

Daily Market Outlook

4 September 2019

Market Themes/Strategy

- Despite intraday resilience and fairly confident comments from the Fed's Rosengren, the USD was ultimately undermined after the Aug manufacturing ISM (especially the employment and prices paid sub-components) drastically underperformed and fell below 50.0 to 49.1. The resultant drop in UST yields (10y<1.5000% but curve bull steepened, led by the belly at 5y), dragged the USD-JPY below 106.00
- Meanwhile, the **AUD-USD** was also buoyed and recovered from intraday lows below 0.6700 to end higher on the day after the RBA's meeting statement did not exhibit undue dovishness.
- Negative EZ/US equities, softer crude/base metals and higher gold meanwhile resulted in the **FX Sentiment Index (FXSI)** ascending further into **Risk-Off** territory on Tuesday. **We note that the Index has spent the last 24 consecutive sessions in Risk-Off territory.**
- **GBP in the spotlight.** Elsewhere, the **GBP-USD** also bounced from sub-1.2000 levels to end higher on the day PM Johnson lost his working majority in the House of Commons (following a defection) and after the opposition defeated the government 328-301 and seized parliament. **The coming hours will be crucial for the pound - watch for headlines surrounding a vote to call for a further Brexit delay, and potentially, PM Johnson calling for a snap election.**
- **Sino-US tensions** may continue to brew with Trump warning of a tougher US stance if trade talks continued to drag beyond the 2020 election and he wins a second term.
- **Watch the official chatter today.** The calendar today includes a slew of potential policy rhetoric including from ECB Presidential nominee Christine Lagarde (0830 GMT), ECB's Lane (1100 GMT), BOE's Carney, Haldane, Haskel, and Vlieghe (1315 GMT), Fed's Williams (1325 GMT), ECB's Mersch (1400 GMT), Fed's Kaplan (1400 GMT), Fed's Bowman, Bullard (1630 GMT), ECB's Guindos (1630 GMT) Fed's Kashkari (1700 GMT), and Fed's Evans (1915 GMT).
- **Given the overarching fragility of the global landscape outside the US sphere, USD vulnerability from overnight markets may well prove transient.**

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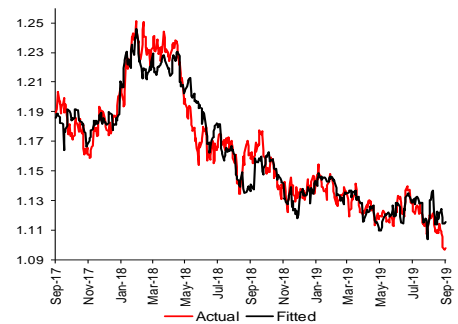
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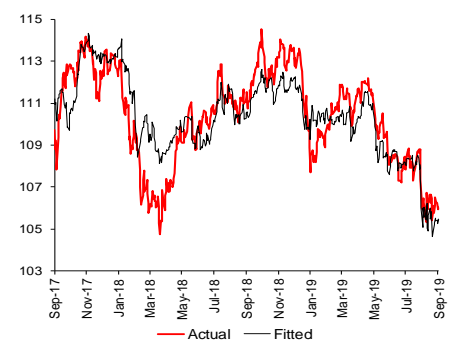
EUR-USD

Heavy tone. The ECB's Muller and Villeroy joined a curiously increasing group of ECB policymakers in refraining from sending excessively dovish signals (i.e., restarting QE) on Tuesday, even though dovish market expectations surrounding the ECB remains quite entrenched. EZ services/composite PMIs due today, that could cap the EUR-USD topside. Expect 1.1000 to cap any further bounces in the interim.



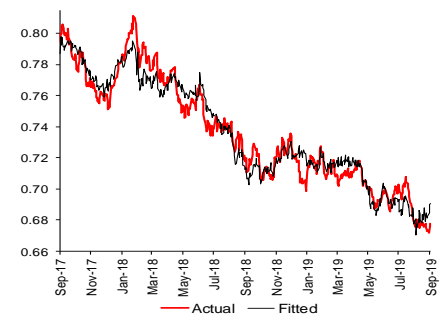
USD-JPY

Range bound. Expect the USD-JPY to stay relatively range bound pending further cues from the Sino-US trade front and overall risk gyrations. Note also that short term implied valuations are in a consolidative mode. Nevertheless, we stay vigilant for any downside moves, especially with Trump still looking to stir Sino-US tensions. Expect dips to be limited to 105.50/60, while 106.60/70 may cap the topside.



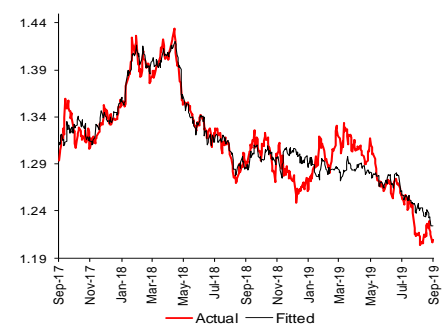
AUD-USD

Consolidate. The AUD-USD caught a bid as markets focused on the in-line 2Q GDP release, rather than the softening services/composite PMIs. An RBA that did not tilt further into the dovish side yesterday also provide some support. Short term implied valuations also jumped higher. Any deeper rebound may be capped at 0.6800/20 levels for now, though we remain skeptical of the longevity of this bounce.



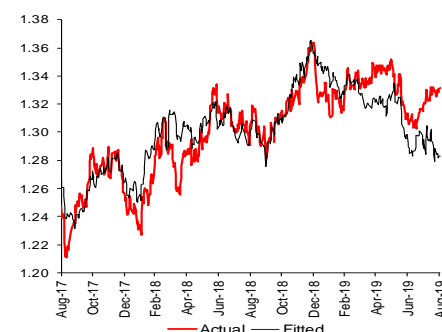
GBP-USD

Suppressed. Expect the pair to be whipsawed by political developments, with all possible outcomes for Brexit (including a further 3-month extension) still seemingly on the table in one form or another. Short term implied valuations are attempting to flatten out, but we retain a broadly negative stance until we get more Brexit clarity ahead.



USD-CAD

Range. Broad USD weakness took the pair back within the 1.3250 - 1.3350 corridor, though this range may increasingly struggle to contain this pair. Watch the **Bank of Canada** policy meeting at 1400 GMT for further directional cues.



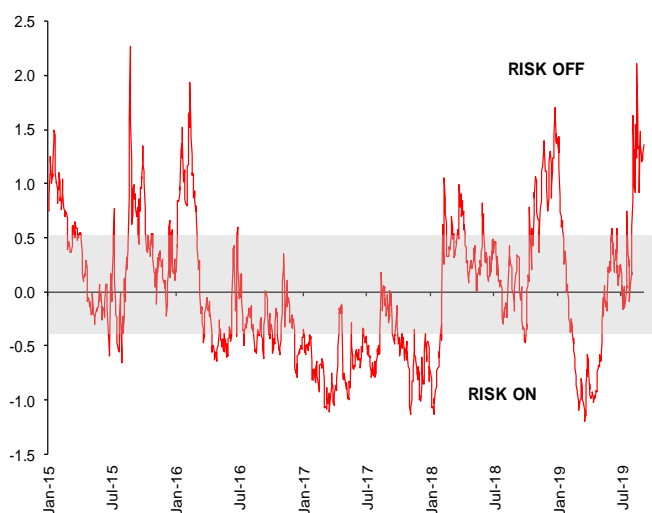
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4 September 2019

Asian Markets

- USD-Asia:** Already heavy intra-day, eventual USD weakness permitted the USD-CNH to slip below 7.1800. Post the Caixin services/composite PMIs, the RMB complex received another boost. Overall, Asian FX may receive a get-out-of-jail card for today, if the markets continue to focus on USD weakness. Nevertheless, with the global context essentially unchanged, dips in the USD-Asia may be limited.
- The China August Caixin services and composite PMIs this morning exceeded expectations / improved from previous month, giving the Asian space a rare positive gleam on the macro front. Nevertheless, we may need more than this round of positive data to jolt market focus out of global growth concerns.
- USD-SGD: Near-term consolidation.** The August Markit PMI dropped to 48.7 from 51.0 but the SIPM PMIs (headline and electronics) managed to tick higher from the previous month. The USD-SGD dived back below 1.3900, following broad-based USD weakness, after hitting highs of 1.3942. The SGD NEER ticked higher to around +0.64% above its perceived parity (1.3981), as NEER-implied USD-SGD threshold took a dip lower.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0926	1.0948	1.0974	1.1000	1.1165
GBP-USD	1.1996	1.2000	1.2099	1.2100	1.2288
AUD-USD	0.6700	0.6717	0.6777	0.6800	0.6808
NZD-USD	0.6288	0.6300	0.6341	0.6400	0.6500
USD-CAD	1.3300	1.3314	1.3326	1.3361	1.3383
USD-JPY	105.00	105.36	105.99	106.00	106.89
USD-SGD	1.3800	1.3821	1.3897	1.3900	1.3920
EUR-SGD	1.5200	1.5210	1.5251	1.5300	1.5332
JPY-SGD	1.2957	1.3100	1.3112	1.3187	1.3200
GBP-SGD	1.6630	1.6800	1.6815	1.6900	1.6906
AUD-SGD	0.9333	0.9400	0.9419	0.9428	0.9438
Gold	1484.04	1500.00	1545.10	1550.35	1553.40
Silver	18.97	19.30	19.31	19.40	19.42
Crude	52.10	54.10	54.16	54.20	56.06

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