

Daily Market Outlook

6 September 2019

Market Themes/Strategy

- The sustained improvement in investor sentiment from alleviating Sino-US trade tensions saw the JPY (USD-JPY high of 107.235) and CHF underperforming across the board although the AUD-USD eventually relinquished half of its intra-day gains.
- GBP also continued to shine after lawmakers approved legislation to seek a Brexit extension. SEK also outperformed after the Riksbank remained hawkish and continued to portend a rate hike.
- Global curves were broadly higher on Wednesday (belly of the UST curve underperformed with the 10y yield jumped to close near 1.569% amid supportive data points from the Aug ADP, non-manufacturing ISM, Jul factory orders durable goods orders). Positive global equities, crude and metals all contributed to the **FX Sentiment Index (FXSI)** seeing a large dip down towards the Risk-Neutral zone.
- Today, the calendar is headlined by US NFP at 1230 GMT (mkts: 160k) and Powell at 1630 GMT. In this context, expect markets to swing attention back to the US economy/Fed prospects. **In the interim however, we'd remain wary of satiation setting in and a pullback in recent market euphoria.**
- Into today's session, **USD-JPY** may remain the one to watch, with the pair potentially buoyed by the improved rate differential advantage while awaiting further headline risks on the Sino-US front and US/Fed cues from tonight. As noted yesterday, risk-driven plays may have negated the recent negativity but the next leg higher for something like the **AUD-USD** we think would require further headline-driven catalysts.

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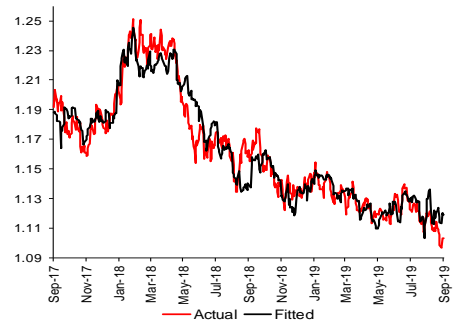
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EUR-USD

Heavy tone. The EUR-USD lost traction after the ISM non-manufacturing data release. Ahead of the ECB meeting next week, expect the pair to be driven by relative market expectations between the Fed and ECB. For now, we prefer to stay on the heavy side, pending data releases and Powell headline risks later today. Expect 1.1000 to attract if US data prints turns out more favourable than their Eurozone peers, and Powell is not overly dovish.



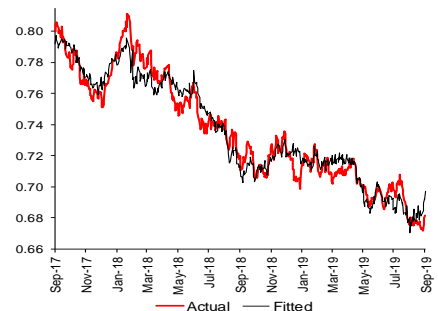
USD-JPY

Biased higher for now. Improved rate differential advantage following the move higher in UST yields, coupled with the ongoing recovery in risk sentiments, may open up more upside room for the USD-JPY in the interim. Note that the short term implied valuations also tracked spot higher. Expect some resistance at 107.30/50 for now, while dips may be halted at 106.50.



AUD-USD

Consolidate. Despite short term implied valuations spiking higher, the AUD-USD rally seems to have lost some steam after hitting a high of 0.6830, near the top end of the range in August. While improving risk sentiments may keep the pair lifted, the upside may be dampened if the broad USD continues to regain its footing.



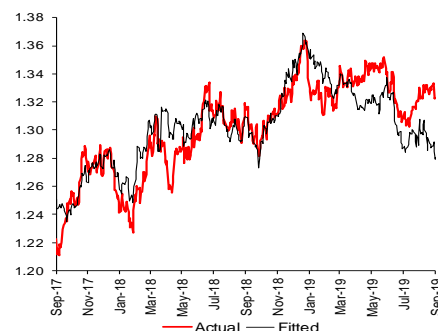
GBP-USD

Base build. The expected passing of the legislation to block the no-deal Brexit today should keep the GBP-USD supported. Political developments will continue to dictate, with the next key point being the Monday's vote on a new general election. Expect 1.2400 to be the next waypoint, before a more extended recovery towards 1.2545 if the odds of no-deal Brexit continue to be pared.



USD-CAD

Potentially turning lower. The USD-CAD bounced off day lows near the 1.3200 handle overnight. Nevertheless, with the short term implied valuations dipping lower, we prefer to stay on the heavy side for now.



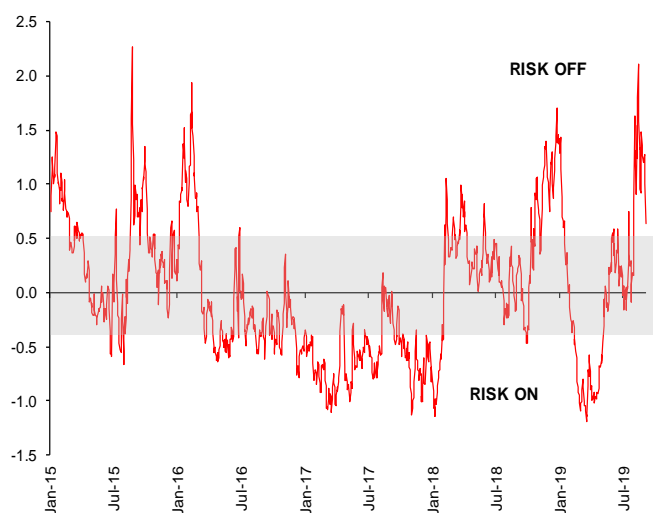
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Asian Markets

- USD-Asia: Consolidative.** The longevity of the dip in the USD-CNH may be questioned, with the pair now back near the 7.1500 handle after reaching lows of sub-7.1250 yesterday. Overall, ongoing risk improvements may be offset by a broad USD that might be finding some footing – leaving USD-Asia somewhat hesitant on the downside into the end of the week.
- Beyond the immediate horizon, one may want to consider whether the structural impediments against the Asian currencies may be turning.** Optimism here stems from the slight easing of tensions on the trade front, and a potential stimulus from China (after supportive comments from the State Council). **Overall, we think it is too early to call a material shift in outlook.** On the trade front, the fundamental, entrenched differences remain in place, with limited signs of progress. Meanwhile, even if a Chinese stimulus is forthcoming, the form and efficacy of the support is still uncertain. Thus, we continue to urge caution until further clarity on both the trade and growth fronts.
- USD-SGD: Near-term consolidation.** The USD-SGD consolidated near the 1.3840 locus yesterday, and with the broad USD on a firmer footing, we expect the pair to continue fluctuating near that level into the end of the week. Expect the 1.3820 and 1.3870 range to bookend for now. On the SGD NEER front, the index eased to +0.70% above its perceived parity (1.3941), with NEER-implied USD-SGD thresholds marginally firmer.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0956	1.1000	1.1035	1.1100	1.1153
GBP-USD	1.2300	1.2301	1.2331	1.2352	1.2399
AUD-USD	0.6712	0.6800	0.6812	0.6819	0.6866
NZD-USD	0.6295	0.6300	0.6381	0.6400	0.6476
USD-CAD	1.3200	1.3210	1.3231	1.3300	1.3313
USD-JPY	105.36	107.00	107.08	107.15	107.19
USD-SGD	1.3800	1.3820	1.3840	1.3900	1.3915
EUR-SGD	1.5197	1.5200	1.5273	1.5300	1.5328
JPY-SGD	1.2900	1.2914	1.2925	1.3000	1.3191
GBP-SGD	1.6905	1.7000	1.7066	1.7092	1.7100
AUD-SGD	0.9329	0.9400	0.9428	0.9436	0.9437
Gold	1486.02	1500.00	1517.70	1552.43	1559.80
Silver	16.61	18.50	18.59	18.60	19.24
Crude	56.27	56.30	56.36	56.40	57.30

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