

Daily Market Outlook

2 August 2019

Market Themes/Strategy/Trading Ideas – Refreshed FX Forecasts

- With US President Trump (likely still peeved at Powell) unveiling further tariffs on Chinese imports, the USD-JPY crashed below 108.00 (with the JPY outperforming on the crosses) with the USD also tripping lower against the EUR and the CHF. Meanwhile, AUD-USD also stumbled to the 0.6800 floor. Overall, this saw the DXY retrace back below 98.50.
- Meanwhile, UST yields collapsed (belly outperformed) with the 10y cracking 2.0000% and settling at 1.8849% while crude caved and traded below 55.00.
- Tumbling US equities, global commodities and spiking XAU coupled with a generalized descent into risk aversion saw the **FX Sentiment Index (FXSI)** jumping from Risk-Neutral to **Risk-Off** territory on Thursday.
- **Where do we go from here?**
 - Ironically, any **escalation in Sino-US trade tensions** will likely trap the Fed on a dovish slope – reigniting market-implied rate cut pricing (potentially another 2 cuts this year on the table). On the US inflation front, note that the ISM employment and prices paid components deteriorated significantly. US June payrolls (1230 GMT) and durable goods orders (1400 GMT) tonight present more headline risks.
 - **Global manufacturing July PMIs** (including the ISM in the US, the China Caixin PMI) generally held steady or outperformed expectations. However, any positivity will now vanish if global trade tensions see a resurgence and continue to negatively affect real macro variables.
 - In the interim, stay heavy on **USD-JPY** (and the JPY-crosses) as well as the likes of the **AUD-USD**.

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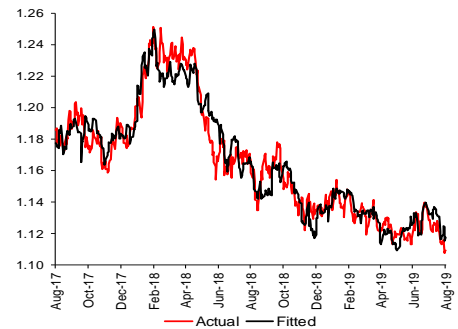
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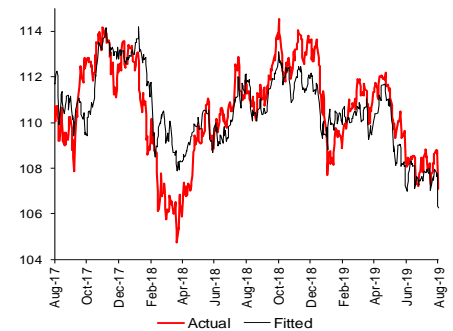
EUR-USD

Top heavy. The EUR may remain slightly detached from the glare of the Sino-US flare up. Dovish ECB-related concerns may thus continue to lurk and we think a top heavy stance should continue to prevail within 1.1060-1.1115.



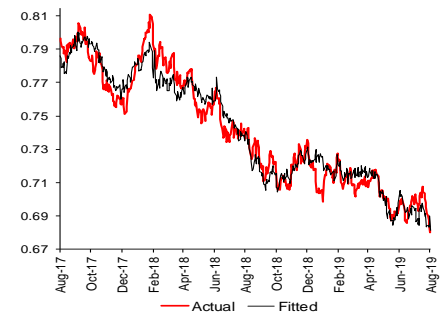
USD-JPY

Southbound. Expect sentiment towards the USD-JPY to be bearish and the pair may actively seek out the recent low at 106.78. Note that short term implied valuations for the pair have dived in the wake of lower US yields.



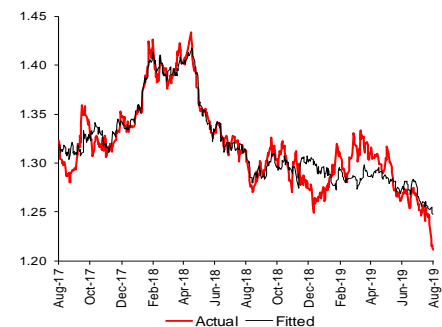
AUD-USD

Still descending. The outlook for the AUD-USD is looking inexorably heavy in the near term given the current global backdrop with the 0.6800 floor now on the verge of being perforated. Next key support is only expected towards 0.6740 with short term implied valuations relapsing lower again.



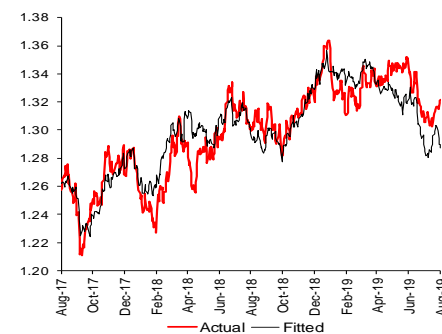
GBP-USD

Keep Calm & Stay Bearish. The BOE's Carney remained steadfast on Thursday, noting that the BOE's forecasts remain predicated on an orderly Brexit. We however would favor fading upticks in the near term with short term implied valuations still attempting to edge lower. Key supports at this juncture are marked at 1.2100 and 1.2040.



USD-CAD

Search higher. With the crude complex crashing out and despite short term implied valuations for the pair holding relatively steady, 1.3270 may continue to beckon into the end of the week for the USD-CAD if the 55-day MA (1.3238) is taken out.



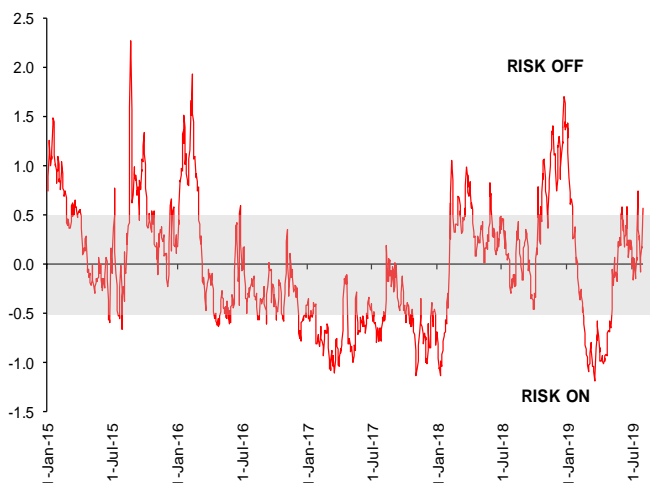
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Asian Markets

- USD-Asia: No let-up on the upside.** The news of the additional US tariffs also resulted in EM currencies/equities crumbling overnight. Note also that outside of the China readings, Asian manufacturing PMIs came in mixed to weaker. Short-end EM FX vols are 'waking up' again, with Chinese equities slumping in early trade on Friday. **Overall, expect USD-Asia upside to persist, especially with regional currencies now lacking the buffer of net portfolio inflows. Asian (govie and IRS) yields meanwhile may be expected to take the cue from the global core curves and explore the downside once again, flushing out any ambiguity witnessed immediately after the FOMC.**
- Renminbi complex guidance.** **USD-CNH** jumped above 6.9600 overnight and we note that the vol surface at the short tend has significantly moved to price in USD outperformance despite the CFETS RMB Index ticking slightly higher of late. Elsewhere, **USD-KRW** may also bear watching as it reaches highs last seen in May. Note that the **Bank of Korea (BOK)** started to jawbone the USD-KRW lower when it was last at current levels. While we retain a view that the pair should still persist higher, the immediate room north may be limited, as we remain wary of potential BOK comments.
- USD-SGD: Upside risks.** The vol surface for the USD-SGD has also reacted higher (although to a lesser degree than the USD-CNH) in light of the renewed trade issues. Expect the upside momentum to persist, if not pick up the pace. Retain topside targets at 1.3800/30, while 1.3720 may cushion dips. Meanwhile, the SGD NEER firmed this morning to +0.97% above its perceived parity (1.3884), after hitting a low of +0.62% above parity overnight. Currently, the +0.50% above parity level translates to 1.3815. The official PMI readings are expected at 1300 GMT today.

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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Refreshed FX Forecasts (correct as of 1 August 2019)

	Spot	Aug-19	Sep-19	Dec-19	Mar-20	Jun-20
USD-JPY	109.19	109.83	109.79	109.17	108.26	107.31
EUR-USD	1.1037	1.0971	1.0983	1.1064	1.1168	1.1273
GBP-USD	1.2115	1.2005	1.2018	1.2089	1.2177	1.2264
AUD-USD	0.6843	0.6783	0.6771	0.6825	0.6922	0.7019
NZD-USD	0.6551	0.6488	0.6495	0.6558	0.6642	0.6726
USD-CAD	1.3216	1.3257	1.3206	1.3118	1.3064	1.3010
USD-CHF	0.9970	1.0037	1.0028	0.9970	0.9896	0.9823
USD-SGD	1.3759	1.3811	1.3823	1.3777	1.3691	1.3605
USD-CNY	6.8987	6.9147	6.9249	6.8854	6.8109	6.7363
USD-THB	30.87	30.97	30.74	30.43	30.32	30.2028
USD-IDR	14098	14,156	14,127	14,002	13,859	13716
USD-MYR	4.1455	4.1542	4.1579	4.1383	4.1032	4.0682
USD-KRW	1188.55	1195.99	1198.16	1192.34	1180.36	1168.39
USD-TWD	31.172	31.269	31.299	31.188	30.976	30.763
USD-HKD	7.8257	7.8348	7.8424	7.8344	7.8111	7.7878
USD-PHP	51.14	51.28	51.01	50.63	50.46	50.30
USD-INR	69.07	69.59	68.85	67.80	67.35	66.89
EUR-JPY	120.52	120.49	120.58	120.79	120.91	120.97
EUR-GBP	0.9110	0.9139	0.9139	0.9152	0.9172	0.9191
EUR-CHF	1.1004	1.1012	1.1013	1.1031	1.1053	1.1073
EUR-SGD	1.5185	1.5153	1.5181	1.5243	1.5291	1.5336
GBP-SGD	1.6669	1.6580	1.6612	1.6655	1.6671	1.6686
AUD-SGD	0.9415	0.9368	0.9360	0.9403	0.9477	0.9550
NZD-SGD	0.9014	0.8961	0.8978	0.9036	0.9094	0.9151
CHF-SGD	1.3800	1.3760	1.3784	1.3819	1.3834	1.3850
JPY-SGD	1.2601	1.2575	1.2591	1.2620	1.2647	1.2678
SGD-MYR	3.0130	3.0079	3.0080	3.0037	2.9970	2.9903
SGD-CNY	5.0139	5.0066	5.0097	4.9976	4.9747	4.9514

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