

Monday, January 28, 2019

Market Themes/Strategy/Trading Ideas –The week ahead

- The greenback slumped across the board on Friday as Trump temporarily ended the partial government shutdown after 35 days. The cyclicals (AUD, NZD, CAD) meanwhile also outperformed their peers on improved risk appetite, with the DXY eventually crashing below 96.00. Meanwhile, the UST (and bund) curve lifted and bear flattened on brighter sentiment and equities.
- **At the onset of the week, expect the DXY to be slightly heavy within its 100-day MA (96.118) and its 200-day MA (95.228).** Notably, the EUR-USD and AUD-USD have breached their respective 55-day MAs, while the GBP-USD has also risen above its 200-day MA - perhaps presenting an opportunity for consolidation and profit taking behavior.
- Positive global equities and a WSJ article indicating that **Fed** officials may be considering **halting its balance sheet reduction** exercise sooner than expected gave a further boost to global risk appetite levels, with the **FX Sentiment Index (FXSI)** slipping deeper within Risk-Neutral territory.
- Looking ahead, the **FOMC** on Wednesday (and the January NFP on Friday) will be closely monitored (especially **Powell's press conference**) for further neutrality cues (especially after last Fri's WSJ article about the Fed), with markets barely pricing a rate hike this year.
- A Chinese trade delegation fronted by Vice-premier Liu He is also due in Washington this week (30-31 Jan) and may once again bring **Sino-US trade relations** to the fore with attendant implications of global risk appetite levels. On the data front, **China January PMIs** are also due on Thursday.
- **Brexit** news flow this week will also jostle for headline space with the UK parliament voting on Brexit amendments on Tuesday. Crucially, the EU Parliament addresses the issue on Brexit on Wednesday. On this front, hitherto GBP outperformance may stall pending headline risks on Tuesday.
- Meanwhile, markets will also be peppered with **central bank rhetoric** this week, beginning today with the ECB's Draghi and Nowotny, as well as the BOE's Carney, Ramsden and Broadbent.
- In the aftermath of the latest ECB meeting, we think risks for the **EUR-USD** are skewed to the downside in the near term. From a spot ref of 1.1327 on Friday, we target 1.1120 and leave a stop at 1.1435.

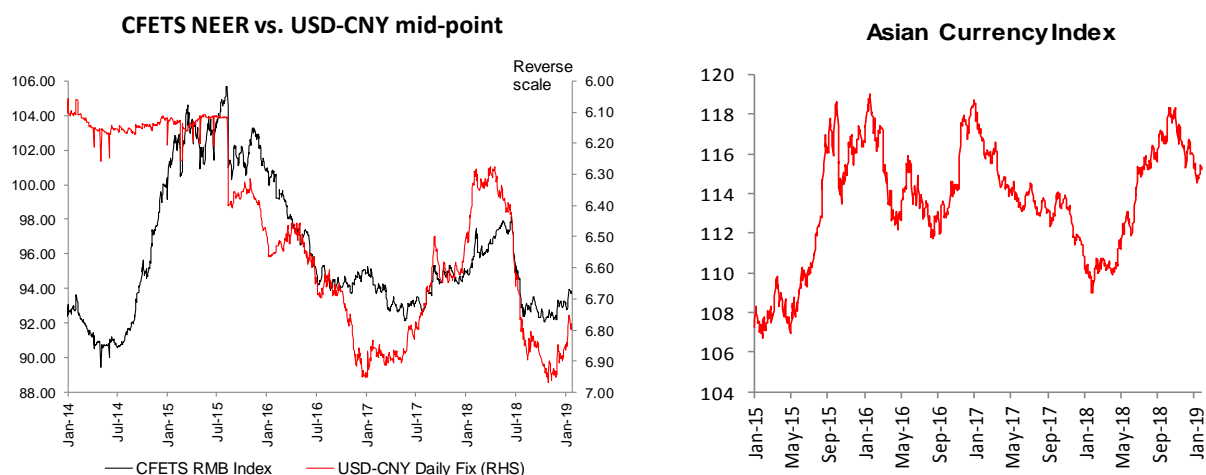
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Asian Markets

- EM sentiment also improved on Friday (additional easing initiatives from the PBOC) and Asian markets (to favor IDR, THB, SGD) are also expected to begin the week on a note of positivity. The central bank calendar in Asia is pretty sparse except for **CBC meeting minutes** on Thursday. The **budget announcement** in India on Friday will be closely watched.
- **EPFR** data for the latest week showed a slight dip in net implied equity inflows into Asia (excl Japan, China) but nevertheless continued to paint a positive inflow environment in the initial weeks of January. Net implied bond inflows meanwhile continued to soften from already moderate levels in the same period.
- **Net actual portfolio flows in the region meanwhile indicate minor improvements with positivity from recent EPFR numbers finally translating into actual inflows.** We note an improvement in net inflows for South Korea (higher net equity inflows even as net bond outflows deepen). Meanwhile, net equity inflows for Taiwan also continue to strengthen. Elsewhere, India is still sitting in a minor net outflow environment on both weak bond and equity outflows. On a brighter note, Indonesia is also showing a minor pick up in net inflows (as bond inflows stabilize at positive levels and net equity inflows improve). Lastly, Thailand is also seeping into net inflow territory on improvements in both bond and equity flows.
- **SGD NEER:** The SGD NEER is relatively static at +1.71% above its perceived parity (1.3751) this morning with NEER-implied USD-SGD thresholds lower on the back latest DXY weakness. **On the USD-SGD, expect the 1.3500 support to be threatened in the current environment although we note that the 55-week MA (1.3508) may offer implicit support pending further external cues.**
- **CFETS RMB Index:** The USD-CNY mid-point this morning came in at a softer than expected 6.7472, lifting the CFET RMB Index to 93.99. Watch for any breach above 94.00 in view of the Chinese delegation's visit to the US this week. **Stay negative on the USD-CNH (despite further incremental easing by the PBOC on Friday) as it contemplates its 200-day MA (6.7471).**



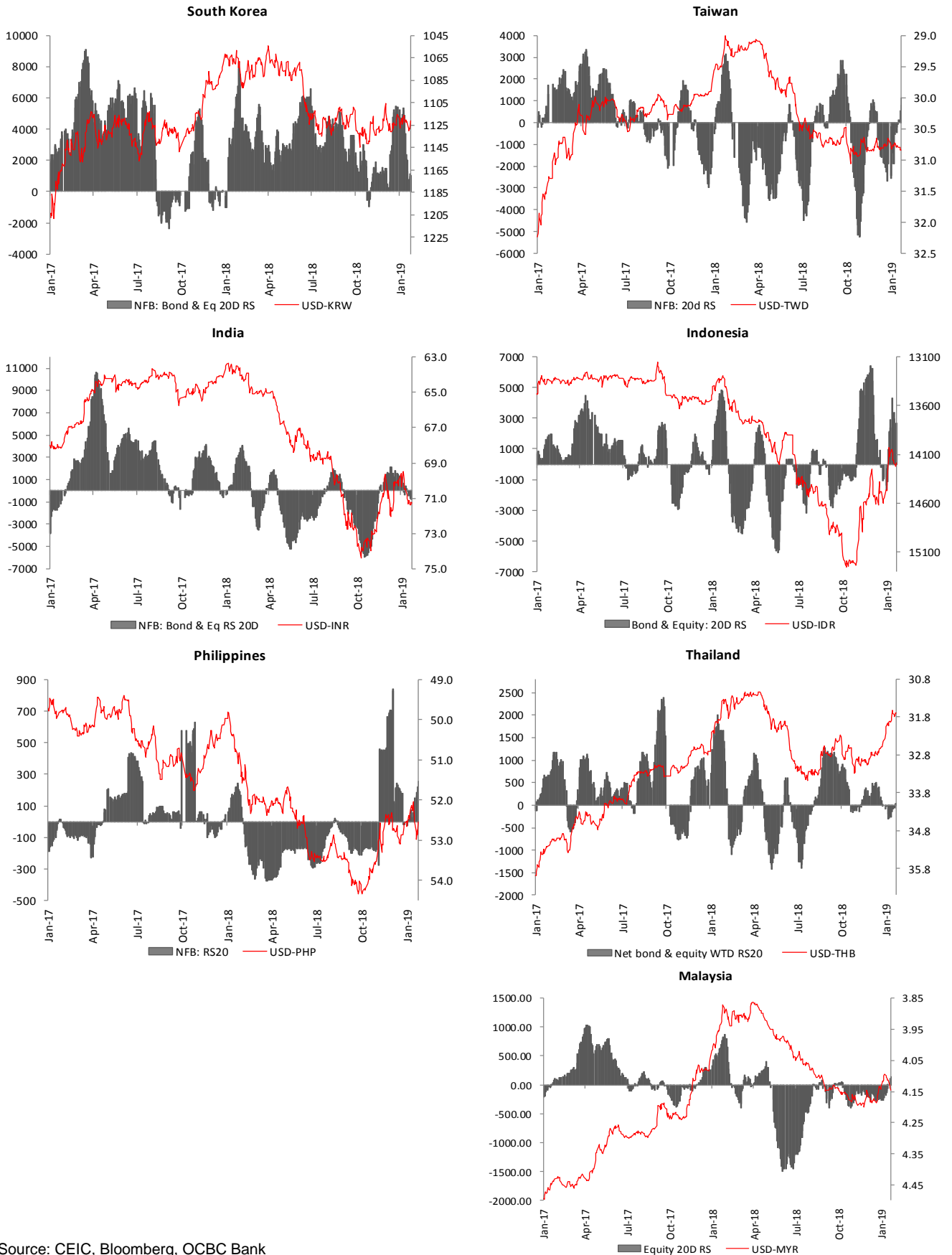
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
China	↓	↔	Record liquidity injection in open market operations on 16 Jan, 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.
S. Korea	↔/↓	↔	BOK static in January, but downgraded 2019 growth and inflation forecasts further. BOK expected to retain accommodative stance, but the governor noted that a rate cut is not in the pipeline. 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.
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 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 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. Dec IPI disappoints at +2.7% yoy.
Malaysia	↔/↓	↔/↑	BNM static at 3.25% in Jan 2019 and is expected to be static through 2019. Dec CPI cooler than expected +0.2% yoy. Frosty market reception to the latest budget announcement (significantly larger than expected 2018 budget deficit). Dec manufacturing PMI falls to 47.7 from 48.4. Nov export growth decelerates to +1.6% yoy.
Indonesia	↓	↔/↑	BI remained static on its policy rate in Jan. 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. BOT relatively unconcerned by the THB’s recent class topping gains. Elections scheduled on 24 March.
Philippines	↔/↑	---	BSP remained static in Dec as expected. BSP governor open to RRR cut. 4Q GDP below expectations at 6.1% yoy. Dec manufacturing PMI weakens to 53.2 from 54.2. Dec CPI softer than expected at +5.1% yoy.

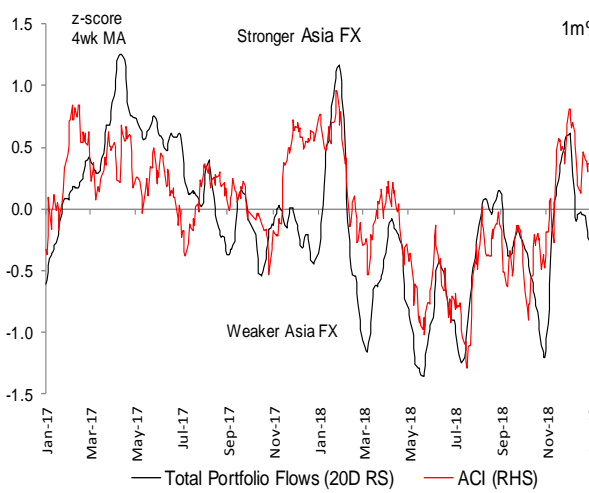
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



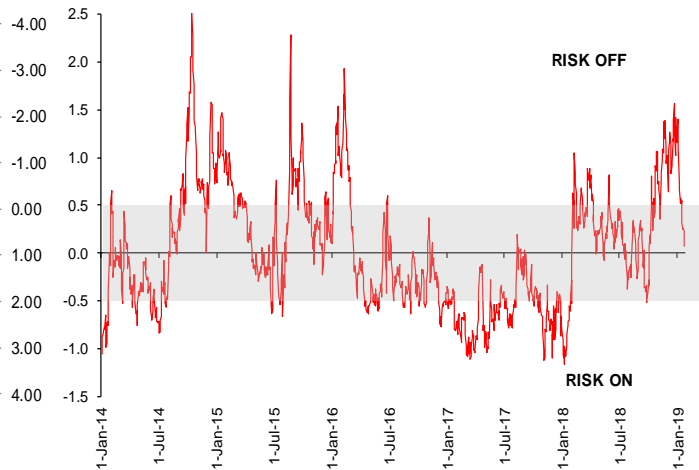
Source: CEIC, Bloomberg, OCBC Bank

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	-0.2	0.308	-0.193	-0.118	-0.362	0.458	-0.35	0.383	0.147	0.427	-0.82
SGD	0.824	-0.474	0.696	-0.606	-0.534	-0.727	0.335	-0.715	0.787	0.58	0.815	-0.392
IDR	0.701	-0.355	0.615	-0.417	-0.321	-0.544	0.433	-0.491	0.662	0.418	0.654	-0.493
MYR	0.672	-0.477	0.71	-0.713	-0.586	-0.787	0.293	-0.788	0.879	0.648	0.777	-0.256
JPY	0.589	0.374	-0.316	0.526	0.6	0.381	0.499	0.445	-0.301	-0.582	-0.344	-0.88
CAD	0.578	-0.531	0.716	-0.744	-0.644	-0.871	0.304	-0.861	0.896	0.724	0.795	-0.057
CHF	0.572	0.056	0.328	0.01	0.115	-0.141	0.473	-0.063	0.293	-0.112	0.354	-0.601
CNH	0.458	0.542	-0.144	0.318	0.384	0.081	1	0.085	0.105	-0.303	0.005	-0.376
PHP	0.427	-0.593	0.984	-0.821	-0.834	-0.865	0.005	-0.855	0.861	0.811	1	0.055
CNY	0.317	0.01	0.022	0.191	0.235	0.171	0.054	0.253	-0.099	-0.279	0.034	-0.532
THB	0.308	-0.582	1	-0.831	-0.847	-0.877	-0.144	-0.861	0.848	0.807	0.984	0.032
KRW	0.215	0.002	-0.21	0.368	0.307	0.345	-0.063	0.408	-0.395	-0.373	-0.197	-0.547
USGG10	0.136	-0.58	0.817	-0.896	-0.856	-0.892	-0.207	-0.912	0.888	0.893	0.795	0.304
TWD	0.073	0.572	-0.784	0.824	0.858	0.819	0.167	0.829	-0.673	-0.843	-0.774	-0.495
INR	-0.143	0.636	-0.733	0.834	0.884	0.731	0.404	0.746	-0.658	-0.818	-0.768	-0.322
GBP	-0.2	1	-0.582	0.824	0.818	0.737	0.542	0.676	-0.586	-0.833	-0.593	-0.05
NZD	-0.662	0.472	-0.802	0.649	0.647	0.718	-0.092	0.713	-0.709	-0.584	-0.882	0.253
AUD	-0.665	0.679	-0.774	0.728	0.68	0.815	-0.135	0.76	-0.823	-0.722	-0.856	0.241
EUR	-0.82	-0.05	0.032	-0.247	-0.293	-0.098	-0.376	-0.147	0.101	0.292	0.055	1

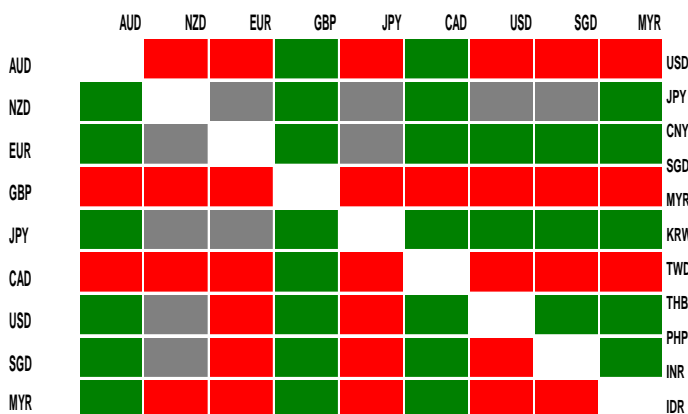
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1387	1.1400	1.1412	1.1500	1.1528
GBP-USD	1.3056	1.3100	1.3194	1.3197	1.3200
AUD-USD	0.7100	0.7170	0.7193	0.7200	0.7235
NZD-USD	0.6794	0.6800	0.6860	0.6867	0.6880
USD-CAD	1.3180	1.3200	1.3215	1.3300	1.3367
USD-JPY	107.77	109.00	109.36	110.00	110.18
USD-SGD	1.3499	1.3500	1.3523	1.3600	1.3629
EUR-SGD	1.5368	1.5400	1.5431	1.5500	1.5555
JPY-SGD	1.2300	1.2311	1.2365	1.2400	1.2603
GBP-SGD	1.7791	1.7800	1.7841	1.7880	1.7883
AUD-SGD	0.9575	0.9700	0.9726	0.9794	0.9800
Gold	1300.00	1300.02	1302.40	1303.40	1400.00
Silver	15.32	15.80	15.81	15.90	15.92
Crude	50.85	53.30	53.38	53.40	54.02

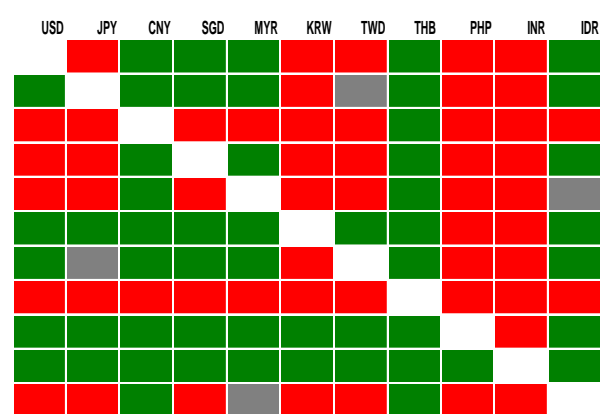
Source: OCBC Bank

G10 FX Heat Map



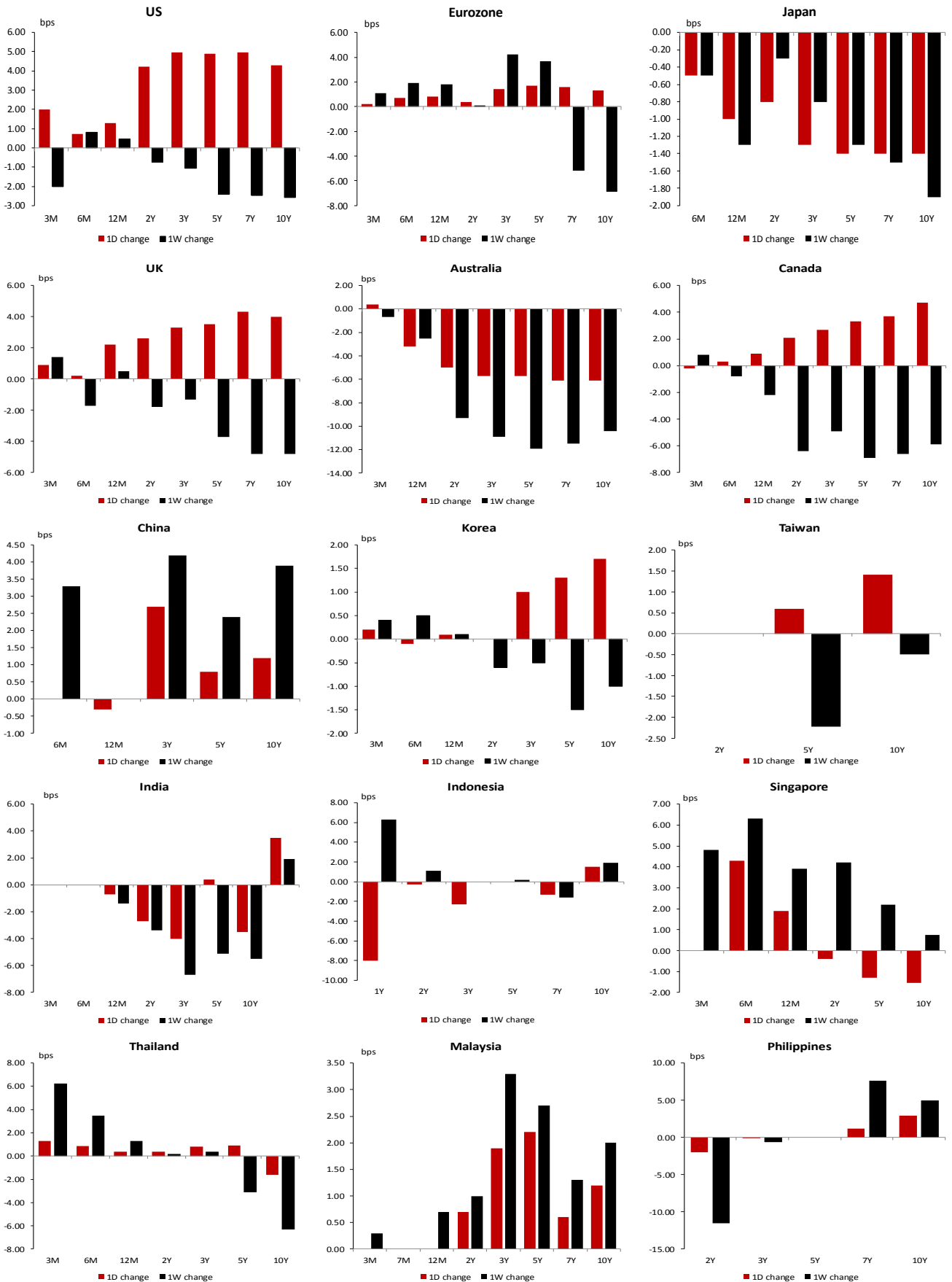
Source: OCBC Bank

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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