Maybank

Macro | FX Research & Strategy

Global

Global Markets Daily

Rates Rising

Rates Rising

Rates are rising, perhaps in line with our theme yesterday on *Watching Inflation*. The sell-off in sovereign bonds could be inspired by the rapidly rising UST yields. 10ys are within striking distance of the 2.80%-level. Inflation numbers are slowly making its way towards central banks' inflation targets. The world is normalizing and with that, brings familiar uncertainties. Equities corrected lower, unsettled by the rise in rates. It is worth noting that the correction is mild with most US benchmark indices still near record highs. However, Asian equities are reacting negatively, bringing the USDAsians higher as we write this morning.

FX Unaffected; USDCNY Fixing Quells PBOC Spec

The correlation between the USD and rates broke down as the growth environment brings strength to risk currencies. While broad USD weakness weighs on the USDAsians, Asian FX is being driven by other factors apart from the countercyclical USD. The USDCNY fixing was rather close to market predictions at 6.2885. That brought USDCNH lower and the rest of USDAsians as well. The latest USDCNY fixing likely quelled speculations of PBOC's intention to slow the appreciation of yuan. That could further anchor the Asian FX. In the meantime however, USDAsians are being lifted by a wave of risk aversion in the regional equity markets.

NFP Due; More Asian Strength Except for INR

Fri has US payrolls report, Fed's Williams to speak; EU PPI; NZ net migration; UK construction PMI, SG and MY PMIs. We look for more Asian strength, against the USD. The outlier perhaps is USDINR which rallied after the release of the Indian Union Budget yesterday, spurred by the sell-off in equity and bonds yesterday after the government loosened its fiscal targets. We had warned of a rupee weakness in the FX monthly, yesterday's FX Daily and we look for this pair to head towards our 1Q target of 64.50.

FX: Overnight Closing Prices

Majors	Prev Close	% Chg	Asian FX	Prev Close	% Chg
EUR/USD	1.251	0.77	USD/SGD	1.3082	-0.30
GBP/USD	1.4264	0.51	EUR/SGD	1.6365	0.47
AUD/USD	0.8039	-0.20	JPY/SGD	1.1957	-0.50
NZD/USD	0.7397	0.43	GBP/SGD	1.8661	0.23
USD/JPY	109.4	0.19	AUD/SGD	1.0517	-0.49
EUR/JPY	136.85	0.97	NZD/SGD	0.9677	0.14
USD/CHF	0.9265	-0.52	CHF/SGD	1.412	0.23
USD/CAD	1.2268	-0.38	CAD/SGD	1.0665	0.10
USD/MYR	3.8985	0.00	SGD/MYR	2.9696	-0.34
USD/THB	31.303	-0.10	SGD/IDR	10220.59	-0.08
USD/IDR	13424	0.28	SGD/PHP	39.2928	0.15
USD/PHP	51.581	0.48	SGD/CNY	4.8001	-0.15

Implied USD/SGD Estimates @ 2 Feb-18, 9.00AM

Upper Band Limit	Mid-Point	Lower Band Limit
1.2920	1.3182	1.3444

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G7: Events & Market Closure

Date	Ctry	Event
29 Jan	NZ	Market Closure
30 Jan	US	State of the Union Address by President Trump
30-31 Jan	US	FOMC Meeting

AXJ: Events & Market Closure

Date	Ctry	Event
31Jan-1 Feb	MY	Market Closure
1 Feb	IN	Union Budget

G7 Currencies

- **DXY – *Payrolls Tonight*.** Broad USD sell-off continues overnight. Focus on Jan payrolls data this evening (930pm SG/KL time). Following a much stronger than expected ADP employment gains (+234k) released on Wed, expectations may be building up for a strong report tonight. Consensus is looking for +180k for NFP; 4.1% unemployment rate; +0.2% hourly earnings. 2y10y UST yield spread steepened overnight (+62bps from low of +50bps), possibly pricing in rising inflationary expectations. Fed's accompanying statement yesterday has already sparked off some expectations of potential 4 rate hikes this year or even an increase in terminal rate projection. Come March FoMC, we will get a clearer indication and if that happens, the back end does have room for further upswing. DXY was last seen at 88.65 levels. Bearish trend channel formed since start of 2017 remains intact. Bearish momentum on monthly, weekly and daily charts are also intact. Trend remains your friend though stochastics is cautioning for oversold conditions and that DXY could face some rebound risks. Resistance at 90.40 (21 DMA). Support at 88.40 (previous low, 61.8% fibo retracement of 2014 low to 2017 high), 87.30 (upward sloping trend line support from the low of 2011 and 2014) and 84.80 (76.4% fibo). Week remaining brings NFP, Unemployment rate, Avg hourly earnings (Jan); Factory orders/ durable goods (Dec); Uni of Michigan Sentiment (Jan); Fed's Williams speaks on Fri.

- **EURUSD – *Still Looking for the Pullback*.** EUR rose further to more than 3-year high of above 1.25-handle overnight amid broad USD weakness. Talks of ECB officials urging Draghi to give investors a clear signal on how long the ECB will keep rates unchanged. Pair was last seen at 1.2505 levels. Bullish momentum on monthly, weekly chart remains intact while daily stochastics is rising back into overbought conditions. Next resistance at 1.2540, 1.2598 (61.8% fibo retracement of 2014 high to 2016 low). Support at 1.2320 (previous high now turned support) before 1.2250 (21 DMA). We stay tactically short EUR (initiated Mon spot ref at 1.2420), looking for a move towards 1.2320, 1.2250 levels. SL above 1.2540. Week remaining brings PPI (Dec) on Fri. We remain caution of how quickly risk events may turn - ongoing German coalition talks (pending SPD members final vote amid high expectations for coalition talks to proceed fast) and Italy elections on 4 Mar (watch opinion poll results that could swing sentiment).

- **GBPUSD – *Lack of Clarity on Transitional Agreement to Weigh*.** GBP firmed amid renewed USD weakness. Last seen at 1.4265 levels. Underlying momentum remains bullish, as indicated on monthly and weekly charts. Resistance at 1.4270 (76.4% fibo retracement of EU referendum high to Oct-2016 low), 1.4380, 1.45 levels. Support at 1.40 levels. Though we are bullish on the outlook of GBP, we caution the current GBP rally may face some reality check, in particular recent Brexit development appears to suggest that UK's exit out of EU may not be as smooth as hoped - EU officials have rejected the City of London's plan to strike a post-Brexit free trade deal on financial services while UK PM May is said to reject EU's terms of demands for the transitional deal. Lack of agreement or clarity on transition agreement may dampen markets' enthusiasm on soft Brexit and renewed fears of disorderly Brexit will pose downside risks to GBP. We do acknowledge that a more committed BoE to target inflation is supportive of GBP strength but that is still conditional on an orderly Brexit. As such we are cautious of pullback risks, especially in the event of any USD rally. Day ahead brings Construction PMI (Jan).

- **USDJPY – *Rebound Risks Intact*.** USDJPY gained in the morning after the BOJ offered to buy unlimited amount in fixed-rate bond operation this morning. The BOJ also offered to buy JPY450bn in 5-10Y JGB (up from JPY410bn in last operation) given that 10Y JGB yield was edging closer to 0.1%. There was a short-lived move lower by the pair following the lower USDCNY fixing by PBOC. Last seen at 109.45 levels. Bearish momentum on daily chart is dissipating, while stochastics remains in oversold conditions. Weekly charts though remains bearish bias. This suggests risks remains to the downside but in the near term there could be rebound risks. Support is seen 108.85 levels (50% fibo resistance of the 2016 low to 2017 high) before 108.10 (trend line support from the low of 2012 to 2016). Resistance at 110 levels, 110.50 (21DMA), 111.15 (38.2% fibo). We caution that persistent increase in UST yields amid continued bond sell-off could pose risk aversion risk. This could lend support to JPY vs. short high-beta proxy such as KRW.

- **NZDUSD – *Tactical Short*.** NZD slipped this morning, amid softer risk sentiment. Pair was last seen at 0.7370 levels. Daily chart suggests some signs of slowing momentum on Kiwi bulls. Chance of pullback could re-visit 0.7290 (21 DMA), 0.7160 levels (38.2% fibo retracement of 2014 high to 2015 low). We hold on to Kiwi short (average spot ref at 0.7370) for a move towards 0.7320, 0.7290 (21 DMA) objectives (revised higher). SL at 0.7450.

- **AUDUSD – *Risks To the Downside*.** AUD has been the underperformer. The currency shows exceptional vulnerability to the USD strength and less recovery in times of USD weakness in the recent price action. Risks are to the downside. This pair was last seen around 0.8015, likely to break below the 0.80-figure today. On the charts, a correction is overdue, first towards 0.7940 and then perhaps towards 0.79 and then 0.7820. The data release this week has missed expectations and lowered expectations for a sooner RBA rate hike. Iron ore prices are also at risk of correction. We look for a 50% retracement of the Oct-Jan rally towards USD66. As for the AUDUSD, Strong resistance remains at 0.8100, 0.8125 levels (2017 high) but these could be irrelevant as we look for further down-moves towards 0.7820. PPI (4Q) is due.

- **USDCAD – *Slow grind lower*.** USDCAD is off overnight lows and was last seen around 1.2278 levels but gains seem to be capped by rising oil prices and stronger economic data. Upmove might be short-lived as recent data has been consistently outperforming estimates; Mfg PMI came in at the highest point since 2016, while GDP on the previous day beat estimates. Beyond the near-term, we see downside pressure on the USDCAD to continue though we caution on upside risks on NAFTA concerns and risk of rebound in the USD. The 50 DMA is seen cutting the 100 DMA from above – a bearish momentum signal. Resistance is now at 1.2300, 1.2390 (61.8% fibo retracement from Oct high to Sep low). Support levels now at

1.2200, 1.2062 levels. Daily and weekly chart shows stochastics nearing oversold levels.

Asia ex Japan Currencies

- **SGD trades around 0.64% *above* the implied mid-point of 1.3182. The top is estimated at 1.2920 and the floor at 1.3444.**

- **USDSGD – *Potential Correction*.** USDSGD is trading bid this morning amid a rebound in the USD, though it remains stuck in consolidation mode after rebounding from the multi-year low of 1.3009 (on 25 Jan). The pair pared gains after the PBOC fixed the USDCNY lower this morning. Firmer UST yields yesterday lifted the 3-month SOR back above the 1.0% level at 1.04% as we had expected. Further rebound in UST yields though could see 3-month SOR stay elevated intraday. Last seen around 1.3093 levels, pair has lost most of its bearish momentum on the daily chart while stochastics is climbing from oversold conditions. Bearish momentum on the weekly chart remains intact. This suggests potential for some correction in the near term though pair could trade sideways ahead of US NFP later tonight. Resistance at 1.3200 levels (61.8% fibo retracement of the 2014 low to 2017 high, 21 DMA). Support at 1.3070 levels before 1.3009.

- **AUDSGD – *More down-moves*.** This cross broke below the 1.0520-figure and we look for this cross to move lower towards 1.0450. We had flagged the bearish divergence in the price action vs. the MACD and stochs and this is playing out. While weekly MACD is still bullish, stochs are in oversold conditions, Resistance is now seen at 1.0630 (Jan high) and support at 1.0520 (23.6% fib of the Dec-Jan rally) has given way and we eye the next at 1.0446 (38.2%).

- **SGDMYR** – ***Rebound Risks but Bias to Fade*.** SGDMYR slipped this morning. Last seen at 2.9640 levels. Shorter term technical is not indicating a clear bias but underlying momentum (as indicated on weekly and monthly charts) still suggest a bearish bias. Resistance at 2.9750, 2.99 levels. Support at 2.95, 2.93 levels. We retain our bias to lean against strength.

- **USDMYR – *Rebound Risks but Bias to Fade*.** Onshore markets returned today. USDMYR was last seen at 3.8840 levels. Bearish momentum shows signs of waning while stochastics shows signs of turning higher from oversold conditions. We do not rule out rebound risks in the near term. Break above 3.90 (upper bound of its bearish trend channel formed since mid-Jan) could see a rebound towards 3.92 levels. But bias to fade. Support seen at 3.8660 (previous low) before 3.85 levels. Broader term, we believe MYR strength should continue in early part (next few months) of 2018 amid expectations for announcement for Malaysian GE (likely to be held in coming months), positive development in domestic fundamentals including shifts in investor sentiment, strong GDP outlook, widening current account surplus against supporting external environment - synchronous global economic recovery benefitting Asian exports including Malaysia and possibly see this extending into investment recovery in 2018. Furthermore there are also signs of stabilising commodity prices amid OPEC production cut extension and steady demand for oil prices. And we expect these drivers – both external and domestic to provide the near term support for MYR. Our fair value estimate for USDMYR is around 3.70 levels.

- **1m USDKRW NDF - *Upside Risks*.** 1m USDKRW NDF firmed amid lower appetite for risk. Local equities are down -1.5% at time of writing while most regional equities in Shanghai and Japan are down around 1%. Pair was last seen at 1074 levels. Bullish momentum on daily chart remains intact while stochastics is rising. Next resistance at 1075 (50 DMA), 1078. Support at 1067 (21 DMA) levels. Persistent risk-off play could amid US trade protectionism measures could see the pair trade higher. Trump's latest trade protectionist measures on imposing import tariffs on washing machine and solar panels may affect Korean exports. According to some calculations reported on the media, those exports stand at about US$2bn per year and could negatively impact Korean exports to US if US consumer switches preferences.

- **USDCNH - *Downside pressure*.** USDCNH remains biased to the downside at 6.2844 this morning, weighed by the USDCNY fixing this morning. There has been speculation that PBOC would use the USDCNY fixing to slow the yuan appreciation against the basket. That should quell these speculations and the action signals PBOC's commitment in allowing CNY to be more driven by market forces. However, today's fixing is close to model predictions. Support around the 6.30 has broken and we see little support levels before the next at 6.2130. Resistance is seen at 6.3513. **PBoC fixed the USDCNY reference rate at 6.2885, 160 pips lower than previous 6.3045. CNYMYR was fixed 3 pips lower at 0.6188 vs. previous at 0.6192.** An editorial by China Securities Times stated that yuan exchange rate against the USD may strengthen in 2018 as China improves cross-border capital flow situation and economic development.

- **1m USDINR NDF - *The Budget effect*.** 1m USDINR NDF traded bid this morning after the yesterday's FY18/19 budget plan. As we highlighted in our monthly report, a voter-friendly budget could weigh on the INR. Key issues such as increased allocation to farm sectors, increased fiscal deficit target, and introduction of long term capital gain (LTCG) tax are weighing on both bond and equity market sentiments. This has trigger a further sell-off in sovereign bonds on the back of fiscal credibility, while our India analysts expect equity markets take a hit from effects of the LTCG. Mfg PMI released yesterday also came in lower than previous reading. Hence, bias to the upside of the 1m NDF remains. The 1m NDF touched a high of 64.31 last night, before settling at 64.21 level this morning. On the daily chart, momentum indicators seem to be gaining. Resistance at 64.45 (38.2% fibo). Support at 64.00 (23.6% fibo), 63.37 (2018 low).

- **1m USDIDR NDF** – ***Sideways*.** 1m USDIDR extended overnight gain amid a rebound in UST yields towards the 2.80% levels. Expectations of further foreign portfolio outflows as they did yesterday is keeping the 1m NDF supported. Yesterday, foreign investors had sold off USD68.0mn in equities. Meanwhile, they had sold off USD175.7mn in debt on 31 Jan (latest data available), a sign that interest in carry trade plays could be waning. It also did not help that disappointing inflation print for Jan released yesterday could keep the BI from normalising rates that could keep 1m NDF supported. Jan headline inflation had risen by 3.25%, a moderation from Dec's 3.61%. Last seen around 13429 levels. Momentum indicators and stochastics on the daily chart remain bullish bias. Weekly chart though shows bearish bias still. Theses suggest risks are still to the downside, though in the near term there is a potential for rebound risks. 1m NDF is likely to stay in sideway trades ahead of US NFP later tonight and domestic 4Q17 GDP on Mon. Resistance is around 13440 (50% fibo retracement of the Sep-Oct upswing), 13500 (100DMA). Support is now around 13370 (61.8% fibo) before 13280 levels (76.4% fibo). JISDOR was fixed at 13402 yesterday; 11 pips lower than the fixing on Tue.

- **1m USDPHP NDF – *Edging Higher*.** 1m USDPHP NDF trades bid this morning, tracking its regional peers higher. Continued risk aversion is likely to keep the 1m NDF supported intraday. Foreign investors had sold off USD26.5mn in equities yesterday. Further outflows could add further upside pressure on the 1m NDF intraday. Last seen around 51.82 levels. Momentum indicators on the daily chart remains intact, while stochastics remains at overbought conditions. Weekly chart shows momentum now mildly bullish and stochastics climbing higher from oversold conditions. This suggests risks to the 1m NDF are to the upside, though a correction cannot be ruled out given overstretched conditions. Immediate resistance is around 51.85 levels, 52-handle. Support is at 51.60 levels (23.6% fibo retracement of the Apr-Oct 2017 upswing), 51.15 (38.2% fibo).

- **USDTHB – *Still In Consolidation*.** USDTHB is trading mildly bid this morning amid a rebound in UST yields overnight, though pair continues to trade in a tight range within 31.256-31.578 for the past week. Risk appetite for Thai assets were mixed yesterday with foreign funds selling USD143.8mn in equities, but purchased USD22.2mn in debt. The pair was also weighed by the weaker-than-expected inflation print for Jan, which came in at 0.68% y/y compared to consensus' 0.80% and Nov's 0.78%. The lack of inflationary pressures could delay BoT rate normalisation and keep the 1m NDF supported. Further net portfolio outflows should keep the pair supported intraday. Last seen around 31.350 levels. Daily and weekly momentum indicators remain bearish bias, while both stochastics are at oversold conditions. This suggests risks are still to the downside though there are potential rebound risks given overstretched conditions. Resistance remains around 31.580, 31.860 levels. Support remains at 31.256, 31.000 levels.

Indonesia Fixed Income

Rates Indicators

IDR Gov't Bonds	Previous Bus. Day	Yesterday's Close	Change (bp)
2YR	5.43	5.34	(9.37)
5YR	5.71	5.71	(0.47)
10YR	6.22	6.18	(4.16)
15YR	6.67	6.68	0.86
20YR	7.02	6.95	(6.65)
30YR	7.13	7.11	(1.81)

** Source: Maybank Indonesia*

- Indonesia bond market closed stronger during Thursday trading session amid FOMC decide to leave their reference rate unchanged while releasing a hawkish statement; continuation of UST10y yield heading north and better than expected Jan 18 CPI number. Indonesia statistics released Jan 18 CPI number which came in at 3.25% yoy or better than consensus expectation of 3.33% yoy. This have resulted the RII to widen to 301bps from 270bps in previous month while average RII 5y is at 234bps. 5-yr, 10-yr, 15-yr and 20-yr benchmark series yield stood at 5.706%, 6.178%, 6.681% and 6.954% while 2y yield moved lower to 5.338%. During the day, FR0071 (11) yield decline the most by 8bps. 15y20y G-Spread is the widest on YTD basis currently (15y20y current spread: 27bps). Trading volume at secondary market was noted heavy at government segments amounting Rp31,918b with FR0075 (20y benchmark series) as the most tradable bond. FR0074 total trading volume amounting Rp4,041b with 168x transaction frequency.

- Foreign ownership stood at Rp869.8t or 41.3% of total tradable government bond as of Jan 31^{th}. Considering a 2-day's settlement, Foreigner booked net buy worth of Rp31.6t from begin month Jan 18 or approx. more than half of Q117 foreign purchase (worth of Rp56.1t).

- Corporate bond traded heavy amounting Rp1,246b. SANF02ACN2 (Shelf Registration II SAN Finance Phase II Year 2017; A serial bond; Rating: $_{id}$AA-) was the top actively traded corporate bond with total trading volume amounted Rp134b.

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Foreign Exchange: Daily Levels

	EUR/USD	USD/JPY	AUD/USD	GBP/USD	USD/CNH	NZD/USD	EUR/JPY	AUD/JPY
R2	1.2609	110.07	0.8110	1.4352	6.3221	0.7448	137.9233	88.4957
R1	1.2560	109.73	0.8075	1.4308	6.3067	0.7423	137.3867	88.2263
Current	1.2499	109.50	0.8011	1.4261	6.2862	0.7375	136.8600	87.7220
S1	1.2423	109.08	0.7996	1.4190	6.2816	0.7353	135.8867	87.5903
S2	1.2335	108.77	0.7952	1.4116	6.2719	0.7308	134.9233	87.2237

	USD/SGD	USD/MYR	USD/IDR	USD/PHP	USD/THB	EUR/SGD	CNY/MYR	SGD/MYR
R2	1.3164	n/a	13459	51.8277	31.4137	1.6450	0.6238	2.9790
R1	1.3123	n/a	13442	51.7043	31.3583	1.6407	0.6206	2.9743
Current	1.3104	3.8865	13433	51.7470	31.3200	1.6378	0.6200	2.9663
S1	1.3060	n/a	13398	51.3833	31.2713	1.6296	0.6151	2.9657
S2	1.3038	n/a	13371	51.1857	31.2397	1.6228	0.6127	2.9618

*Values calculated based on pivots, a formula that projects support/resistance for the day.

Policy Rates

Rates	Current (%)	Upcoming CB Meeting	MBB Expectation
MAS SGD 3-Month SIBOR	1.1259	Apr-18	Neutral
BNM O/N Policy Rate	3.25	7/3/2018	Neutral
BI 7-Day Reverse Repo Rate	4.25	15/2/2018	Neutral
BOT 1-Day Repo	1.50	14/2/2018	Tightening Bias
BSP O/N Reverse Repo	3.00	8/2/2018	Tightening Bias
CBC Discount Rate	1.38	22/3/2018	Neutral
HKMA Base Rate	1.75	-	Tightening
PBOC 1Y Lending Rate	4.35	-	Tightening Bias
RBI Repo Rate	6.00	7/2/2018	Neutral
BOK Base Rate	1.50	27/2/2018	Easing Bias
Fed Funds Target Rate	1.50	22/3/2018	Tightening
ECB Deposit Facility Rate	-0.40	8/3/2018	Easing Bias
BOE Official Bank Rate	0.50	8/2/2018	Neutral
RBA Cash Rate Target	1.50	6/2/2018	Neutral
RBNZ Official Cash Rate	1.75	8/2/2018	Neutral
BOJ Rate	-0.10	9/3/2018	Easing
BoC O/N Rate	1.25	7/3/2018	Tightening

Equity Indices and Key Commodities

	Value	% Change
Dow	26,186.71	0.14
Nasdaq	7,385.86	-0.35
Nikkei 225	23,486.11	1.68
FTSE	7,490.39	-0.57
Australia ASX 200	6,090.07	0.87
Singapore Straits Times	3,547.23	0.37
Kuala Lumpur Composite	1,868.58	-0.10
Jakarta Composite	6,598.46	-0.11
Philippines Composite	8,738.72	-0.29
Taiwan TAIEX	11,160.25	0.51
Korea KOSPI	2,568.54	0.08
Shanghai Comp Index	3,446.98	-0.97
Hong Kong Hang Seng	32,642.09	-0.75
India Sensex	35,906.66	-0.16
Nymex Crude Oil WTI	65.98	1.87
Comex Gold	1,351.90	0.25
Reuters CRB Index	198.35	0.49
MBB KL	10.10	-0.98

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