DAILY MARKET OUTLOOK

Wednesday, January 30, 2019

Market Themes/Strategy/Trading Ideas

- The GBP slumped below 1.3100 in late trade on Tuesday as the British parliamentary votes still did not entirely rule out a ‘no-deal’ Brexit with PM May now tasked with attempting to re-open negotiations (including a possible delay) with the EU.

- Crucially, watch for the EU’s reaction to the outcome of the parliamentary votes but markets now expect the Brexit process to come down to the wire as the can continues to be kicked down the road towards 29 March 2019. On our end, we expect the EU to remain frosty and less than charitable.

- In the interim, the 200-day MA (1.3047) for the GBP-USD has continued to hold but recent GBP outperformance may now be blunted somewhat pending the EU’s response to both request for an extension and/or a softening of the Irish backstop.

- Elsewhere, the broad dollar was mixed across G10 with the DXY managing to inch higher to end above 95.80. On other fronts, UST yields dipped with the 7y outperforming and with US equities softening. On other fronts, the **FX Sentiment Index (FXSI)** ticked lower slightly and remained in Risk-Neutral territory.

- The **FOMC** tonight (1900 GMT) **Sino-US trade talks** commencing today (not forgetting the US NFP on Friday) may reduce markets to headline watching in the interim. Ahead of tonight’s headline risks, EUR-USD we think may remain supported on dips, perhaps reflecting non-hawkish expectations surrounding Powell’s press conference at 1930 GMT. In a similar fashion, USD-JPY is expected to be a tad top heavy with a solid cap at 110.00 pre-FOMC.

- Australia’s 4Q CPI numbers came in a hair above prior expectations and the AUD-USD blipped higher as a result. However, pending the FOMC and Sino-US headlines, the pair may continue to be restrained by its 100day MA (0.7171) and 55-day MA (0.7176).

Treasury Research & Strategy

Emmanuel Ng
+65 6530 4037
ngcyemmanuel@ocbc.com

Terence Wu
+65 6530 4367
TerenceWu@ocbc.com

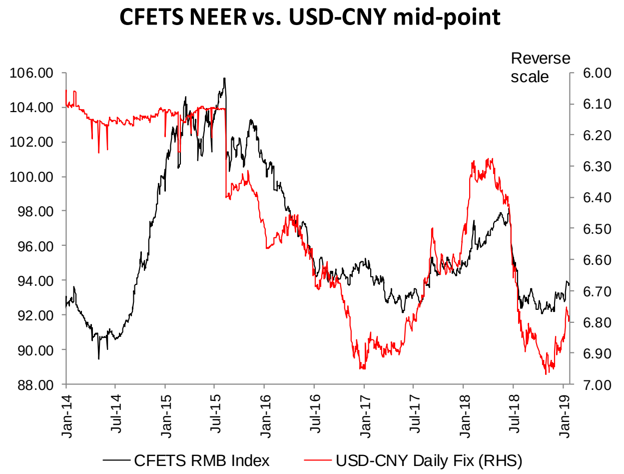
Asian Markets

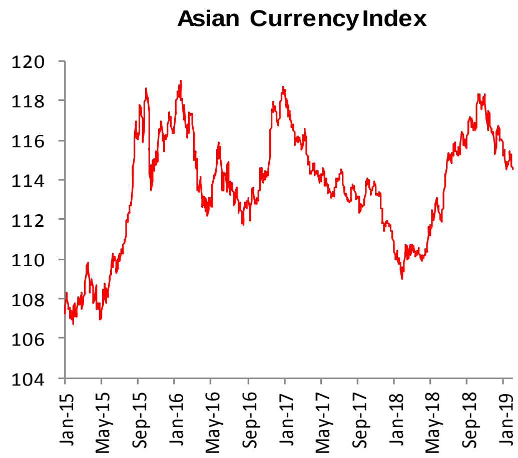
- EM equities firmed mildly on Tuesday and USD-Asia may be slightly top heavy on a mixture of benign expectations attached to tonight's FOMC as well as an attempt to recover on the risk appetite front (short-end EM FX vols in aggregate remain suppressed). **To this end, we remain bearish on the USD-CNH (watch for further sustained detachment from the 200-day MA at 6.7515) with short-end vols holding firmer and riskies still offered. This heavy posture for the US-CNH we think may continue to impart a southerly dynamic on (most of) the regional pairs. On a relative basis, continue to favor the CNH, THB, and SGD at the expense of the INR.**

- Actual net portfolio flows meanwhile show South Korea holding steady in a small net inflow environment (on the back of net equity inflows against a backdrop of net bond outflows) while net equity inflows for Taiwan remain significant. India is still experiencing a minor net outflow environment on marginal net bond/equity outflows. Indonesia seems to be remaining a favored destination given the still strong net inflow environment on the back of strong net bond inflows while net equity inflows are moderating slightly. In Thailand, net equity flows have crept back into a net inflow environment while net bond flows are neutral.

- **SGD NEER**: Continue to remain heavy on the USD-SGD (not least from USD-CNH cues) with the 1.3500 floor now likely in jeopardy although the 55-wk MA (1.3508) may still offer structural support. The NEER meanwhile is slightly firmer on the day at around +1.72% above its perceived parity (1.3748) with NEER-implied USD-SGD thresholds softer from yesterday.

- **CFETS RMB Index**: This morning, the USD-CNY mid-point came in within expectations at 6.7343 from 6.7356 yesterday. After breaching 94.00 on Tuesday, today's fixing took the CFET RMB Index higher again to 94.19 from 94.17 yesterday. **We do not think there is an official discretionary intent to incite secular appreciation of the basket, and the basket may revisit 94.50 and then 95.00 while still maintaining a multi-month range.**





Source: OCBC Bank, Bloomberg

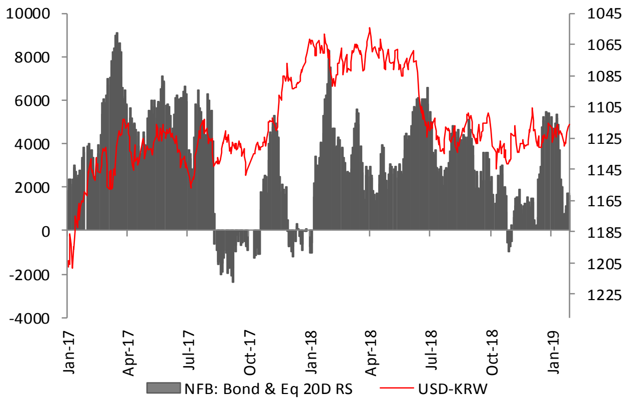
Short term Asian FX/bond market views

	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 manufactuirng 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 announcment. 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 mechandise 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	↔	↔/↑	Note sustained positive response to bond auctions. 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.

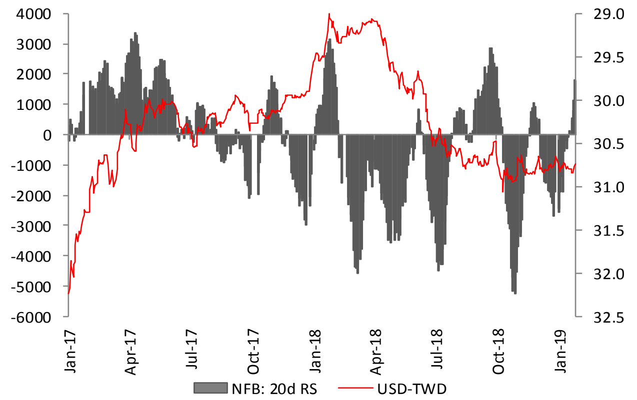
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

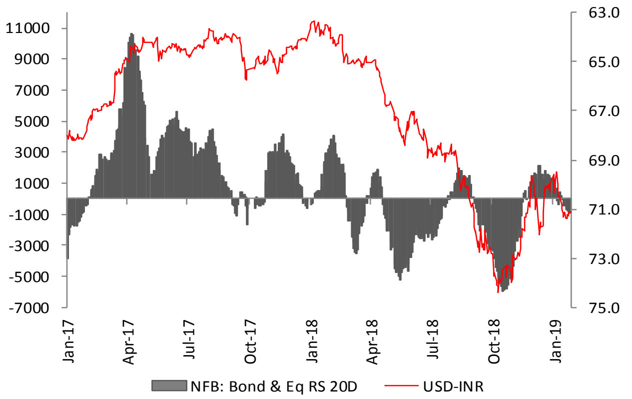
South Korea



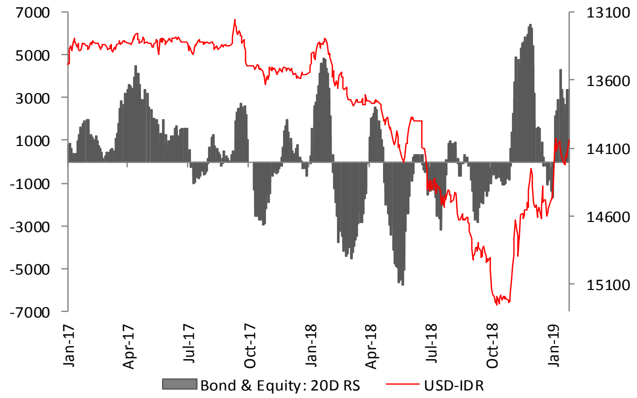
Taiwan



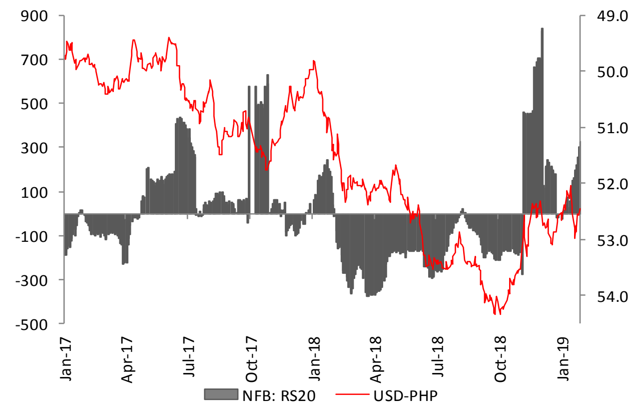
India



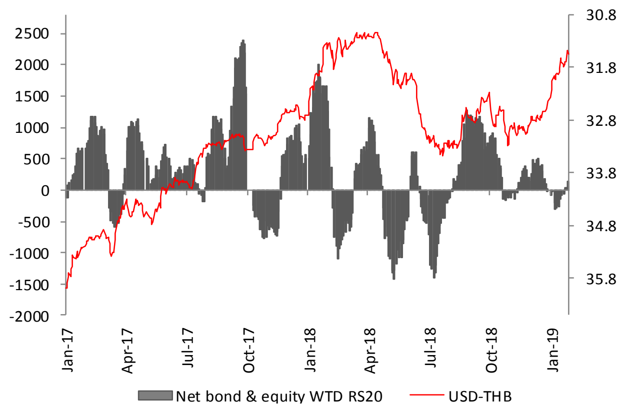
Indonesia



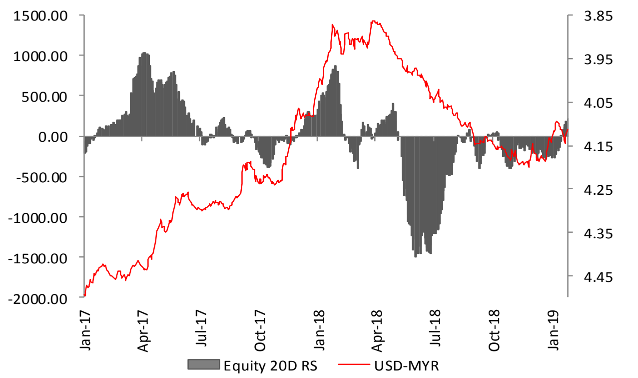
Philippines



Thailand

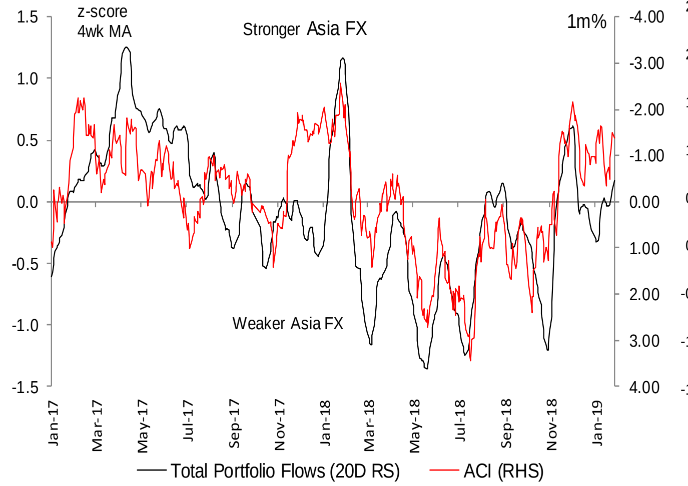


Malaysia



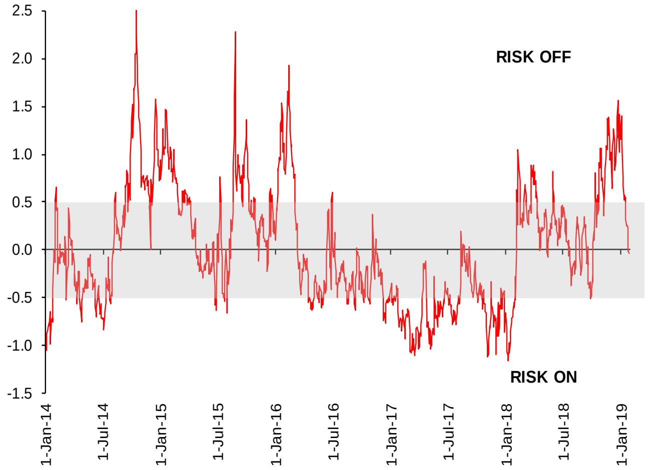
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXEX	CNH	EUR
DXY	1	-0.23	0.333	-0.168	-0.152	-0.32	0.381	-0.308	0.343	0.138	0.427	-0.873
SGD	0.817	-0.508	0.727	-0.576	-0.58	-0.662	0.127	-0.664	0.724	0.566	0.829	-0.49
IDR	0.715	-0.612	0.653	-0.682	-0.613	-0.752	-0.022	-0.738	0.812	0.61	0.755	-0.414
MYR	0.701	-0.431	0.528	-0.336	-0.303	-0.466	0.221	-0.397	0.564	0.345	0.596	-0.608
JPY	0.563	-0.611	0.64	-0.704	-0.635	-0.853	0.144	-0.819	0.862	0.692	0.746	-0.142
CAD	0.551	0.062	0.297	0.08	0.149	-0.102	0.456	-0.021	0.282	-0.166	0.327	-0.617
CHF	0.546	0.38	-0.386	0.556	0.619	0.384	0.608	0.477	-0.322	-0.609	-0.397	-0.804
CNH	0.521	-0.023	0.323	0.039	0.029	0.059	0.177	-0.045	0.161	-0.055	0.306	-0.602
PHP	0.492	-0.016	0.435	-0.083	-0.042	-0.042	0.101	-0.102	0.301	-0.008	0.42	-0.523
CNY	0.427	-0.591	0.984	-0.81	-0.854	-0.813	-0.184	-0.827	0.858	0.808	1	-0.041
THB	0.381	0.58	-0.464	0.622	0.553	0.32	1	0.368	-0.292	-0.543	-0.184	-0.428
KRW	0.333	-0.565	1	-0.808	-0.867	-0.799	-0.464	-0.823	0.839	0.789	0.984	-0.1
USGG10	0.155	-0.636	0.869	-0.875	-0.942	-0.778	-0.719	-0.822	0.734	0.889	0.837	0.123
TWD	0.072	0.597	-0.758	0.823	0.85	0.799	0.324	0.828	-0.682	-0.846	-0.771	-0.456
INR	-0.164	0.61	-0.786	0.83	0.897	0.665	0.549	0.737	-0.667	-0.819	-0.795	-0.227
GBP	-0.23	1	-0.565	0.897	0.807	0.8	0.58	0.758	-0.792	-0.88	-0.591	-0.045
NZD	-0.652	0.713	-0.703	0.694	0.648	0.791	-0.01	0.73	-0.851	-0.693	-0.816	0.307
AUD	-0.661	0.464	-0.852	0.664	0.695	0.681	0.032	0.712	-0.744	-0.613	-0.904	0.319
EUR	-0.873	-0.045	-0.099	-0.195	-0.225	-0.055	-0.429	-0.07	0.033	0.241	-0.04	1

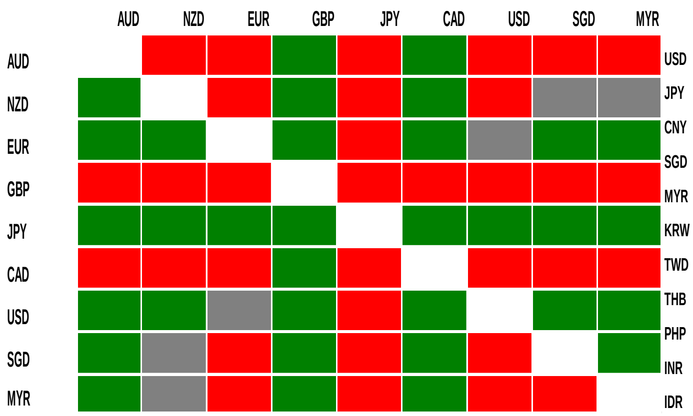
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1390	1.1400	1.1439	1.1500	1.1526
GBP-USD	1.3000	1.3047	1.3095	1.3100	1.3217
AUD-USD	0.7100	0.7167	0.7193	0.7200	0.7235
NZD-USD	0.6795	0.6800	0.6842	0.6867	0.6872
USD-CAD	1.3180	1.3200	1.3261	1.3300	1.3368
USD-JPY	107.80	109.00	109.34	110.00	110.16
USD-SGD	1.3499	1.3500	1.3513	1.3600	1.3631
EUR-SGD	1.5375	1.5400	1.5458	1.5500	1.5549
JPY-SGD	1.2300	1.2307	1.2359	1.2400	1.2594
GBP-SGD	1.7447	1.7600	1.7695	1.7700	1.7782
AUD-SGD	0.9615	0.9700	0.9721	0.9781	0.9783
Gold	1300.00	1308.28	1312.50	1313.00	1400.00
Silver	15.31	15.90	15.91	15.96	15.98
Crude	50.70	53.20	53.26	53.30	54.02

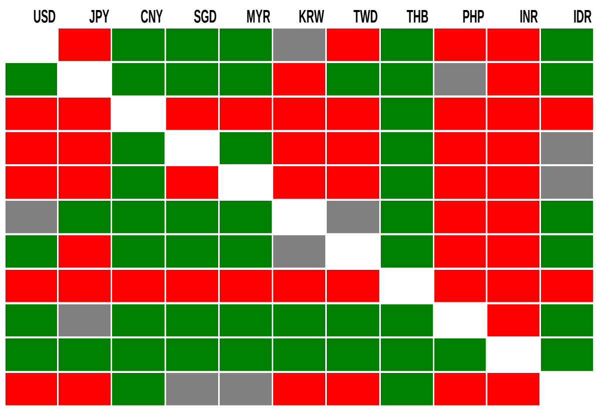
Source: OCBC Bank

G10 FX Heat Map



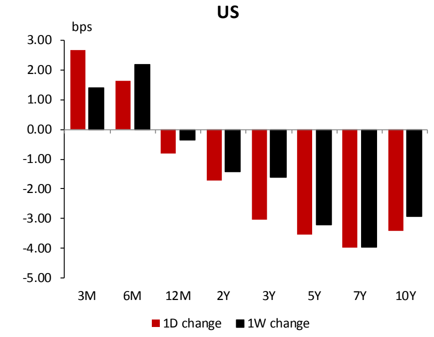
Source: OCBC Bank

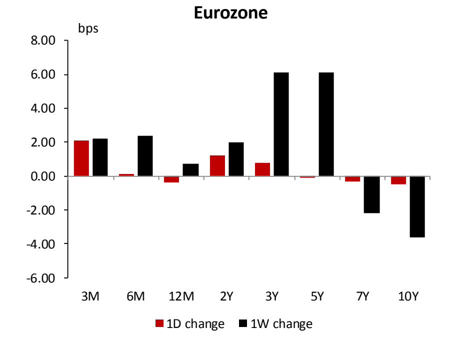
Asia FX Heat Map

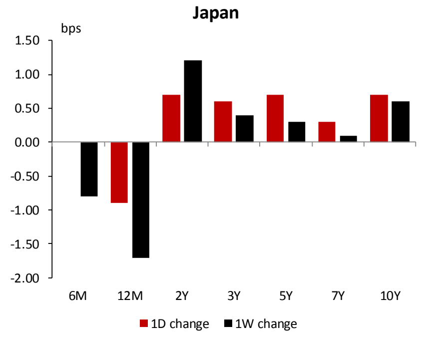


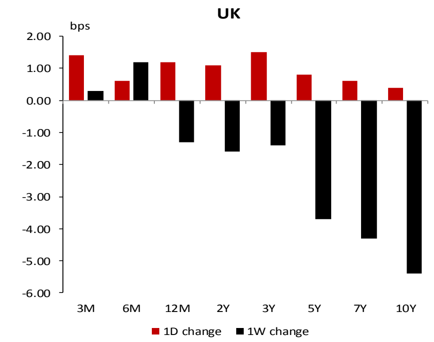
Source: OCBC Bank

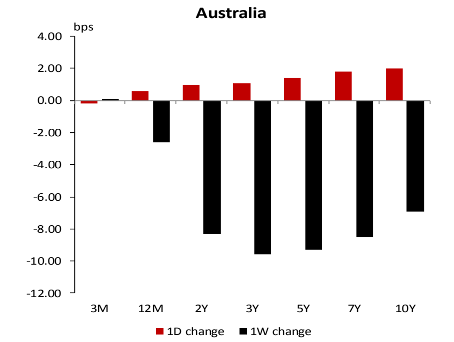
Government bond yield changes

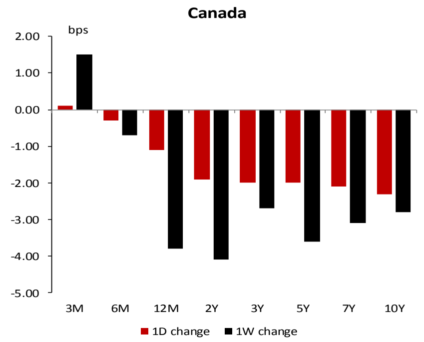


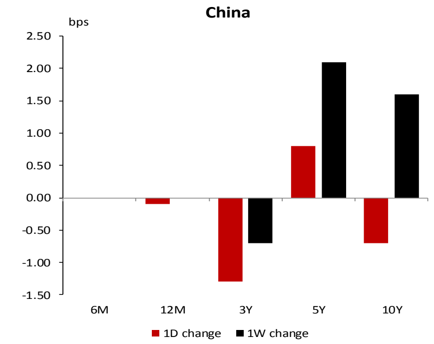


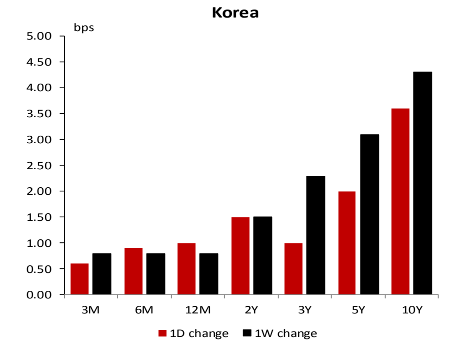


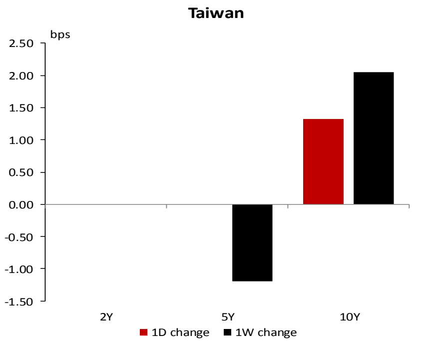


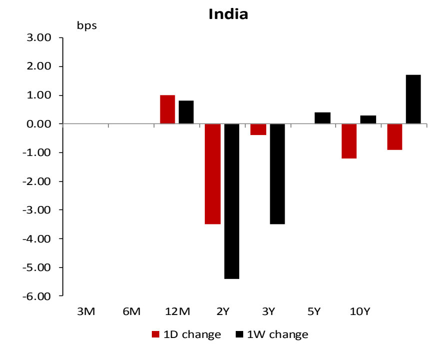


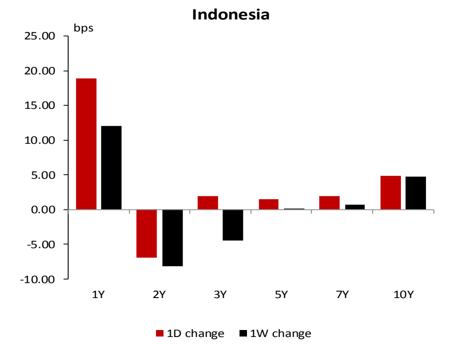


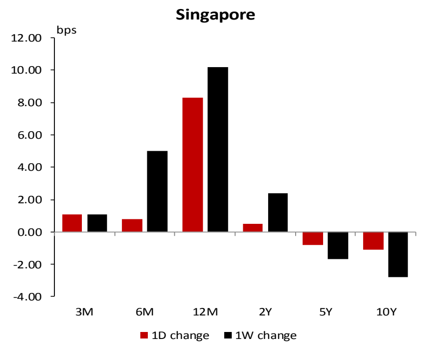


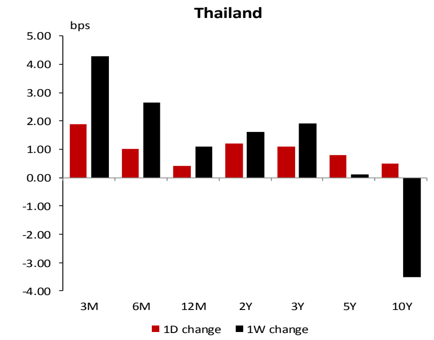


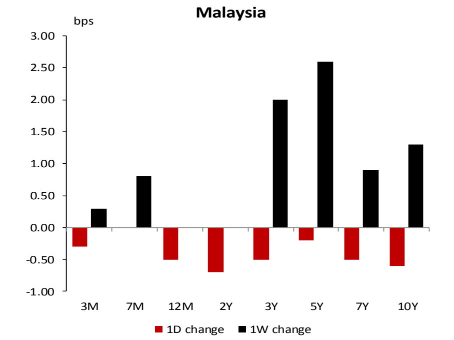


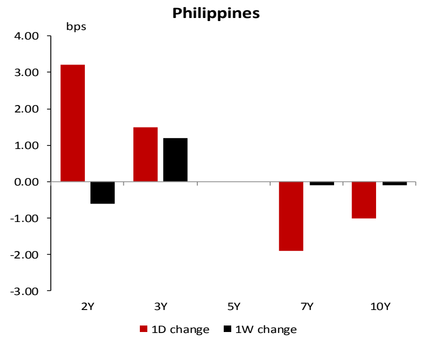












Trade Ideas

	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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