

Daily Market Outlook

16 December 2019

Market Themes/Strategy – The week ahead

- Geopolitical developments brought a general risk-on sentiment on Friday, with our **FX Sentiment Index (FXSI)** sinking lower into the **Risk-On** zone. However, the positivity dissipated somewhat by the NY session last Friday. Even as US/EZ equities were flat-to-higher, the 10y UST yield retraced to sub-1.85% levels again. The broad USD also turned higher, with the DXY index again surfacing above the 97.00.
- Remnant concerns over the in-principle deal (no formal agreement yet, tariff reduction less than expected) may cause risk sentiment to whipsaw in the coming sessions. **However, with tail-end risks probably ruled out, overall risk-on sentiment should stay supported this week.**
- The **GBP** retraced lower towards the 1.3300 mark (and EUR-GBP higher towards 0.8350). Continue to expect the GBP to stay supported, while it attempts to settle into a new range. In the interim, we expect 1.3520 to cap any near-term advance.
- With some certainty over Brexit, the attention shifts to the **Bank of England (BOE)** and the UK macro outlook for structural cues on the GBP. BOE activities are heavy this week, with the Financial Stability Report (1700 GMT) and the policy decision (Thu) schedule. Preliminary PMIs across Europe later today (0815 GMT) will also serve as a gauge for the relative macro outlook. **However, with UK services PMI underperforming the rest of Europe this year, we remain sceptical over over-enthusiastic calls for GBP strength over a structural horizon.**
- Based on **CFTC** data, the investment community is still mixed on the broad USD. Leveraged accounts increased their net implied long USD position, but asset managers built on their implied short USD bias.
- Despite the USD rebound, we think the **broad USD may still stay heavy at this stage, with risk-on sentiment still running.** We prefer to express this through a firmer European complex, especially against the EUR. Meanwhile, the likes of AUD, JPY may still be exposed any re-orientation of expectations regarding the in-principle Sino-US deal.

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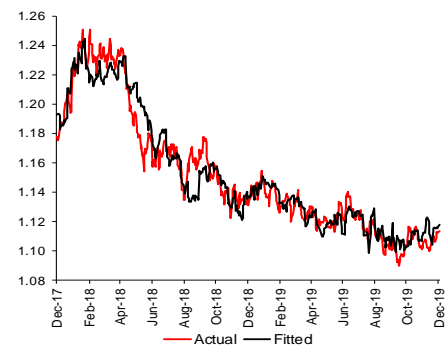
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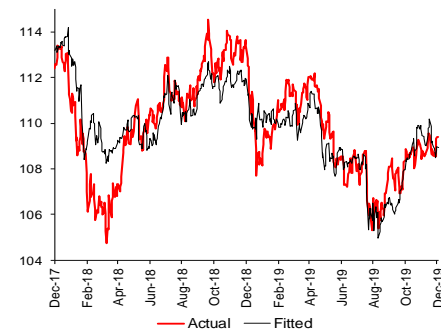
EUR-USD

Buoyant. The EUR-USD should remain in a bid tone despite the reversal on Friday, with the lower spot this week providing an opportunity to re-enter longs at better levels. Risk-reward probably favours another push towards 1.1160/80, with the downside limited at 1.1100.



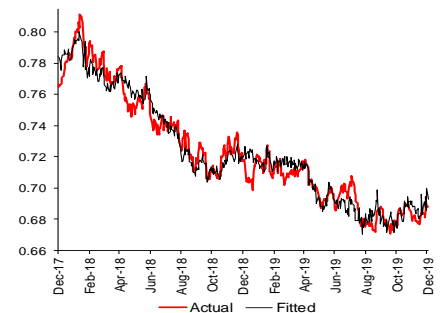
USD-JPY

Supported. The USD-JPY was capped by the lower UST yields, and may still see some volatility on any readjustment of Sino-US expectations. Overall, expect a higher range between 108.80 and 109.80 to limit the pair for now.



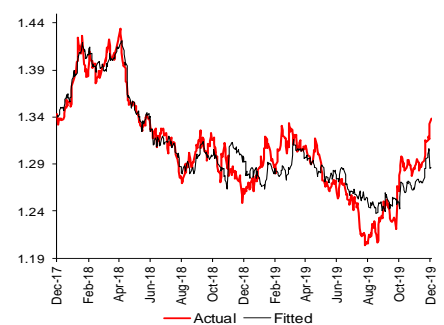
AUD-USD

At top end of downward channel. With the AUD-USD turning away from the 200-day MA (0.6909) yet again, the pair may be slightly heavy on the back of mean reversion for now. Expect 0.6820 and 0.6920 to bookend the pair for now, with a slight heavy bias.



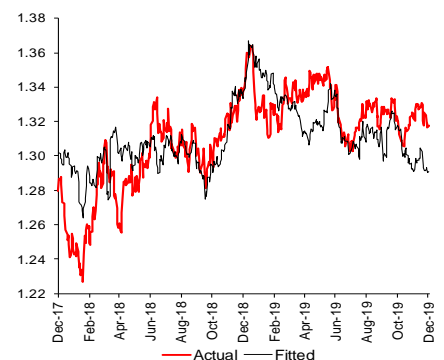
GBP-USD

Settling into new range. With the retracement post-election taking the GBP-USD to a low of 1.3300, we think the pair may settle into a broad 1.3100 to 1.3500 range in the interim, pending further Brexit certainty and BOE cues.



USD-CAD

Heavy. A USD bounce on Friday did little to the USD-CAD, with the pair capped by 1.3200. A broader risk-on environment, coupled with USMCA positivity, should keep the pair on the heavy side, with 1.3130 still the near term target on the downside.



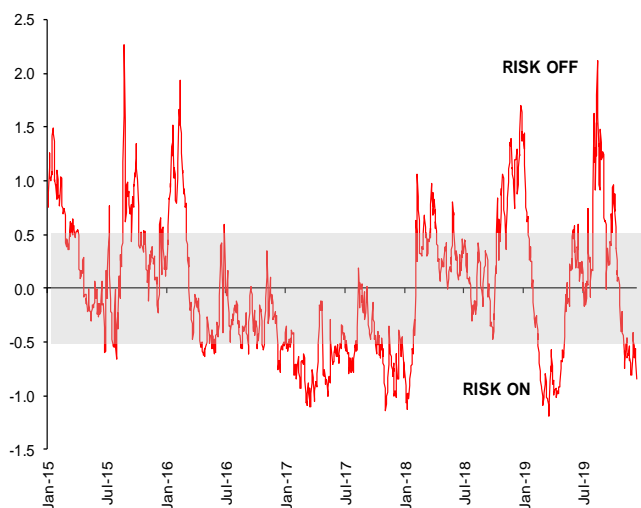
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Asian Markets

- USD-Asia:** The quick reversal in the USD-CNH north of 7.0000 instilled some uncertainties back into Asia. Nevertheless, these periodic readjustments of expectations are inevitable, given the nature of the deal. The broader risk-on wave, and stronger than expect Chinese data-prints this morning, should keep USD-Asia heavy on the day.
- On the EPFR front,** implied bond and equity flow momentum continued to capitulate lower, with the latest weekly reading on the bond front coming in negative.
- USD-SGD:** The USD-SGD bounced off the 1.3510/20 floor, following the USD-CNH reversal. For now, expect the 1.3580 ceiling to cap any near term rebound. Meanwhile, the SGD NEER is static at +1.65% above its perceived parity (1.3767) this morning, with NEER-implied thresholds turning higher.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1071	1.1100	1.1131	1.1152	1.1153
GBP-USD	1.3300	1.3353	1.3383	1.3400	1.3514
AUD-USD	0.6800	0.6828	0.6879	0.6900	0.6903
NZD-USD	0.6500	0.6535	0.6598	0.6600	0.6636
USD-CAD	1.3115	1.3148	1.3172	1.3200	1.3206
USD-JPY	108.79	109.00	109.39	109.65	109.73
USD-SGD	1.3514	1.3534	1.3546	1.3600	1.3632
EUR-SGD	1.5000	1.5005	1.5078	1.5092	1.5100
JPY-SGD	1.2300	1.2327	1.2384	1.2391	1.2400
GBP-SGD	1.8094	1.8100	1.8129	1.8200	1.8293
AUD-SGD	0.9300	0.9308	0.9319	0.9362	0.9396
Gold	1446.20	1452.66	1475.60	1479.52	1480.98
Silver	16.53	16.90	16.91	17.00	17.26
Crude	57.62	59.80	59.84	59.90	60.48

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