

Daily Market Outlook

6 August 2019

Market Themes/Strategy/Trading Ideas

- Sino-US tensions continued to escalate on Monday with the US Treasury designating China a currency manipulator and Chinese companies also suspending purchases of US agricultural goods. With trade tensions boiling over, this again saw the USD sliding against the CHF, JPY, and EUR (and also XAU), while the AUD underperformed across G10 space. In addition, EM FX weakened as investor appetite dissolved.
- Meanwhile UST yields (10y closed near 1.7278% and bund yields dived lower while risk aversion took a major bite out of global equities, including EM equities overnight. As a result, the **FX Sentiment Index (FXSI)** catapulted higher within the **Risk-Off** territory.
- Rather quiet on the data calendar, save for German factory orders (0600 GMT). Watch also for the **RBA** policy decision (0430 GMT, unchanged expected), and comments from Fed's Bullard (1600 GMT).
- **USD weak, EM weaker.** Overall, with Fed rate cut expectations now being boosted, expect the USD to be vulnerable within G10 space (except against the AUD) but EM/Asia FX will continue to deteriorate. **In particular, the EUR is seen increasingly at risk of an about turn if substantial leveraged shorts continue to unwind.**

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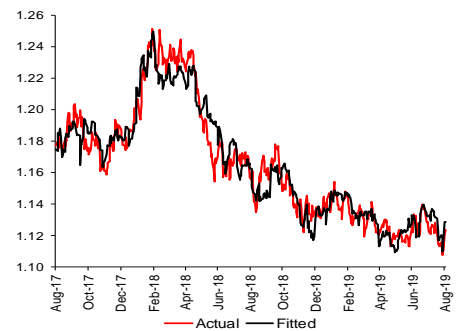
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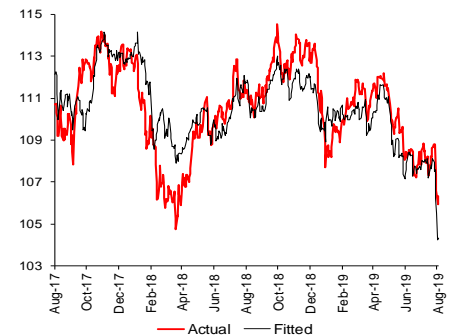
EUR-USD

Bouncing higher. Leveraged (short) positioning in the EUR is the most conspicuous and is therefore seen to be most susceptible to a flush out, especially if USD weakness in the majors becomes endemic. Short term implied valuations for the EUR-USD are also correcting higher sharply at this juncture. If the pair can detach from the 100-day MA (1.1231) expect further upside towards 1.1260 before the 200-day MA (1.1299).



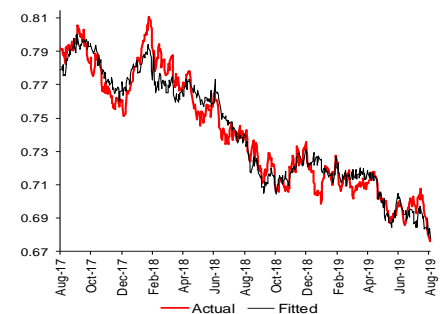
USD-JPY

Southbound. USD-JPY may continue to be orientated lower in view of USD vulnerability coupled with broader risk aversion. In the interim, short term implied valuations for the USD-JPY have fractured lower as a result. As noted yesterday, if 106.00 is violated convincingly, expect a further deterioration towards 105.60.



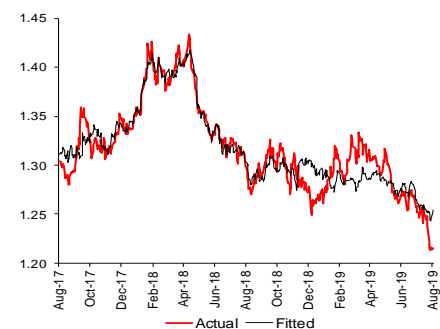
AUD-USD

Bearish territory. With base metals continuing to tank, any further dovish overtones from the RBA today may the AUD-USD under implicit negative pressure. Short term implied valuations remain depressed and expect the 0.6700 floor remain in the cross hairs.



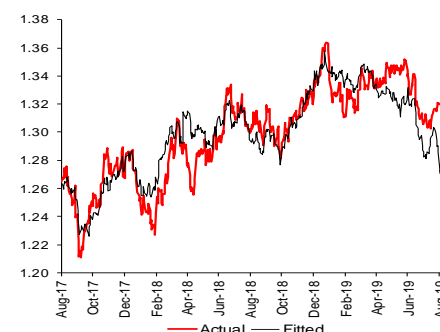
GBP-USD

Heavy range. Range (albeit heavy) trading behavior for the GBP-USD may persist in the near term, with the pair caught between a weak USD, risk aversion, and 'no-deal' uncertainty. Short term implied valuations meanwhile are stabilizing a touch and the pair may navigate a 1.2080-1.2200 band in the interim.



USD-CAD

Consolidate. USD-CAD may remain moored in the vicinity of 1.3200 with a slight bias towards 1.3150 if FOMC expectations decay more rapidly relative to the Bank of Canada. Short term implied valuations meanwhile remain distinctly bearish but this may be stonewalled if crude continues to creep lower.



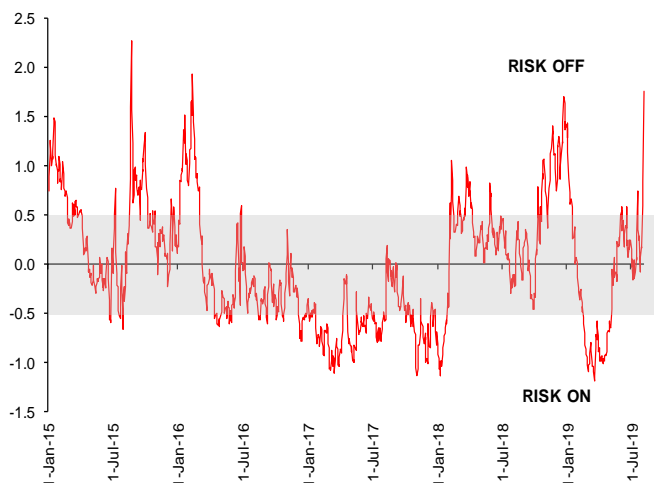
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Asian Markets

- USD-Asia: RMB leading the Asian pack lower.** USD-CNH launched above 7.1000 towards 7.1500 early in Asia (with USD-CNY printing above 7.0000 onshore on Monday), but eased to 7.0900 post the USD-CNY morning fix. Overall, the whole host of negatives (risk off, negative equities, portfolio outflows etc) continues to buffet Asian currencies. Despite the softening USD, expect USD-Asia to be susceptible to the upside, especially with the RMB complex this time setting the pace for the region. The likes on THB and SGD may be relatively resilient as regional safe havens.
- Aggregate equity flow momentum in outflow territory.** Overall portfolio flow environment in Asia continues to deteriorate. In aggregate terms, equity flow momentum has tipped into a net outflow situation, while the bond flow momentum continues to consolidate lower. Driven by equity outflows, overall outflow momentum worsened in Taiwan and India, while Thailand is hampered by bond outflows. South Korea and Indonesia are also seeing an ongoing consolidation of inflow momentum
- USD-SGD: Upside risks.** The USD-SGD floated above 1.3850 overnight on the back of the decline in the RMB. **Retain an upside bias, with the next way-point at 1.3880. Nevertheless, with risk-off sentiments spilling over, we do not rule out near-term SGD outperformance against other Asian currencies.** On the SGD NEER front, the +0.30% above parity mark was reached overnight, before a rebound this morning brought the index to +0.57% above parity (1.3919). NEER-implied USD-SGD thresholds were higher overnight. Multi-session, expect parity to be the next key threshold in the current environment, although the psychological resistance at 1.3900 for USD-SGD may interrupt temporarily.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1065	1.1200	1.1227	1.1237	1.1299
GBP-USD	1.2080	1.2100	1.2151	1.2200	1.2532
AUD-USD	0.6745	0.6748	0.6777	0.6800	0.6947
NZD-USD	0.6500	0.6502	0.6551	0.6600	0.6627
USD-CAD	1.3016	1.3100	1.3197	1.3200	1.3207
USD-JPY	105.52	106.00	106.18	106.26	107.00
USD-SGD	1.3643	1.3800	1.3827	1.3840	1.3869
EUR-SGD	1.5451	1.5500	1.5525	1.5587	1.5600
JPY-SGD	1.2978	1.3000	1.3021	1.3100	1.3132
GBP-SGD	1.6641	1.6800	1.6802	1.6900	1.7097
AUD-SGD	0.9322	0.9327	0.9371	0.9400	0.9478
Gold	1400.00	1456.12	1463.40	1475.00	1500.00
Silver	15.38	16.40	16.44	16.50	16.64
Crude	53.59	55.00	55.08	55.10	56.15

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