

Tuesday, January 29, 2019

Market Themes/Strategy/Trading Ideas

- Investor nervousness (sparked by weak industrial profits in China) weakened the cyclicals (AUD, NZD, CAD) on Monday as the JPY and JPY benefitted. Meanwhile, GBP-USD also moderated lower ahead of the UK parliament's votes on PM May's "Plan B" for Brexit on Tuesday.
- The EUR was an exception, gaining across the board after the ECB's Draghi stated that the EZ did not require further stimulus. However, we feel that a more dour macro prognosis for the EZ has now been etched into the market's psyche, especially after last week's ECB meeting. As such, we'd characterize Draghi's comments overnight as damage control.
- With equities in the red and crude tumbling, risk appetite soured with UST yields also inching lower and gold climbing. This left the **FX Sentiment Index (FXSI)** largely static in Risk-Neutral territory. **Overall, we think the latest price action in global markets overnight demonstrates the markets go-to theme in the near term, which is the pervasive realization (and vocalization) by global central banks with respect to the macroeconomic deceleration.**
- For today, investor caution may prevail today as **Sino-US trade talks** get underway (under the shadow of the Huawei headlines) tomorrow and the 2-day **FOMC** meeting begins today.
- **GBP-USD** may seemingly remain a buy-dips proposition for as long as hard-Brexit prospects remain contained (despite a warning from EU negotiator Weyand overnight). However, headline risks may run too high intra-day and expect investors to remain benched in the interim.
- Intra-day therefore, expect markets to trade off risk appetite gyrations with respect to the USD-JPY, the JPY-crosses, as well as the cyclicals (namely, the AUD-USD).
- Our tactical idea to be short the **EUR-USD** (spot ref: 1.1327) on Friday was stopped out on Monday at 1.1435 for an implied -0.92% loss.

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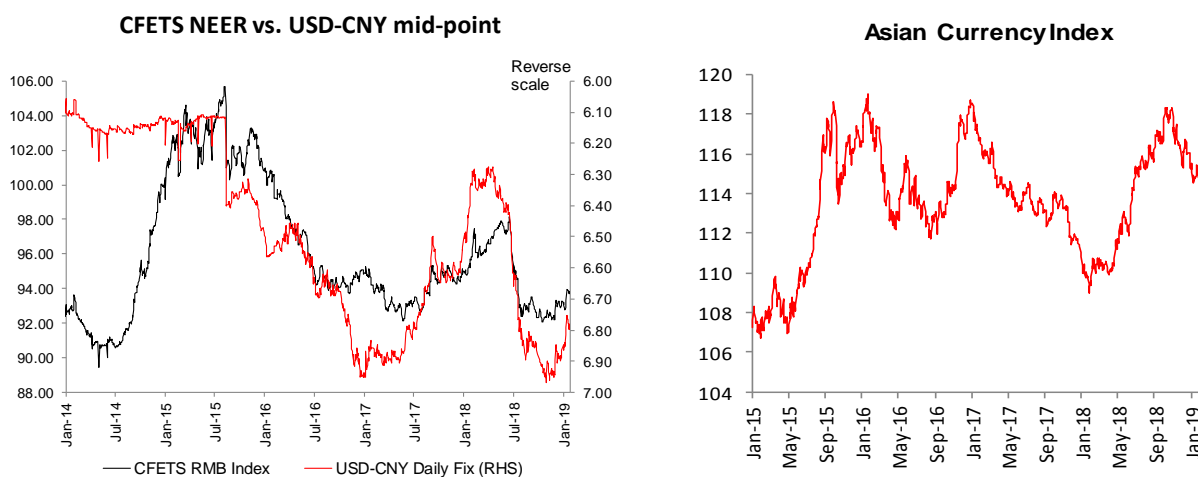
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Asian Markets

- EM equities tripped lower overnight and with US equity futures still looking weak early Tuesday in Asia, expect Asian FX to remain slightly vulnerable to the USD, especially given the consolidation in the USD-CNH overnight.
- On the flow front, South Korea is seeing a blip lower in net inflows but net equity inflows for Taiwan continues to pick higher. Meanwhile, net inflows for Indonesia are still holding up with net inflows for Thailand continuing to show incremental improvements. Lastly, India continues to print minor net outflows.
- **SGD NEER:** The SGD NEER continues to steer away from the extreme strong-end of its fluctuation band with the basket softer at 1.67% below its perceived parity (1.3767). NEER-implied USD-SGD thresholds are also firmer on the day in view of the broader USD complex. **Outside of the THB, the SGD remains significantly correlated (on a short term basis) to the CNH and we retain a top-heavy posture for the USD-SGD within 1.3500-1.3570 intra-day.** As mentioned yesterday, the 55-wk MA (1.3509) may continue to put a near term floor on the pair.
- **CFETS RMB Index:** The USD-CNY mid-point pretty much printed as expected at 6.7356. **The front-end of the CNH vol surface continues to favor implicit renminbi resilience ahead of the forthcoming Sino-US trade talks and this remains an enduring view on our part.**



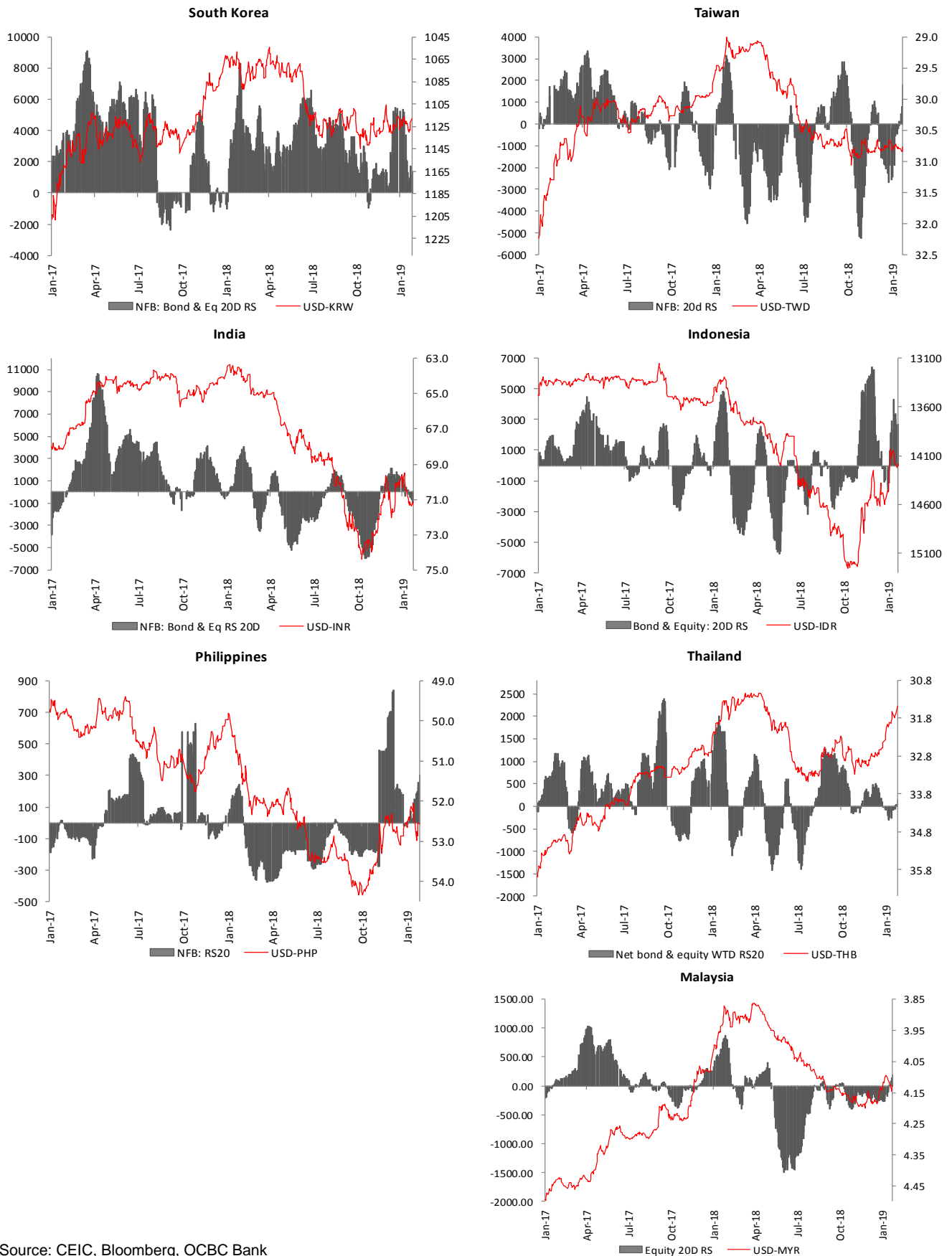
Source: OCBC Bank, Bloomberg

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, industrial profits deteriorate further at -1.9% yoy. 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 continue to circulate ahead of the 01 Feb budget announcement. 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.
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. 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.

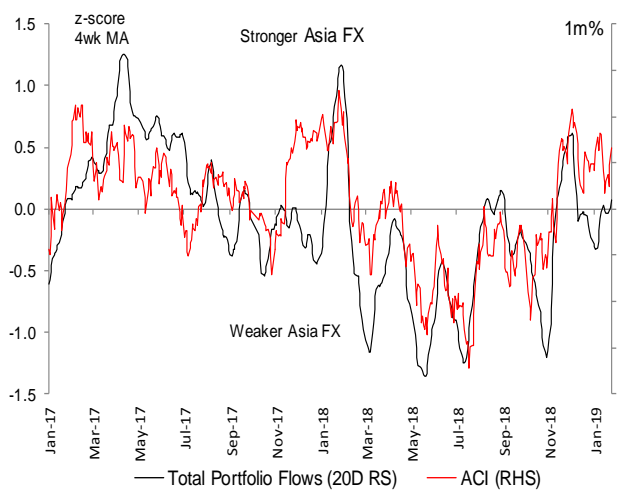
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



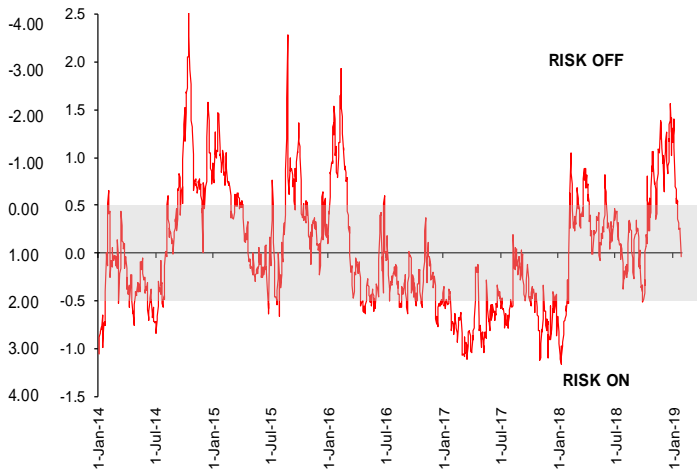
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPI	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.231	0.285	-0.152	-0.126	-0.31	0.424	-0.274	0.336	0.116	0.39	-0.874
SGD	0.828	-0.55	0.66	-0.556	-0.545	-0.657	0.182	-0.628	0.73	0.54	0.805	-0.49
IDR	0.706	-0.623	0.667	-0.673	-0.599	-0.746	0.014	-0.729	0.811	0.597	0.766	-0.404
MYR	0.695	-0.433	0.54	-0.321	-0.28	-0.457	0.261	-0.375	0.558	0.326	0.601	-0.604
JPY	0.637	0.391	-0.304	0.537	0.598	0.367	0.6	0.433	-0.309	-0.591	-0.335	-0.861
CAD	0.549	-0.617	0.657	-0.699	-0.631	-0.851	0.16	-0.819	0.861	0.687	0.759	-0.132
CHF	0.544	0.065	0.275	0.083	0.162	-0.101	0.493	0.006	0.282	-0.175	0.308	-0.612
CNH	0.502	-0.02	0.163	0.07	0.077	0.081	0.281	0.071	0.149	-0.091	0.163	-0.606
PHP	0.468	-0.018	0.279	-0.025	0.05	0	0.222	0.034	0.29	-0.081	0.281	-0.523
CNY	0.424	0.586	-0.428	0.61	0.541	0.304	0.338	-0.28	-0.531	-0.152	-0.445	
THB	0.39	-0.647	0.982	-0.804	-0.842	-0.817	-0.152	-0.81	0.871	0.799	1	-0.008
KRW	0.285	-0.647	1	-0.806	-0.857	-0.809	-0.428	-0.818	0.861	0.782	0.982	-0.039
USGG10	0.093	0.606	-0.76	0.817	0.848	0.794	0.309	0.823	-0.678	-0.841	-0.767	-0.472
TWD	0.067	-0.761	0.823	-0.891	-0.945	-0.8	-0.744	-0.833	0.765	0.899	0.794	0.238
INR	-0.102	0.652	-0.748	0.824	0.889	0.659	0.532	0.694	-0.667	-0.81	-0.775	-0.25
GBP	-0.231	1	-0.647	0.912	0.839	0.807	0.586	0.782	-0.795	-0.901	-0.647	-0.047
NZD	-0.641	0.723	-0.726	0.697	0.656	0.792	-0.026	0.728	-0.851	-0.696	-0.826	0.297
AUD	-0.654	0.504	-0.818	0.65	0.669	0.678	-0.008	0.678	-0.752	-0.59	-0.891	0.306
EUR	-0.874	-0.047	-0.039	-0.21	-0.251	-0.063	-0.445	-0.099	0.04	0.259	-0.008	1

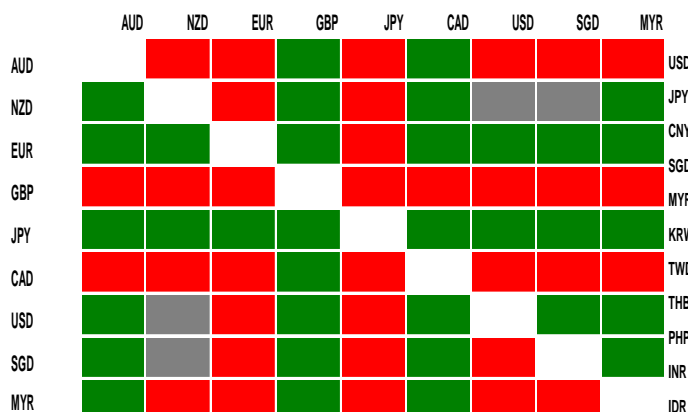
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1389	1.1400	1.1431	1.1500	1.1525
GBP-USD	1.3051	1.3100	1.3150	1.3200	1.3217
AUD-USD	0.7030	0.7100	0.7161	0.7168	0.7200
NZD-USD	0.6795	0.6800	0.6833	0.6868	0.6872
USD-CAD	1.3180	1.3200	1.3265	1.3300	1.3367
USD-JPY	107.79	109.00	109.20	110.00	110.10
USD-SGD	1.3499	1.3500	1.3535	1.3600	1.3631
EUR-SGD	1.5379	1.5400	1.5471	1.5500	1.5553
JPY-SGD	1.2303	1.2309	1.2395	1.2400	1.2603
GBP-SGD	1.7700	1.7787	1.7799	1.7800	1.7883
AUD-SGD	0.9584	0.9600	0.9692	0.9700	0.9789
Gold	1300.00	1302.46	1302.80	1303.70	1400.00
Silver	15.32	15.70	15.76	15.80	15.92
Crude	50.74	52.00	52.09	52.10	54.02

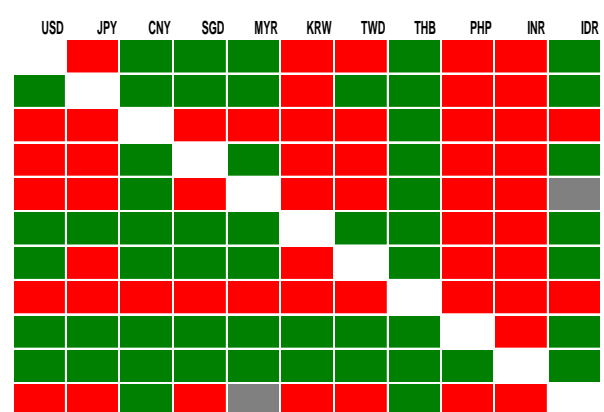
Source: OCBC Bank

G10 FX Heat Map



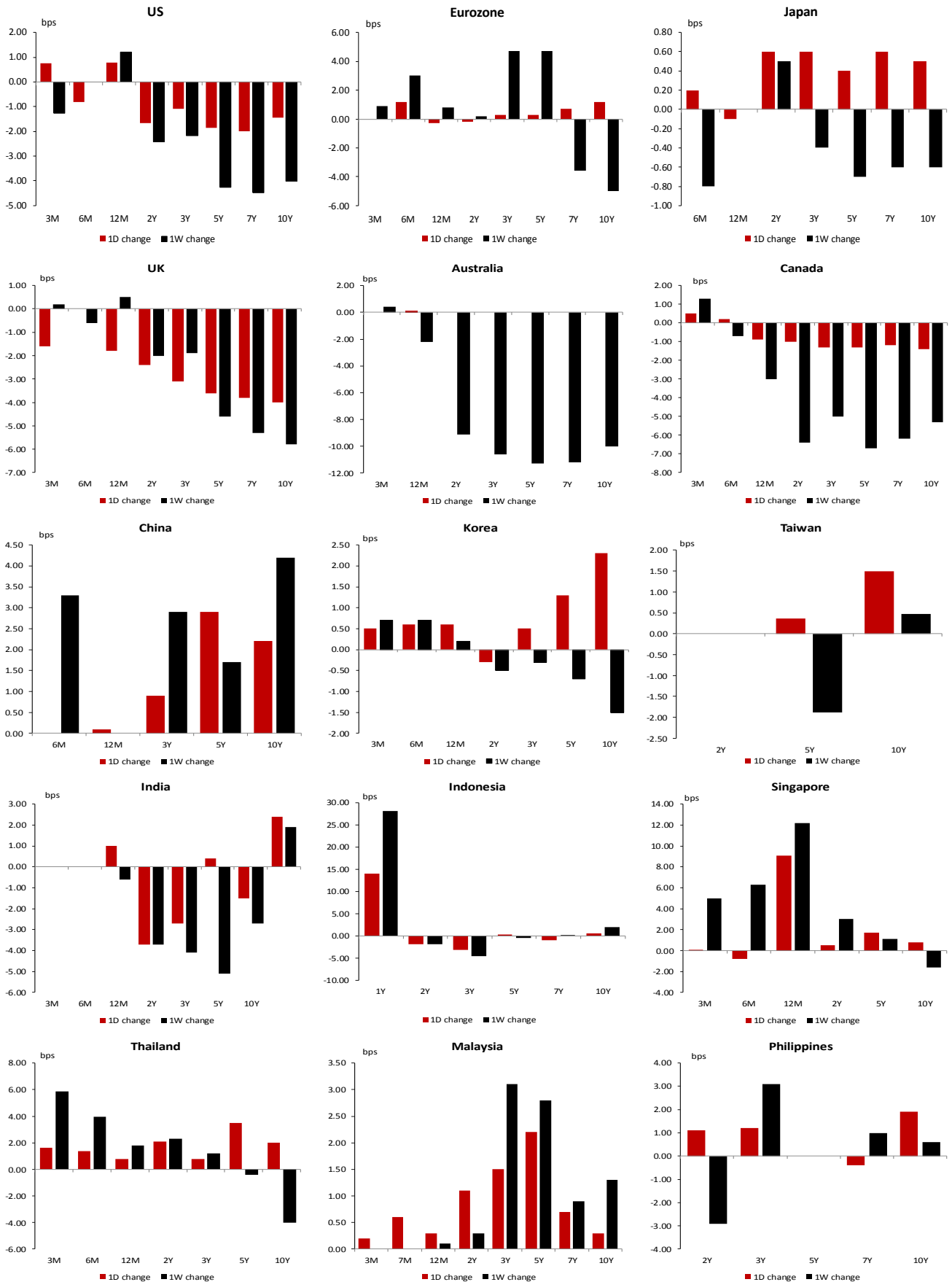
Source: OCBC Bank

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 (%)
1	25-Jan-19	28-Jan-19	S	EUR-USD	1.1327	1.1435	Dovish overtones from ECB's Draghi	-0.92

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