

Daily Market Outlook

5 September 2019

Market Themes/Strategy

- Buffered by improving geopolitical headlines, the steady improvement in global risk appetite levels throughout the day saw the USD retreating across G10 space (GBP led the way higher) with the JPY also underperforming against its peers. **USD-CAD** in particular plunged after the **Bank of Canada** remained static at 1.75% as expected but did not telegraph a rate cut next month.
- **Confluence of positives.** Contributory positives included news that China's August services and composite PMIs had improved from the previous month; HK would withdraw the extradition bill; the unveiling of the new coalition Cabinet in Italy; the UK Parliament stonewalling PM Johnson's intention of a no-deal Brexit and defeating a call for a snap election; not unduly dovish comments from ECB Presidential nominee Christine Lagarde.
- **Risk appetite relief.** Meanwhile, a softer front end (mixed Beige Book) saw the UST curve steepening as the 10y yield ticked higher. Strongly positive global equities, a the lower VIX, bouncing crude, compressing EM risk premiums (including short-end EM FX vols in aggregate also stepping significantly lower), cut the **FX Sentiment Index (FXSI)** lower on Wednesday although the Index remained in Risk-Off territory.
- Despite yesterday's price action, we think structural impediments (primarily, Sino-US trade tensions and the accompanying downdraft on global growth) to significant risk seeking behavior remain hovering in the background.
- **In the near term however, a further capitulation of prior negativity is expected with China revealing this morning that Chinese officials will be travelling to the US for trade talks in early October.** The EUR may not be out of the woods just yet with respect to dovish ECB expectations while GBP-USD may be range bound but may attempt to base build pending further headline risks. Elsewhere, USD-JPY is seen trapped in recent ranges and may have to look towards Fed cues (note NFP and Powell tomorrow). For the cyclical, we see AUD-USD downside neutralized for now and the pair may continue to exhibit a higher beta to generalized risk appetite improvements.

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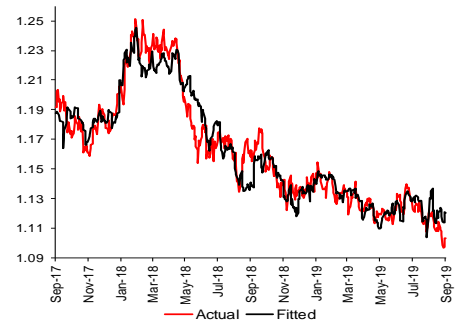
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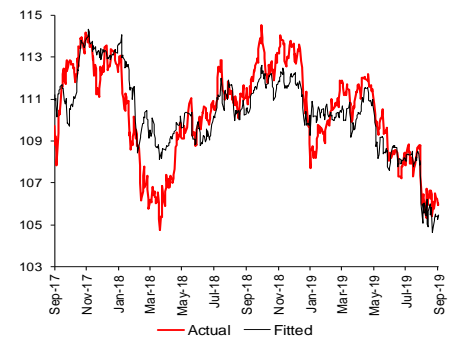
EUR-USD

Heavy tone. EZ and German services/composite PMIs outperformed, providing some further support for the EUR-USD amid USD weakness. On balance, this might do little to quell dovish ECB expectations, especially after Lagarde's sufficiently dovish comments on Wednesday. Note also that short term implied valuations turned sharply higher. In the interim, upside extensions may be capped near 1.1080, while the 1.1100 mark enters as a support.



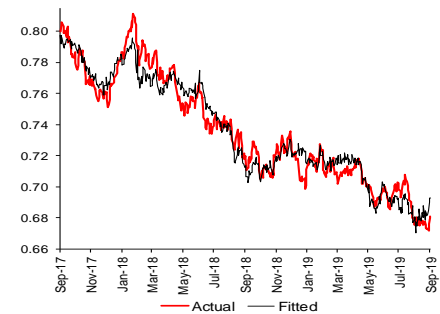
USD-JPY

Range bound. The JPY was taken lower by the ongoing relief on the risk front, but the USD-JPY upside was somewhat contained by the soft USD. We do not rule out a further cautious search higher for the USD-JPY, but the 106.80/00 mark may prove to be a sterner test.



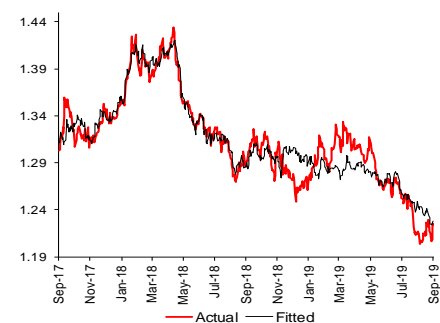
AUD-USD

Consolidate. A relief rally post-2Q GDP and the fading of risk-off sentiments provided uplift for the AUD-USD, with short term implied valuations also surging north. The near-term retracement may however find stronger resistance near 0.6850 in the interim.



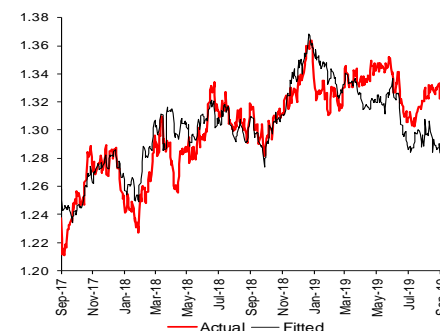
GBP-USD

Tide is turning? Soft services/composite PMI was overshadowed by Brexit developments, with PM Johnson blocked from calling for a general election. A further extension to the Brexit deadline may be the most likely outcome for now. Note also that BOE's Carney is happy to let the GBP ride along without intervention. With this new shift in the Brexit narrative, short-end implied vols have come off highs, and the GBP-USD may attempt to base build from here.



USD-CAD

Range. The USD-CAD slumped lower on the back of the **Bank of Canada's** reluctance to show more dovish inclinations in its latest policy meeting. A divergent monetary policy stance, coupled with malaise in the USD front, may keep the pair suppressed in the interim, with a further extension lower not ruled out.



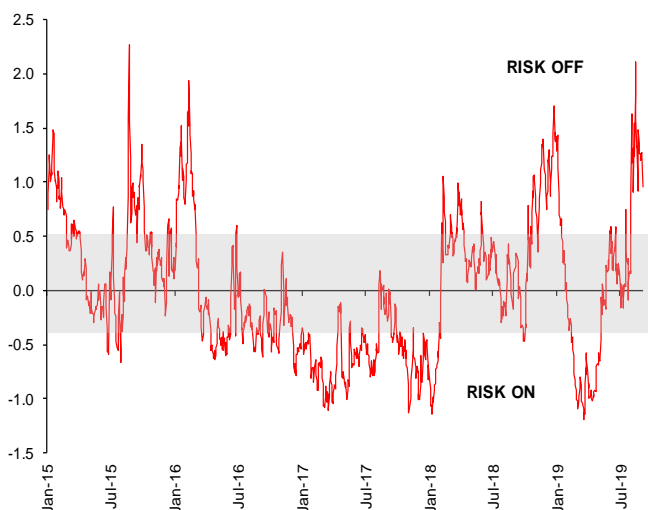
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Asian Markets

- USD-Asia: Heavy.** The bounce higher in EM equities coupled with USD-CNH sinking below 7.1500 (note the calmer short-end vol surface in recent sessions) on Wednesday may continue to bolster sentiment in Asia today. Structurally, notable accommodative signals from **China's State Council** (portending further RRR cuts) and the revelation of further **Sino-US trade talks in early October** should suppress USD-Asia further.
- Asian central banks to remain accommodative.** Meanwhile, Asian central banks are likely to err on the side of caution, with **Bank Indonesia** on Wednesday seeing room for further rate cuts. This morning, the **BSP** also noted that the softer Aug CPI would be taken into account at the September policy meeting.
- On the net portfolio flow front, the regional equity flow environment may see room for improvement (i.e., compression or turnaround in net outflows) if global/regional sentiment continues to improve.** Net equity outflows for South Korea (net bond inflows moderating slightly) and Taiwan are attempting to bottom out. Net bond flows are also improving in the south, with net bond inflows for India strengthening further while Indonesia has flipped to a net inflow situation. Thailand however is still sitting on deepening net bond outflows.
- USD-SGD: Near-term consolidation.** The USD-SGD continued to dive yesterday amid USD weakness, but found support near 1.3840. Expect further downside today, with the USD-CNH reacting lower to newly scheduled trade talks in October. The SGD NEER pushed higher this morning to +0.80% above its perceived parity (1.3939), as NEER-implied USD-SGD thresholds continued to dive.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0954	1.1000	1.1031	1.1100	1.1159
GBP-USD	1.1998	1.2200	1.2242	1.2300	1.2307
AUD-USD	0.6800	0.6816	0.6823	0.6870	0.6900
NZD-USD	0.6293	0.6300	0.6374	0.6400	0.6487
USD-CAD	1.3200	1.3206	1.3220	1.3300	1.3314
USD-JPY	105.37	106.00	106.68	106.98	107.00
USD-SGD	1.3800	1.3821	1.3833	1.3900	1.3915
EUR-SGD	1.5180	1.5200	1.5259	1.5300	1.5330
JPY-SGD	1.2900	1.2940	1.2966	1.3000	1.3187
GBP-SGD	1.6900	1.6905	1.6935	1.7000	1.7074
AUD-SGD	0.9434	0.9437	0.9438	0.9500	0.9512
Gold	1483.01	1500.00	1545.90	1556.13	1559.80
Silver	16.56	19.20	19.25	19.27	19.30
Crude	56.33	56.50	56.51	56.60	57.45

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