

Daily Market Outlook

16 September 2019

Market Themes/Strategy – The week ahead

- Except for the GBP and CAD, the dollar ended mixed (despite better than expected US Aug retail sales numbers) and within tight ranges on Friday in the wake of the ECB meeting on Thursday. GBP outperformed across the board following chatter of an alternative to the Irish backstop and with ‘no-deal’ prospects seen diminishing. Elsewhere, core global curves (including USTs) lifted on improved risk appetite. Positive global (including EM) equities and benign investor sentiment saw the **FXSI (FX Sentiment Index)** remaining entrenched in **Risk-Neutral** territory despite ticking a touch higher.
- On the **CFTC** front, large non-commercial accounts pared their net implied long dollar bias in the latest week. Meanwhile, leveraged accounts went in the opposite direction and increased their net implied long dollar bias in the same period. **Note however that on a multi-week horizon, leveraged accounts have been progressively paring their net long dollar bias since mid-June 2019.** Lastly, asset manager accounts increased slightly their net implied short dollar bias in the latest week.
- **Crude jumps on attack in Saudi Arabia.** Over the weekend, a drone attack on a Saudi processing facility has resulted in WTI gapping higher to 60.86 early Monday in Asia. **USD-JPY** (and **USD-CAD**) also dislocated lower below 108.00 to 107.81 on the back of risk aversion while US Treasury futures are a touch higher.
- **A week of central banks.** This week, expect the key focus to be on the **FOMC** on Wednesday with markets fully pricing in a 25bps cut. In addition to Powell’s press conference, economic projections and the dot plots would also come under scrutiny with markets slightly wary of a less dovish than expected outcome.
- Elsewhere, look to **RBA minutes** on Tuesday, **BOE** and **BOJ MPCs** on Thursday, while the week is also littered with ECB appearances, starting with the **ECB’s** chief economist Lane today at 1115 GMT.
- **Slight safe haven bid at the start of the week.** Apart from some jitters stemming from the Saudi attack, (soft USD-JPY and USD-CAD), EUR-USD still expected to remain largely neutral while AUD-USD may remain supported on dips pending further developments on the **Sino-US** front.

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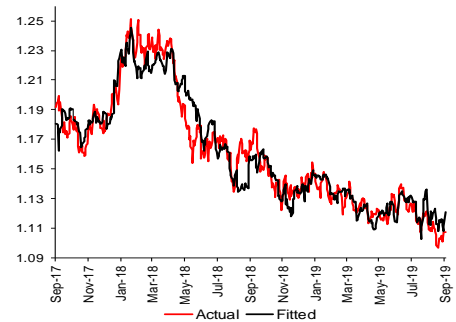
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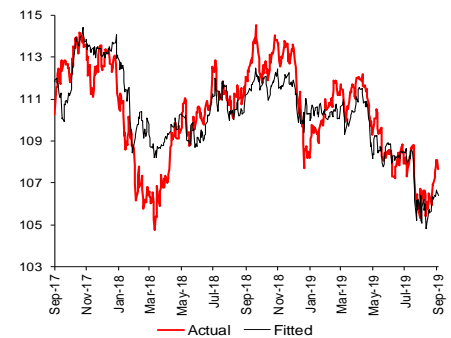
EUR-USD

Neutral for now. The EUR-USD may stay supported into the FOMC decision (Thu), although a heavy schedule of ECB speakers this week may add a layer of volatility as the markets continue to digest the ECB package last week. Expect upside to be limited to 1.1100/20 in the interim, while good support should be seen near 1.1030.



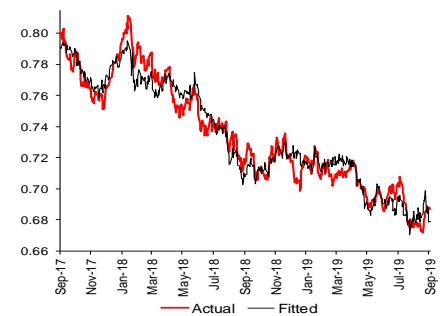
USD-JPY

Headline driven for now. Expect the USD-JPY to remain driven by the Saudi developments in the near term. A heavy posture may persist in the interim, but if there is no significant escalation of the conflict, expect the USD-JPY to retrace higher again. Stay nimble on the pair for now, pending headline developments.



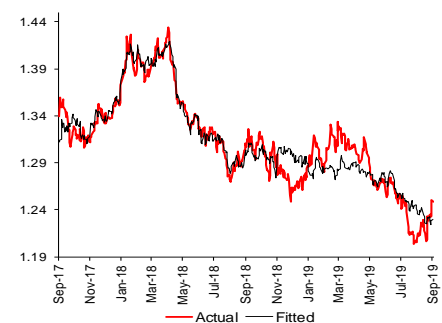
AUD-USD

Bias higher. Any dips in the AUD-USD this week – potentially due to the Saudi incident or a dovish-leaning RBA minutes (Tue) – should be short-lived so long as the Sino-US rapprochement persists. Nevertheless, stay watchful of dipping short-term implied valuations. Continue to expect the AUD-USD to stay buoyant within the 0.6850 to 0.6900 range in the interim.



GBP-USD

Extend higher? The GBP-USD broke higher as odds of a no-deal Brexit continue to be pared as the Northern Irish DUP softened its stance on the Irish backstop on Friday. Nevertheless, expect investors to stay tuned to headline developments, with PM Johnson scheduled to meet EC President Juncker later today. With the spot running ahead of short term implied valuations (still sliding), we remain cautious in chasing excessive upside.



USD-CAD

Softer bias. Expect the USD-CAD to remain heavy in the immediate aftermath of the Saudi conflict. In the longer term, observe if the incident leads to a shift in the geopolitical dynamic in the crude market and if that translates to a sustainably higher crude price. In that context, expect the USD-CAD stay depressed on a structural basis.



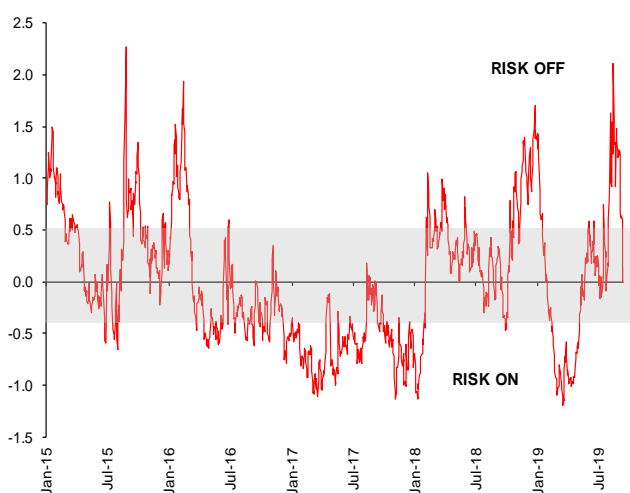
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Asian Markets

- USD-Asia:** USD-CNH explored briefly below 7.0400 on Friday but USD-Asia may be supported slightly on the back of slight risk aversion in the wake of the Saudi attack. On this front, **firmer oil prices are seen impinging particularly on the INR.**
- On the data front, note that China's August industrial production and retail sales data both printed softer than expected, underlying the domestic economic weakness. On the central bank front in Asia, the **CBC** convenes on Thursday (mkts: no change at 1.375%) while **Bank Indonesia** also on Thursday is expected to cut 25bps to 5.25%. At this juncture, the blip higher in crude oil prices may incite some caution towards dovish expectations surrounding the likes of the **RBI** and the **BSP**.
- On the **EPFR** front, net implied outflows from Asia (excl Japan, China) moderated significantly in the latest week while net implied bond outflows flipped to a net inflow environment in the same period.
- USD-SGD: Still heavy for now.** Risk-off sentiments at the start of the week created some uplift in the USD-SGD, in line with other USD-Asia counterparts. Topside extensions, however, may find limited traction above 1.3780, while dips may be cushioned by the 100-day MA (1.3712). The SGD NEER eased to +0.95% above its perceived parity (1.3873) this morning, with NEER-implied USD-SGD thresholds dipping lower.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0965	1.1000	1.1074	1.1100	1.1127
GBP-USD	1.2279	1.2400	1.2480	1.2487	1.2500
AUD-USD	0.6800	0.6851	0.6871	0.6895	0.6900
NZD-USD	0.6300	0.6304	0.6382	0.6400	0.6452
USD-CAD	1.3200	1.3207	1.3229	1.3300	1.3310
USD-JPY	107.00	107.13	107.73	108.00	108.26
USD-SGD	1.3720	1.3734	1.3746	1.3767	1.3800
EUR-SGD	1.5141	1.5200	1.5222	1.5300	1.5319
JPY-SGD	1.2691	1.2700	1.2758	1.2800	1.2853
GBP-SGD	1.6903	1.7100	1.7154	1.7184	1.7200
AUD-SGD	0.9400	0.9432	0.9444	0.9487	0.9494
Gold	1478.73	1500.00	1508.30	1553.22	1559.80
Silver	16.87	17.40	17.44	17.50	19.21
Crude	58.81	60.20	60.24	60.30	63.34

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