

Daily Market Outlook

1 August 2019

Market Themes/Strategy/Trading Ideas – Hawkish cut

- The majors were dragged lower against the USD (XAU crashed) post-**FOMC** after Powell characterized the 25bps cut delivered overnight as a “mid-cycle adjustment” and “not the beginning of a long series of rate cuts”. He did however clarify later that “I didn’t say it’s just one (cut)”. Meanwhile, the UST curve bear flattened even as the 10y yield dripped lower.
- US and EM equities tanked in the wake of the Fed but the **FX Sentiment Index (FXSI)** still managed to tick lower within **Risk-Neutral** territory.
- With **Powell** essentially stating that the Fed is cutting from a position of strength (note also the 2 dissenting votes), implication then is that (apart from global equities taking a beating) any policy dichotomy (between the Fed and the other global central banks) will be brought into sharper relief:
 - USD strength to prevail in the near term - short-end vol surfaces will continue to lean in favor of the USD, but this time on the back of the less dovish than expected FOMC.
 - To this end, the likes of the AUD and the GBP remain relatively more vulnerable.
 - Counterpart central banks may have to take stock of their respective monetary postures, and market participants may heighten their focus on idiosyncratic factors.
- On the calendar today, global PMIs and the Bank of England policy decision (1100 GMT) are on tap.
- In the interim, firmer US yields again this morning (relative to the NY close) may continue to underpin the USD, and price discovery we think will be on the back of re-pricing risks as market participants undertake and contemplate the re-assessments outlined above.

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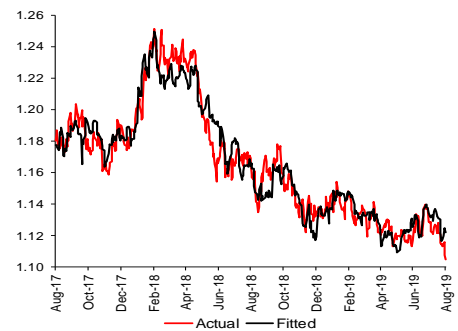
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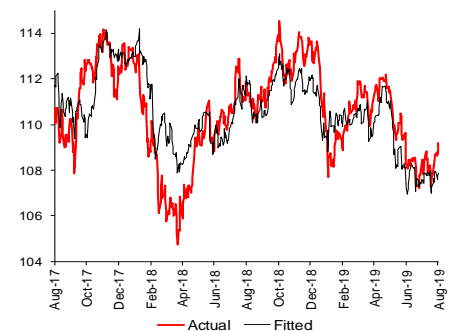
EUR-USD

Heavy. The EUR also continued to underperform its peers amid the ruckus surrounding the FOMC. With short term implied valuations also hesitating and inching lower and the violation of 1.1100, EUR-USD may seek out 1.1000 after some consolidation at 1.1050.



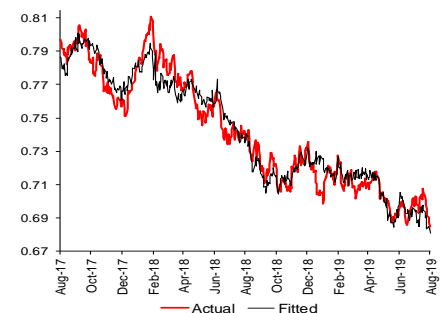
USD-JPY

Bounce higher. Rate differential and FOMC vs BOJ dynamics may guide the USD-JPY higher at this juncture. After slicing above 109.00, expect 109.59 and the 100-day MA (109.69) to be conspicuous targets on the upside. Expect BOJ rhetoric to remain suitably dovish.



AUD-USD

Descend. Aussie CPI and China PMI readings yesterday offered the AUD-USD interim support before the FOMC outcome pulled the pair lower. The Caixin China manufacturing PMI this morning also outperformed expectations may also partially support the pair, although the bias remains immutably bearish. Expect some further downside capitulation towards 0.6800 with short term implied valuations detaching lower.



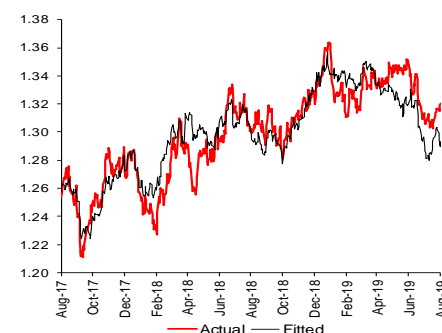
GBP-USD

Keep Calm & Stay Bearish. The BOE MPC and Inflation Report today (1100 GMT) and Carney's press conference (1130 GMT) will be on tap today. With the new PM at the helm, markets will be watching for any shift in the BOE's posture. Key supports at this juncture are marked at 1.2100 and 1.2040 with short term implied valuations also tipping lower.



USD-CAD

Search higher. Post-FOMC, the USD-CAD may resist downside probes with the perceived gulf between the Fed and the BOC narrowing. In the current environment therefore (firm crude notwithstanding), the 55-day MA (1.3242) may attract.



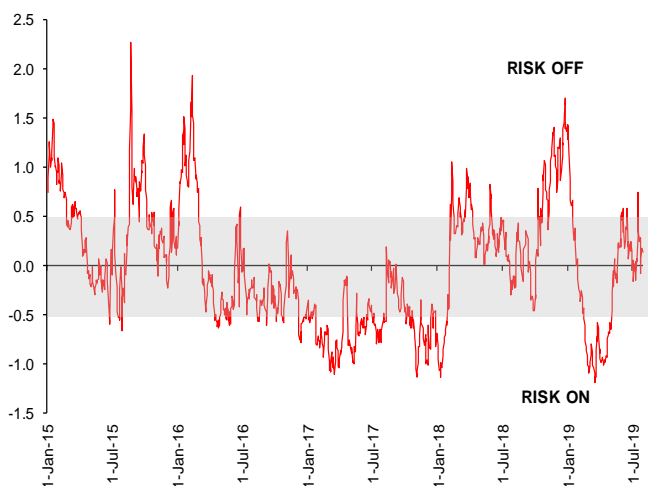
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Asian Markets

- USD-Asia: Buoyant post-FOMC.** The Sino-US trade talks closed in a rather underwhelming fashion in Shanghai, without any significant takeaways except for some pleasantries. The USD-CNH (finally) turned responsive to the stronger USD, popping through the 6.9000 topside resistance overnight. Expect USD resilience to assert itself on the Asian currencies for now, with the RMB complex not providing significant support in the interim.
- In EM,** the Fed's clarification overnight may elicit a reassessment of the recent rush towards EM assets:
 - USD strength to persist in the near term
 - The carry proposition may come under scrutiny – southern Asian currencies may be relatively more vulnerable to a whiplash given their steady outperformance in recent months
 - Asian central banks will also have to take stock, and previously reticent central banks (Bank of Thailand for example) may now sit a little more securely
 - The rush to the bottom for regional yields may thus pause at this juncture
- USD-SGD: Upside risks.** Expect the SGD to see further downside pressure, alongside Asian counterparts, post-FOMC. With the USD-SGD taking out the 1.3720 resistance, a further extension towards 1.3800/30 may now be in sight. Meanwhile, the SGD NEER stood at +0.97% above its perceived parity (1.3885) this morning, after seeing a volatile session ranging from +1.10% to +0.80% above parity overnight. NEER-implied USD-SGD thresholds essentially spiked higher.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1000	1.1034	1.1048	1.1066	1.1100
GBP-USD	1.2100	1.2101	1.2127	1.2148	1.2200
AUD-USD	0.6828	0.6841	0.6856	0.6900	0.6957
NZD-USD	0.6534	0.6544	0.6558	0.6600	0.6627
USD-CAD	1.3016	1.3200	1.3204	1.3215	1.3223
USD-JPY	108.32	109.00	109.14	109.24	109.32
USD-SGD	1.3700	1.3720	1.3749	1.3767	1.3800
EUR-SGD	1.5100	1.5164	1.5190	1.5196	1.5200
JPY-SGD	1.2500	1.2592	1.2597	1.2600	1.2666
GBP-SGD	1.6598	1.6600	1.6674	1.6676	1.6700
AUD-SGD	0.9386	0.9400	0.9427	0.9489	0.9500
Gold	1397.45	1400.00	1409.20	1435.19	1454.40
Silver	15.27	16.10	16.19	16.20	16.64
Crude	57.16	57.80	57.86	57.90	60.63

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