

Daily Market Outlook

7 August 2019

Market Themes/Strategy/Trading Ideas

- Calmer market conditions (note positive US equities) saw the USD capitulating slightly higher (UST curve bear flattened) against the JPY and CHF on Tuesday as some haven positions were unwound. Elsewhere, the USD ended essentially flat against the EUR. Meanwhile, the **FX Sentiment Index (FXSI)** consolidated lower on slightly improved risk appetite but the Index continued to remain in Risk-Off territory.
- **Level headed Fed.** On the Fed front, Bullard offered fairly even handed comments, noting that the Fed won't be unduly reactive and respond to each turn of the current trade spat, preferring to monitor the data feed ahead of the September FOMC. Notably, he also indicated that he currently did not see conditions that would warrant a half percentage point cut.
- A light data calendar today for the G10 space, but focus on German industrial production (0600 GMT), and comments from the Fed's Evans (1330 GMT) and RBA's Bullock (2130 GMT).
- **Stay cautious.** Expect markets to regroup at this juncture but expect investors to remain sufficiently cautious, especially with respect to the cyclicals and EM/Asia. Risk-reward at this juncture may be to remain passively positioned for further unravelling of investor sentiment.

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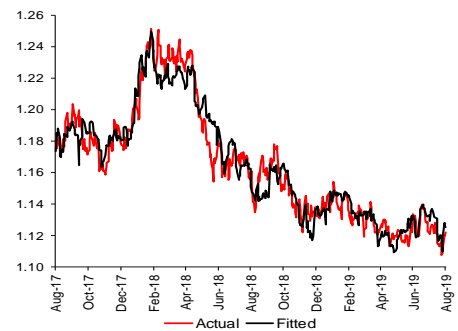
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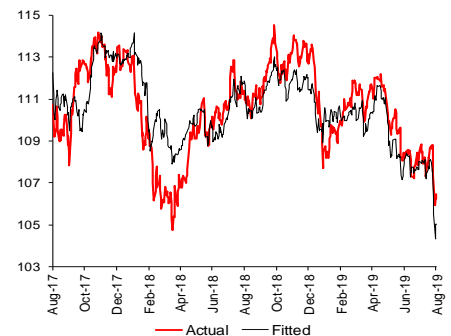
EUR-USD

Consolidate but supported. EUR-USD may consolidate as it shifts into neutral (but supported on dips) gear in the short term. As such, expect interim resistance towards the 100-day MA (1.1229) and the 55-day MA (1.1232) before 1.1259. Short term implied valuations have stabilized for now after the recent bounce higher.



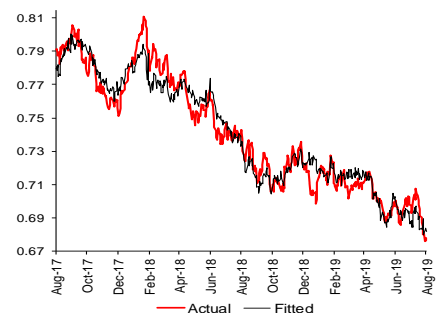
USD-JPY

Southbound. With outright market panic averted and Fed rate cut expectations stabilizing, short term implied valuations for the USD-JPY have bounced off lows seen earlier this week. The pair may not be out of the woods just yet and localized resistance at 107.00 and then at the 108.00.



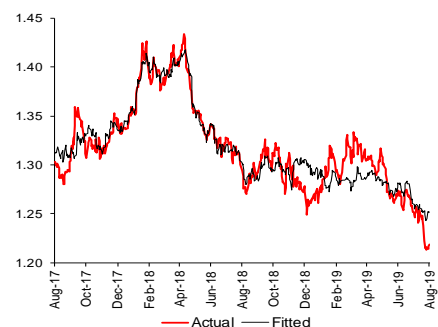
AUD-USD

Bearish territory. The RBA remained static as expected on Tuesday but left the door open for further cuts if needed. Investors may however continue to fade upticks if the risk appetite levels remain fragile. Expect an initial cap at 0.6800 with short term implied valuations remaining soggy. On the downside, support is expected to emerge (for today) at around 0.6710/20, although the surprise -50bps rate cut by the RBNZ this morning may weigh on the AUD further.



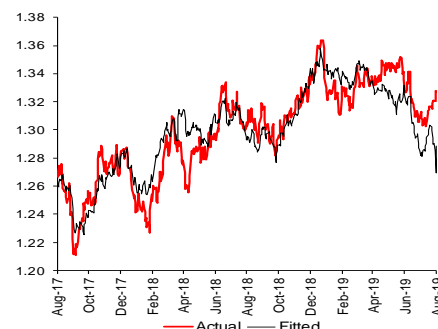
GBP-USD

Heavy range. Short term implied valuations are still attempting to base build and the pair may attempt to persist above 1.2150 with an interim floor expected at 1.2080. However, the pound's relative underperformance may continue to manifest via a still buoyant EUR-GBP.



USD-CAD

Consolidate but firmer. USD-CAD climbed on softer crude and despite an apparent improvement in global risk appetite levels on Tuesday. Meanwhile, short term implied valuations for the pair are attempting to stabilize and initial resistance may kick in at the 200-day MA (1.3305) with the 55-day MA (1.3229) expected to cushion on the downside.



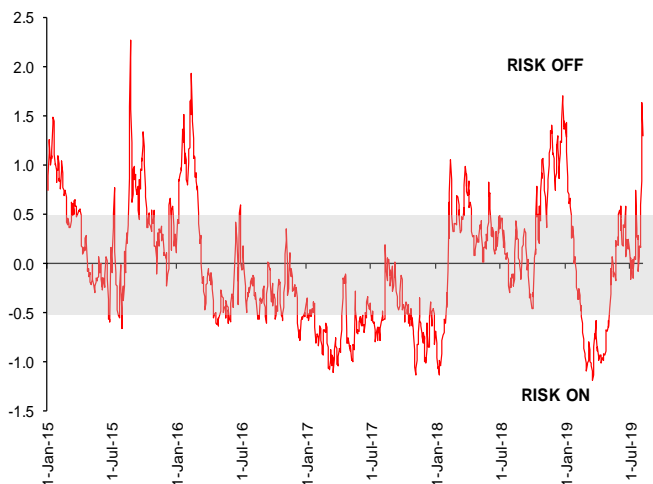
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Asian Markets

- USD-Asia:** Somewhat calmer RMB conditions (USD-CNH steered south of 7.1000) and stabilizing EM equities from overnight may impart a more positive tone to Asian markets early Wednesday. Expect the USD-Asia to adopt a consolidative stance for today, with the South Asian currencies expected to be under relatively more downside pressure.
- On the RMB front, the PBOC rhetoric on Tuesday that China would “not use the exchange rate as a tool to deal with trade disputes” calmed the market’s nerves. However, today’s USD-CNY fix at 6.9996 suggests that the RMB declines may not be reversing just yet. The CFETS RMB Index at fix slumped to 92.15. On our end, **we think the risk for a further depreciation of the CFETS RMB Index has only increased in light of heightened trade tensions**, and this will translate to a higher USD-CNY / USD-CNH in time. (Please refer to [FX Viewpoint – USD-CNY above 7.0000: The morning after, 06 Aug 19](#) for details.)
- The **Bank of Thailand (BOT)** and **Reserve Bank of India (RBI)** policy decisions are scheduled later today, with some divergence expected. The BOT is expected to hold, while a cut is expected at the RBI.
- USD-SGD: Upside risks.** The USD-SGD consolidated lower towards the 1.3800 handle alongside the rest of USD-North on the perceived easing of trade tensions. Expect ongoing consolidation for now, especially if we see no further negative surprises on the trade front. Nevertheless, **the uptrend remains intact for now**. Meanwhile, the SGD NEER is stable at +0.76% above parity (1.3909), with NEER-implied USD-SGD thresholds easing slightly.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1066	1.1200	1.1210	1.1238	1.1298
GBP-USD	1.2080	1.2100	1.2171	1.2200	1.2524
AUD-USD	0.6710	0.6721	0.6727	0.6800	0.6943
NZD-USD	0.6400	0.6423	0.6430	0.6458	0.6500
USD-CAD	1.3205	1.3294	1.3295	1.3296	1.3300
USD-JPY	106.00	106.04	106.06	107.00	108.03
USD-SGD	1.3643	1.3800	1.3835	1.3861	1.3869
EUR-SGD	1.5476	1.5500	1.5515	1.5587	1.5600
JPY-SGD	1.3000	1.3028	1.3048	1.3100	1.3132
GBP-SGD	1.6638	1.6800	1.6841	1.6900	1.7085
AUD-SGD	0.9300	0.9302	0.9308	0.9400	0.9472
Gold	1400.00	1470.77	1485.00	1489.70	1500.00
Silver	15.43	16.70	16.78	16.80	16.82
Crude	53.15	53.50	53.57	53.60	56.01

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