

Thursday, January 31, 2019

Market Themes/Strategy/Trading Ideas

- The USD slumped in the wake of the FOMC with the cyclicals (AUD, NZD, CAD) leading the charge higher. This resulted in the DXY crashing lower to 95.34. USD vulnerability is expected to sustain in the near term with the 200-day MA (95.274) now under threat. **A sustained violation on this front and a failure to retake the 200-week MA (95.881) opens the way for the DXY towards its 100-wk MA (94.547) before the 55-wk MA (93.875).**
- US equities, gold, base metals and crude jumped as a consequence of the dovish Fed while UST yields (2-3y sector outperforming) detached lower with the 10y yield breaking below 2.70% to a lows near 2.676%. On the risk appetite front, the **FX Sentiment Index (FXSI)** remained squarely in Risk-Neutral territory. Headlines from **Sino-US trade talks** today may however potentially put a damper on the market's positive vibes and this remains a significant caveat to the current Risk-On environment.
- In a nutshell, we think the Fed has effectively abandoned its hiking bias but stopped short of inciting bearish expectations. Expect the TYs and the TUs to attempt to angle higher in the near term as a consequence.
- Continue to favor the cyclicals in today's session with the AUD-USD expected to eye its 200-day MA (0.7293) and the USD-CAD likely tempted to breach its 200-day MA (1.3126).
- The EUR and GBP may however remain relative laggards given their respective baggage. The EUR would have to contend with its GDP numbers today (near term resistance at 1.1500) while the pound may remain hostage to Brexit-related uncertainty. To this end, note that the EU's Juncker also stated that odds of a disorderly Brexit is now more likely.

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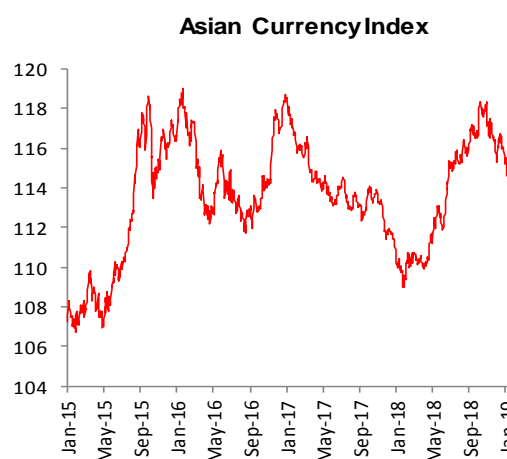
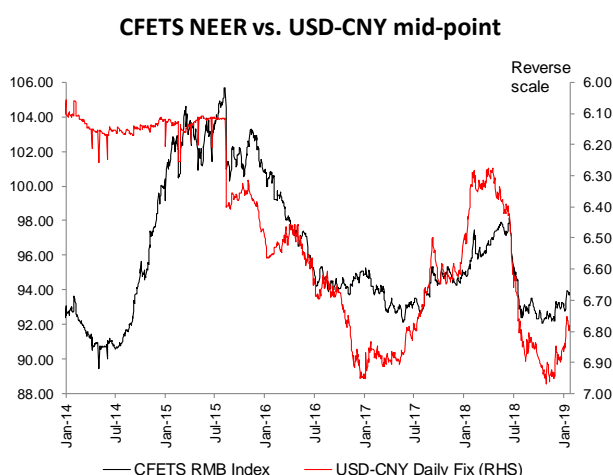
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Asian Markets

- USD-CNH shadowed the DXY lower overnight and coupled with the jump in EM equities, expect sentiment in Asia to remain positive. Coupled with the improvement in global risk appetite levels, recent correlation behavior continues to point to the **SGD** and the **THB** as relative outperformers on the back of the vulnerable USD and the resilient renminbi complex. For India, the INR and govies may however remain muted ahead of tomorrow's budget announcement. On the data front, **China's official January PMIs** released this morning also saw an unexpected improvement from the previous month.
- Elsewhere, last night's FOMC outcome will continue to engender positive appetite for regional equities. On this front, South Korea and Taiwan are still printing net positive inflows. Indonesia's net positive inflows are also attempting to climb higher while Thailand is sitting on minor net inflows (with net equity inflows continuing to strengthen). Meanwhile, India is still experiencing a small net outflow environment.
- **SGD NEER: With the 1.3500 floor broken, expect risks a move towards a weekly Fibo retracement level of 1.3441 for the USD-SGD.** The SGD NEER this morning is a touch firmer at +1.75% above its perceived parity (1.3703) with NEER-implied USD-SGD thresholds mildly softer.
- **CFETS RMB Index:** This morning, the USD-CNY mid-point largely in line with expectations at 6.7025, from 6.7343 yesterday. Meanwhile, the CFETS RMB Index continued to gain to 94.29 from 94.19. **For the USD-CNH, the 6.7000 support may remain pivotal and if this is punctured, next key support only kicks in at the 200-week MA (6.6099).**



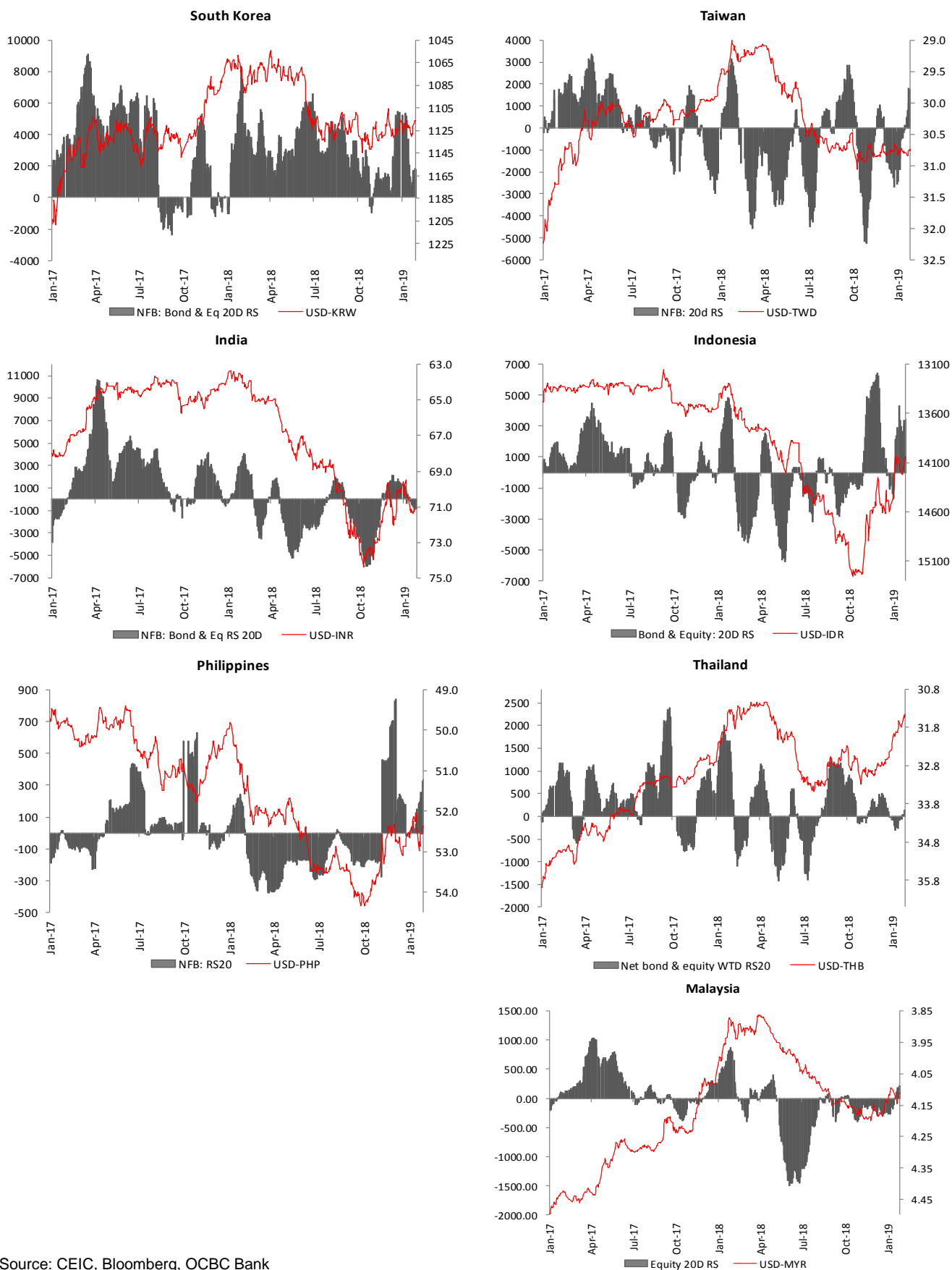
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

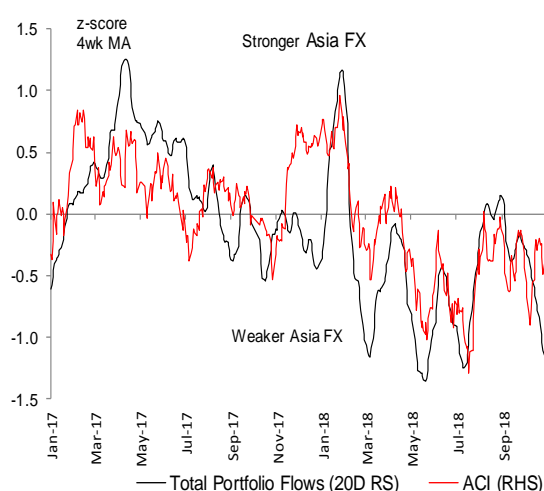
	USD-Asia	10y govie (%)	Rationale
China	↓	↔	Record liquidity injection in open market operations on 16 Jan, inaugural TMLF on 23 Jan. Officials on 15 Jan indicate that taxes will be cut "on a larger scale" and the PBOC stated that it would guide funding costs lower and strengthen counter cyclical adjustments. 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 views IDR as undervalued. Note sustained positive investor 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. 2018 fiscal deficit likely widened to 3.1%.

Source: OCBC Bank

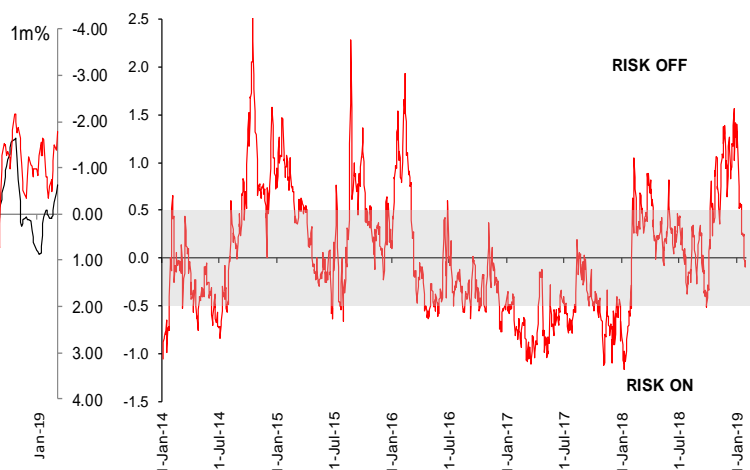
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

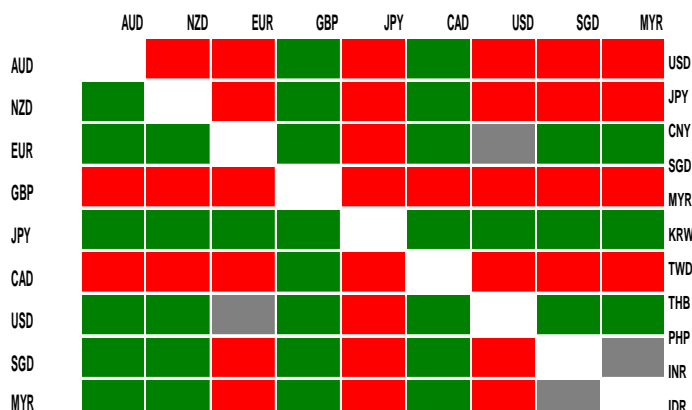
	DXY	USGG10	CNY	SPX	MSELCAFP	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.089	0.482	-0.238	-0.227	-0.349	0.362	-0.417	0.396	0.196	0.552	-0.921
SGD	0.874	-0.277	0.786	-0.587	-0.605	-0.616	0.109	-0.676	0.706	0.57	0.852	-0.655
IDR	0.747	-0.293	0.632	-0.328	-0.309	-0.447	0.18	-0.442	0.569	0.338	0.655	-0.726
MYR	0.734	-0.545	0.674	-0.619	-0.578	-0.688	-0.118	-0.681	0.759	0.56	0.718	-0.584
JPY	0.683	-0.483	0.741	-0.705	-0.661	-0.798	0.054	-0.788	0.809	0.693	0.79	-0.398
CAD	0.644	0.105	0.442	-0.082	-0.082	-0.014	0.22	-0.206	0.235	0.042	0.44	-0.686
CHF	0.611	0.104	0.538	-0.172	-0.127	-0.096	0.147	-0.256	0.353	0.068	0.529	-0.615
CNH	0.582	0.114	0.357	0.049	0.114	-0.115	0.474	-0.1	0.293	-0.136	0.38	-0.647
PHP	0.552	-0.41	0.987	-0.809	-0.859	-0.784	-0.197	-0.839	0.855	0.801	1	-0.257
CNY	0.482	-0.399	1	-0.829	-0.878	-0.797	-0.373	-0.855	0.845	0.801	0.987	-0.255
THB	0.438	0.312	-0.388	0.547	0.616	0.345	0.669	0.447	-0.278	-0.602	-0.368	-0.681
KRW	0.393	-0.373	0.881	-0.882	-0.934	-0.763	-0.53	-0.835	0.744	0.878	0.86	-0.136
USGG10	0.362	0.625	-0.373	0.775	0.616	0.558	1	0.554	-0.551	-0.636	-0.197	-0.49
TWD	0.046	0.56	-0.749	0.797	0.841	0.767	0.434	0.801	-0.627	-0.834	-0.734	-0.372
INR	-0.089	1	-0.399	0.818	0.72	0.814	0.625	0.665	-0.805	-0.814	-0.41	-0.098
GBP	-0.295	0.473	-0.81	0.849	0.904	0.692	0.538	0.794	-0.714	-0.829	-0.814	-0.045
NZD	-0.736	0.515	-0.777	0.693	0.663	0.766	0.02	0.738	-0.852	-0.691	-0.846	0.498
AUD	-0.752	0.226	-0.88	0.683	0.712	0.665	0.013	0.745	-0.759	-0.622	-0.916	0.502
EUR	-0.921	-0.098	-0.255	-0.048	-0.107	0.097	-0.49	0.172	-0.146	0.128	-0.257	1

Source: Bloomberg

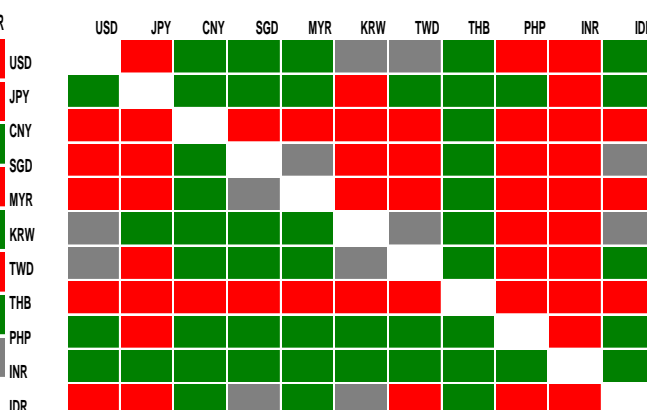
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1393	1.1500	1.1505	1.1542	1.1563
GBP-USD	1.3043	1.3100	1.3134	1.3200	1.3217
AUD-USD	0.7200	0.7254	0.7268	0.7273	0.7293
NZD-USD	0.6898	0.6900	0.6916	0.6924	0.7000
USD-CAD	1.3119	1.3126	1.3131	1.3148	1.3200
USD-JPY	108.00	108.01	108.78	109.00	110.04
USD-SGD	1.3400	1.3460	1.3463	1.3474	1.3500
EUR-SGD	1.5376	1.5400	1.5489	1.5500	1.5546
JPY-SGD	1.2311	1.2318	1.2375	1.2400	1.2542
GBP-SGD	1.7446	1.7600	1.7681	1.7700	1.7778
AUD-SGD	0.9700	0.9781	0.9785	0.9789	0.9791
Gold	1300.00	1312.51	1317.70	1323.40	1400.00
Silver	15.30	16.00	16.04	16.04	16.10
Crude	53.22	53.86	54.60	54.93	55.88

Source: OCBC Bank

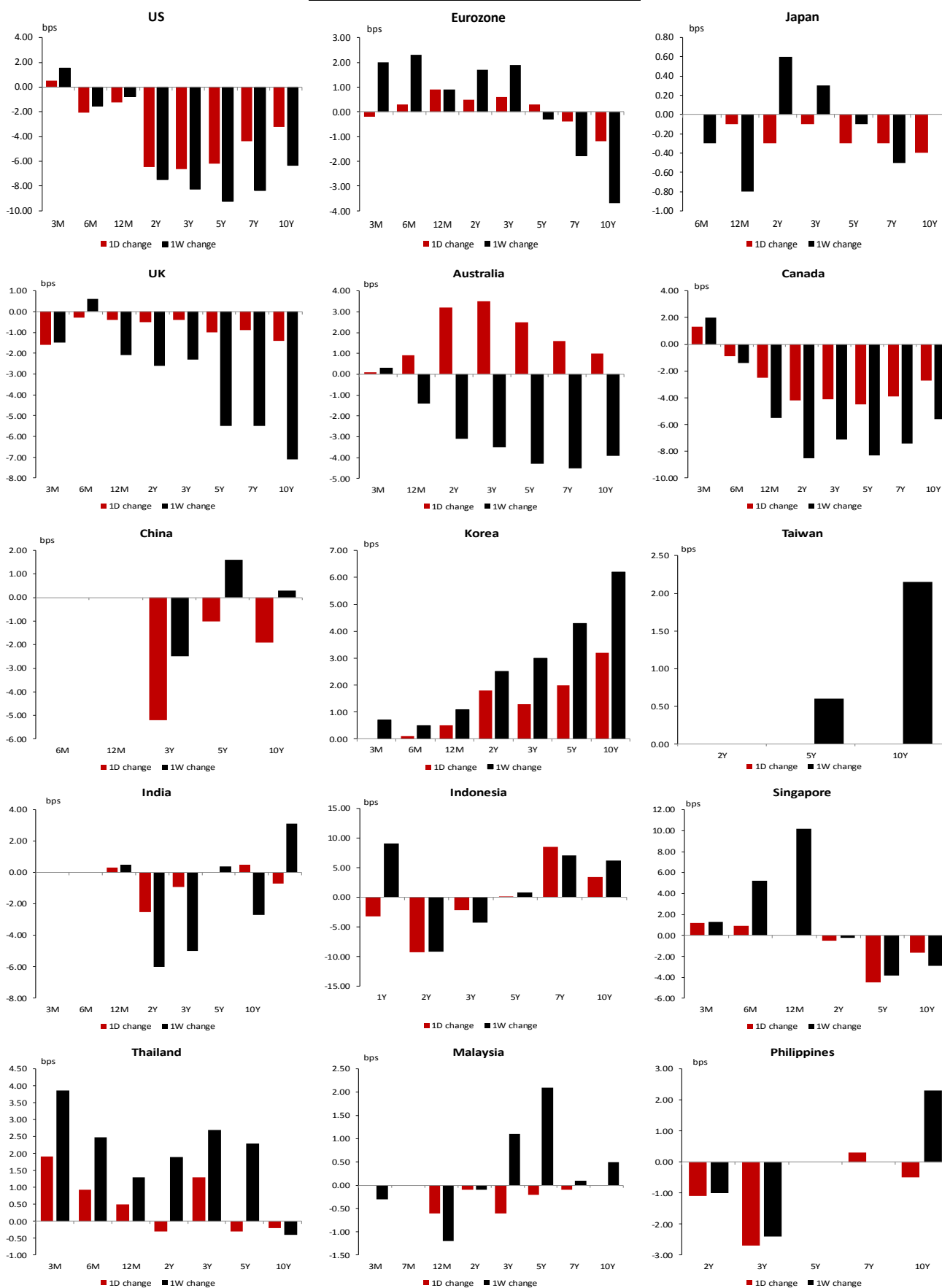
G10 FX Heat Map

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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