

## Daily Market Outlook

9 September 2019

### Market Themes/Strategy – The week ahead

- **China's RRR cuts.** The cyclicals were given a boost on Friday following the wider than expected RRR cuts (50bps universal cut as well as targeted 100bps cut) by the PBOC (3<sup>rd</sup> time this year) and the mixed to soft US August NFP numbers.
- **Fed chair Powell** meanwhile remained sufficiently (but not unduly) dovish in his remarks despite acknowledging that there remained “a range of views” within the FOMC. Elsewhere, note also continued explicit pressure from Trump on Friday. On other fronts, the EUR and GBP faded against the USD.
- **Improving risk appetite.** Not surprisingly, the **FX Sentiment Index (FXSI)** dropped for the 4<sup>th</sup> consecutive session. The Index remains in Risk-Off territory but is just shy of drifting back into Risk-Neutral territory. **On this front, note the latest capitulation (i.e., easing) of short-end EM FX vols and EM risk premiums.**
- **Watch the ECB.** This week, the focus may turn to the **ECB meeting** on Thursday, especially with Draghi's accompanying press conference to be closely scrutinized. **In the interim, expect the common currency to remain lead footed.**
- **Structurally, the RRR cuts by China on Friday may only have provided the necessary but not sufficient conditions for a sustained recovery in investor sentiment.** The damage on the global economy has already been wrought by the escalation of **Sino-US trade tensions** since May and markets will now have to clear the next hurdle of the schedule face-to-face trade talks in October.
- **Short term view.** Nonetheless, the **cyclicals (AUD, NZD, CAD)** may remain buoyed at the onset of the week with investor appetite having been given a shot in the arm by the **PBOC** last Friday (note expectations for a lower LPR and MLF rates).

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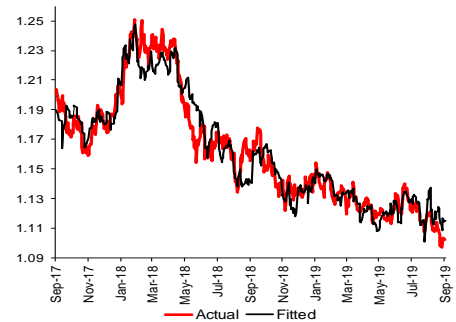
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### EUR-USD

**EUR on the defensive.** A heavy posture for the pair is expected to prevail in line with short term implied valuations. Beyond the psychological 1.1000 level, interim supports can be expected at the 55-day MA (1.0994) before the recent low near 1.0926.



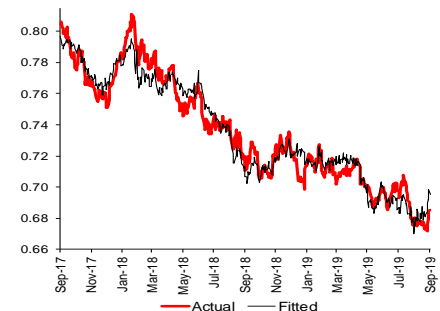
### USD-JPY

**Biased higher for now.** The ongoing recovery in risk appetite levels may continue to bolster the USD-JPY at this juncture. Given the cues from the short term implied valuations, dips towards 106.50 may be rejected in the current environment. On the top side, the 55-day MA (107.21) may provide the first ceiling before 107.45.



### AUD-USD

**Eying higher levels.** With model-implied short term valuations blipping higher, AUD-USD may attempt to inch towards its 55-day MA (0.6876) before 0.6900 and also find good support at 0.6800/20. With no first-tier Aussie data this week, continue to look towards China monetary aggregates and potential Sino-US headlines for further cues.



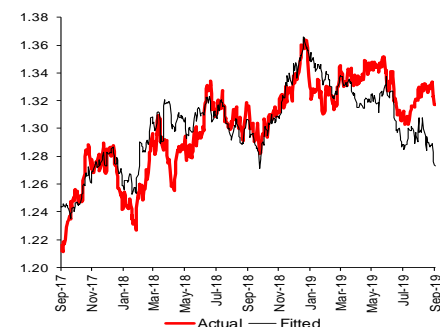
### GBP-USD

**Base build.** With no-deal Brexit prospects now seemingly contained (note bill approved by the Upper Chamber on Friday), ensuing political developments will continue to dictate in the near term. Note another scheduled vote on early elections today. Meanwhile, short term implied valuations for the pair remain southbound, potentially capping excessive upside at this juncture. Expect 1.2350 to continue to limit with initial support expected towards 1.220.



### USD-CAD

**Softer bias.** The outsized positive surprise in Canadian August labor market numbers pulled the USD-CAD lower on Friday. If global macro sentiment continues to show improvement, expect the USD-CAD to attempt converge further towards its short term implied valuations. With 1.3200 having been perforated, 1.3150 may now attract in the near term.



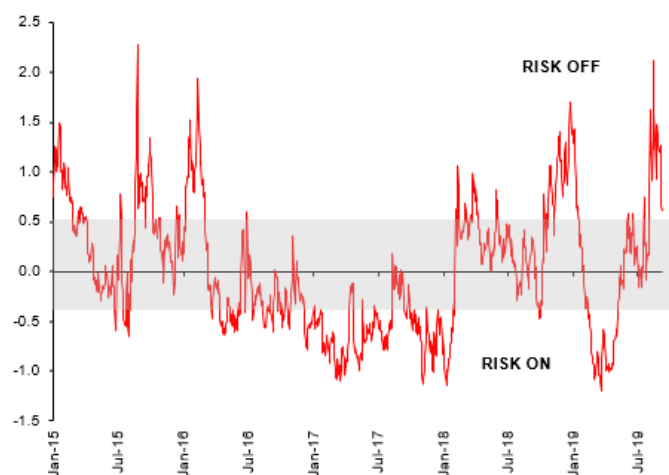
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### Asian Markets

- USD-Asia:** USD-CNH dipped briefly below 7.1000 on Friday with a swath of EM FX also firming against the USD. However, the **soft China August trade numbers** reported over the weekend may serve to temper excessive optimism although it does underscore the need for the latest RRR cuts.
- Net portfolio flows might improve.** On the **EPFR** front, net implied outflows from Asia (excl Japan, China) ballooned in the latest week while net bond flows also flipped to an outflow situation. Expect the recovery in risk appetite levels in the past week to at least curtail the outflow impetus.
- On the Asian calendar this week, **BNM** also on Thursday is widely expected to remain static at 3.00%. However, we feel that odds for a “surprise” cut may be non-trivial, given that the central bank has ample latitude from a reaction function perspective.
- USD-SGD: A touch heavier.** USD-SGD also dipped temporarily below 1.3800 on Friday on the back of the improvement in global risk appetite levels. Currently, the SGD NEER is firmer at +0.81% above its perceived parity (1.3924) with NEER-implied USD-SGD thresholds softer on the day. **Sell upticks towards 1.3850 instead of chasing the pair lower.**

### FX Sentiment Index



### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0961	1.1000	1.1026	1.1100	1.1147
GBP-USD	1.2013	1.2200	1.2282	1.2293	1.2300
AUD-USD	0.6800	0.6843	0.6853	0.6864	0.6900
NZD-USD	0.6298	0.6400	0.6425	0.6475	0.6500
USD-CAD	1.3100	1.3106	1.3170	1.3180	1.3193
USD-JPY	105.54	106.00	106.90	107.00	107.12
USD-SGD	1.3800	1.3807	1.3811	1.3900	1.3921
EUR-SGD	1.5189	1.5200	1.5228	1.5300	1.5326
JPY-SGD	1.2770	1.2900	1.2920	1.3000	1.3180
GBP-SGD	1.6835	1.6900	1.6962	1.7000	1.7092
AUD-SGD	0.9437	0.9459	0.9464	0.9468	0.9500
Gold	1487.40	1500.00	1511.50	1551.67	1559.80
Silver	16.66	18.10	18.13	18.20	19.19
Crude	56.22	57.10	57.11	57.20	57.54

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