	Rationale
<b>China</b>	↔/↑	↔/↓	Record liquidity injection in open market operations on 16 Jan, inaugural TMLF on 23 Jan. Officials on 15 Jan indicate that taxes will be cut "on a larger scale" and the PBOC stated that it would guide funding costs lower and strengthen counter cyclical 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.
<b>S. Korea</b>	↔/↑	↔/↑	BOK static in January, but downgraded 2019 growth and inflation forecasts further. BOK expected to retain accommodative stance, but the governor also highlighted that further easing is not being considered for now. Dec CPI softer than expected at 1.3% yoy but core held at 1.3% yoy. 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.
<b>Taiwan</b>	↔/↓	↔	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.
<b>India</b>	↑	↔	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 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.
<b>Singapore</b>	↔/↑	↔/↑	SGD NEER veering away from the extreme end of its fluctuation band. Expect movements in the USD-SGD to track broad USD prospects. 4Q GDP surprises on the downside at 1.6% saar, though 3Q GDP was revised higher to 3.5% saar. Dec 2018 CPI readings came in a touch warmer than expected.
<b>Malaysia</b>	↔/↑	↔/↓	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.
<b>Indonesia</b>	↔	↔/↑	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.
<b>Thailand</b>	↔/↓	↔	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. BOT relatively unconcerned by the THB's recent class topping gains. Elections scheduled 24 March.
<b>Philippines</b>	↔/↑	---	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

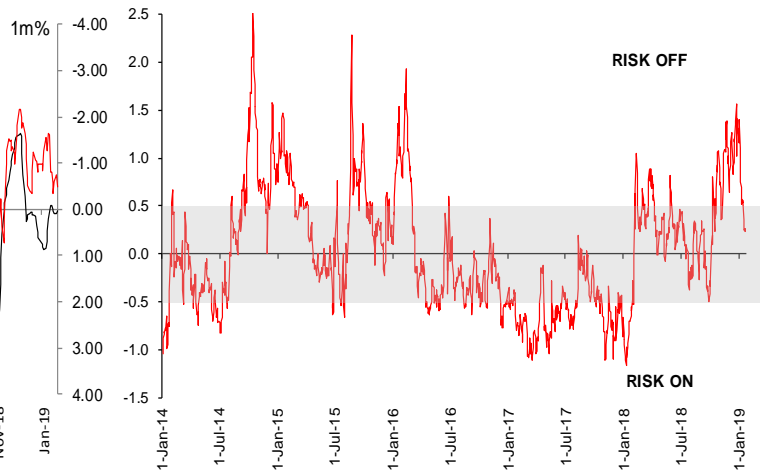
### USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

**ACI VS. Net Capital Flows**

Source: OCBC Bank

**FX Sentiment Index**

Source: OCBC Bank

**1M Correlation Matrix**

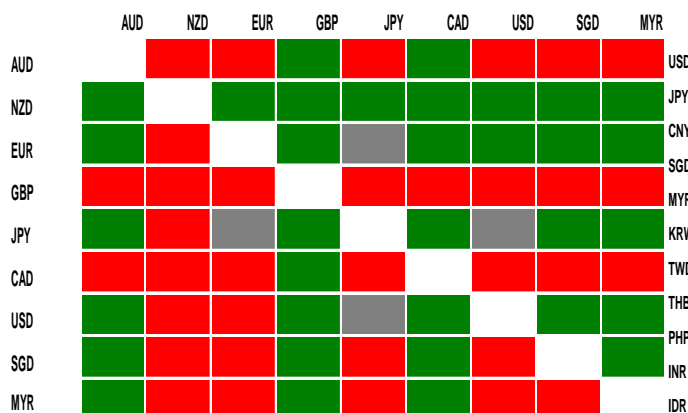
	DXY	USGG10	CNY	SPX	MSELCAPI	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.129	0.557	-0.487	-0.398	-0.539	0.704	-0.571	0.627	0.4	0.612	-0.803
SGD	0.846	0.07	0.814	-0.798	-0.673	-0.797	0.745	-0.838	0.92	0.693	0.848	-0.409
IDR	0.796	-0.064	0.764	-0.781	-0.65	-0.795	0.646	-0.839	0.923	0.714	0.812	-0.366
MYR	0.773	0.11	0.826	-0.788	-0.638	-0.754	0.73	-0.802	0.923	0.679	0.834	-0.407
JPY	0.704	0.639	0.421	-0.346	-0.173	-0.365	1	-0.454	0.659	0.234	0.459	-0.378
CAD	0.694	-0.164	0.815	-0.795	-0.731	-0.9	0.619	-0.894	0.86	0.793	0.837	-0.175
CHF	0.63	0.41	-0.129	0.215	0.377	0.191	0.415	0.205	0.01	-0.373	-0.148	-0.889
CNH	0.612	-0.206	0.989	-0.837	-0.861	-0.879	0.459	-0.874	0.83	0.83	1	-0.126
PHP	0.557	-0.18	1	-0.852	-0.877	-0.894	0.421	-0.881	0.824	0.835	0.989	-0.149
CNY	0.556	0.086	0.477	-0.203	-0.056	-0.327	0.451	-0.295	0.472	0.053	0.5	-0.505
THB	0.539	-0.03	0.866	-0.897	-0.85	-0.899	0.551	-0.932	0.916	0.881	0.859	-0.007
KRW	0.263	0.064	0.11	-0.042	0.13	0.034	0.066	0.049	0.111	-0.194	0.117	-0.484
USGG10	0.129	1	-0.18	0.275	0.465	0.348	0.639	0.205	0.055	-0.447	-0.206	-0.141
TWD	0.009	-0.065	-0.246	0.268	0.325	0.316	-0.218	0.336	-0.263	-0.397	-0.24	-0.433
INR	-0.075	0.404	-0.775	0.708	0.84	0.767	-0.075	0.739	-0.53	-0.798	-0.741	-0.387
GBP	-0.381	0.34	-0.781	0.771	0.893	0.764	-0.14	0.744	-0.639	-0.866	-0.773	-0.141
NZD	-0.675	0.262	-0.759	0.575	0.627	0.71	-0.348	0.682	-0.572	-0.589	-0.825	0.354
AUD	-0.698	0.365	-0.857	0.773	0.797	0.873	-0.423	0.824	-0.767	-0.812	-0.9	0.266
EUR	-0.803	-0.141	-0.149	0.028	-0.052	0.068	-0.378	0.049	-0.147	0.093	-0.126	1

Source: Bloomberg

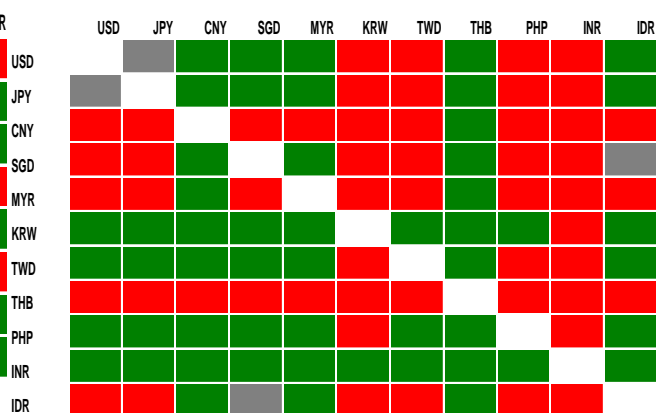
**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1300	1.1317	1.1386	1.1390	1.1400
GBP-USD	1.3000	1.3064	1.3075	1.3079	1.3094
AUD-USD	0.6999	0.7100	0.7128	0.7176	0.7200
NZD-USD	0.6700	0.6770	0.6786	0.6795	0.6800
USD-CAD	1.3180	1.3300	1.3345	1.3365	1.3400
USD-JPY	107.70	109.00	109.53	110.00	110.35
USD-SGD	1.3500	1.3504	1.3586	1.3600	1.3626
EUR-SGD	1.5400	1.5419	1.5469	1.5500	1.5568
JPY-SGD	1.2325	1.2400	1.2404	1.2500	1.2598
GBP-SGD	1.7700	1.7739	1.7763	1.7783	1.7796
AUD-SGD	0.9559	0.9600	0.9684	0.9700	0.9807
Gold	1254.26	1274.06	1282.50	1297.79	1300.00
Silver	15.30	15.33	15.36	15.40	15.96
Crude	51.01	52.30	52.32	52.40	54.02

Source: OCBC Bank

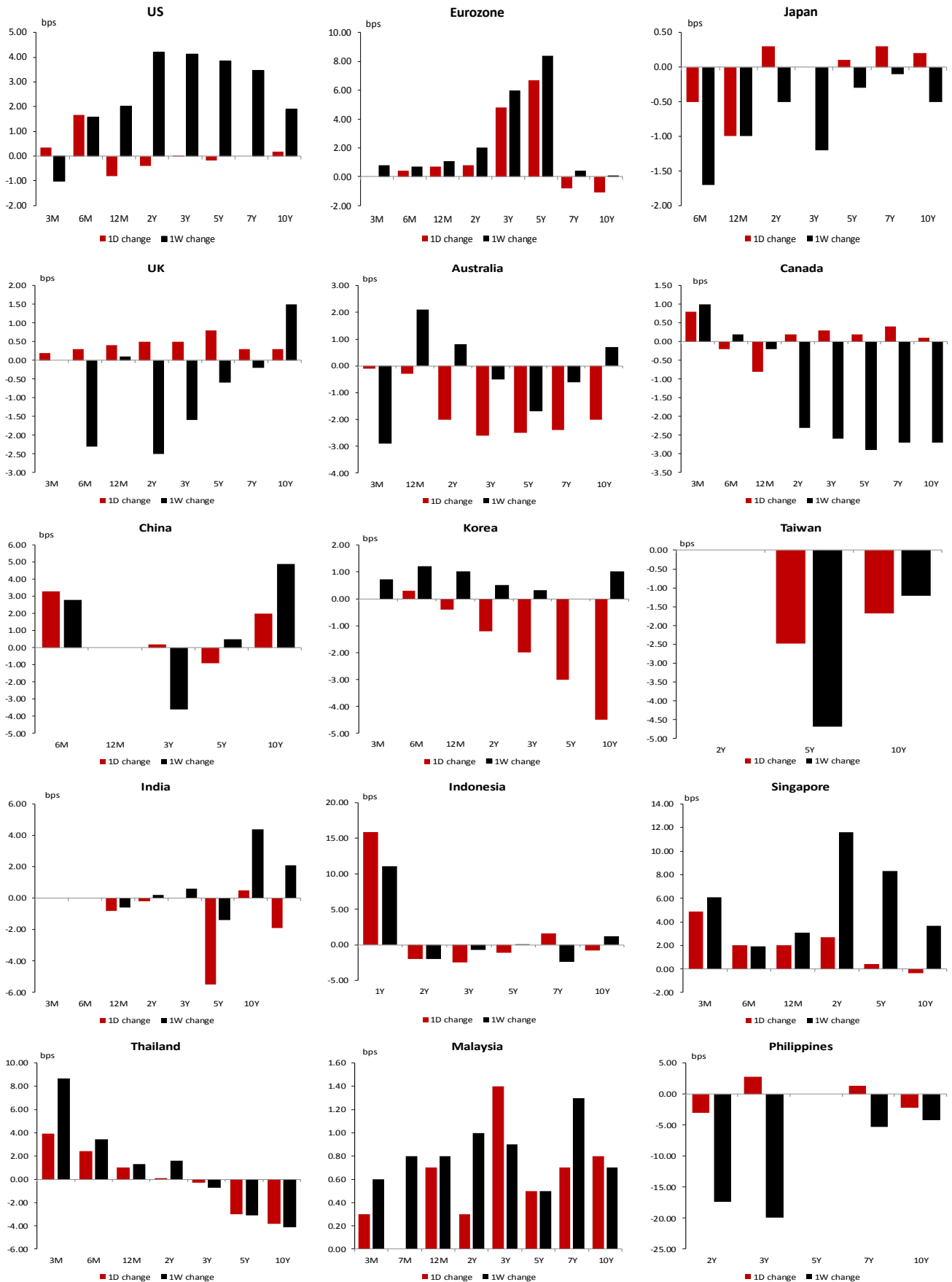
**G10 FX Heat Map**

Source: OCBC Bank

**Asia FX Heat Map**

Source: OCBC Bank

### Government bond yield changes



### Trade Ideas

Inception		B/S	Currency	Spot/Outright	Target	Stop/Trailing Stop	Rationale	
	TACTICAL							
1	23-Jan-19	B	GBP-AUD	1.8159	1.8745	1.7865	Contrasting risk profiles in the near term	
	STRUCTURAL							
	-	-	-	-	-	-	-	
	RECENTLY CLOSED TRADE IDEAS							
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*

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