OCBC TREASURY RESEARCH

Daily Market Outlook

17 October 2019

Market Themes/Strategy

- A broad USD negative tone persisted overnight, driven the unexpected contraction of US retail sales. The DXY index was left struggling to hold on to the 98.00 mark. The **GBP** continued to extend higher, but is now starting to **look stretched by our short term implied valuations.** The **EUR** also taken higher alongside the GBP, with the setup perhaps pointing to **further upside in the near term**. But we remain structurally negative on the EUR on weak data. If anything, we are looking up to see when to start looking down again.

- The risk sentiment front was largely steady, with global core yields and equities little changed. The **FXSI (FX Sentiment Index)** edged slightly lower within the **Risk-Neutral** zone, marking 6 consecutive sessions of improvement in risk sentiments.

- However, we get some sense that the positivity derived from the Sino-US trade front is fading off, and the markets will be looking for new cues soon. **In this context, we may see the JPY in a near-term consolidation mode, and the AUD staying within range** (despite the spike higher after jobs data this morning).

- Expect geopolitical risk events will dominate for now. In Europe, the markets will still try to read tea leaves on Brexit to determine the GBP directionality. Note that any deal from the EU Summit later today still has to pass the UK Parliament on Saturday. In this part of the world, expect investors to continue weighing the worthiness of the Phase 1 deal. With the official signing only expected to be in the APEC meeting (16-17 Nov), there is still a lot of time for the agreement to be derailed.

- **Overall, expect the broad USD to retain a negative tinge, as investors try to navigate the geopolitical risk events.** With the improvement in risk sentiments gradually fading off, we may want to start stepping away from risk-derived trades. Instead, look for a higher EUR-USD in the near term.

Treasury Research
Tel: 6530-8384

Emmanuel Ng
+65 6530 4037
ngcyemmanuel@ocbc.com

Terence Wu
+65 6530 4367
TerenceWu@ocbc.com

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EUR-USD

Potentially search higher. Mixed to weaker than expected EZ inflation prints did little to hold back the EUR-USD, as investors focused on weak US data. The recent ascent of the pair has moved it to the top end of short-term implied tolerance bands. Nevertheless, expect the pair to search higher for now, perhaps targeting the 1.1100 mark.

USD-JPY

Supported in near term. Positive drivers for risk may be fading off for now, so expect the upside momentum for the USD-JPY to ease off somewhat. Nevertheless, still expect the pair to stay supported, with 108.00 and 109.00 limiting the range for now.
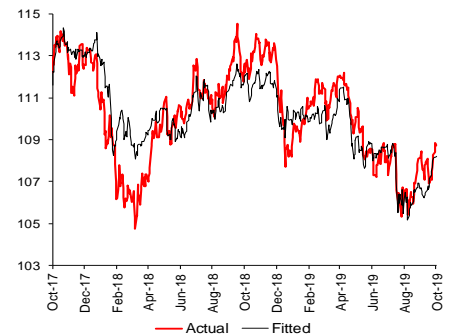
AUD-USD

Range. The AUD-USD spiked higher this morning, with a stronger-than-expected jobs release perhaps fading RBA rate cut expectations. Nevertheless, we remain unexcited about the pair's headway on the upside so long as 0.6800 caps. Failure to breach 0.6720 on the downside may also cause the bears to be disheartened. Overall, the pair may still into a 0.6720 – 0.6820 range for now.
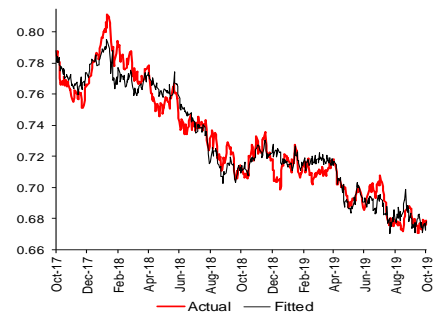
GBP-USD

Headline-driven. The extension higher by the GBP-USD overnight brings the pair into heavily overbought territory relative to the short term implied valuations. Nevertheless, the pair will remain headline-driven in the short term, with the next upside target possibly just south of 1.3000. We will be cautious to chase the pair higher.
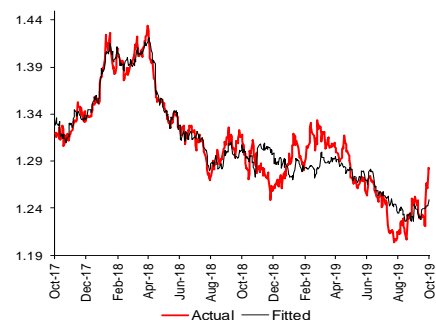
USD-CAD

Range. Softer than expected headline inflation offset firmer crude prices, leaving the USD-CAD within a narrow range around the 1.3200 locus. Continue to expect a tight 1.3180 to 1.3240 range for the pair.

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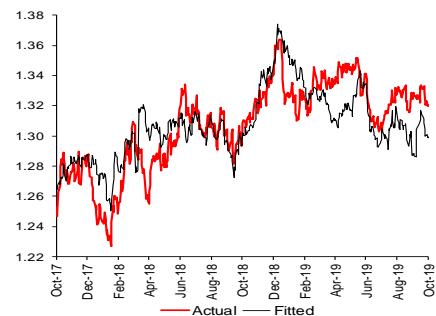
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Asian Markets

- **USD-Asia:** Despite the firmer USD-CNH (north of 7.1000 this morning), spillover USD weakness should filter through to Asia currencies today, and keep USD-Asia pair supported. Within Asia, we still prefer the North Asian currencies compared to South Asian currencies for now.

- In a more structural perspective, the convergence lower of the US growth outlook towards the EZ/Asia, coupled with increased monetary accommodation and the fact that Asia's own growth story is not falling through the bottom should point to more demand for EM carry. However, this is not yet translating to better bond inflows into the high yielders. Portfolio inflow momentum in Indonesia and India is still effectively neutral, with no signs of uptick. Instead, investors appear more interested in Taiwan and India equities.

- **USD-SGD:** Expect the USD-SGD to vacillate around the 1.3700 locus for now, with 1.3670 and 1.3730 book-ending the pair on either side. Meanwhile, the SGD NEER is effectively static at +1.43% above its perceived parity (1.3895), with NEER-implied USD-SGD thresholds turning south.

FX Sentiment Index
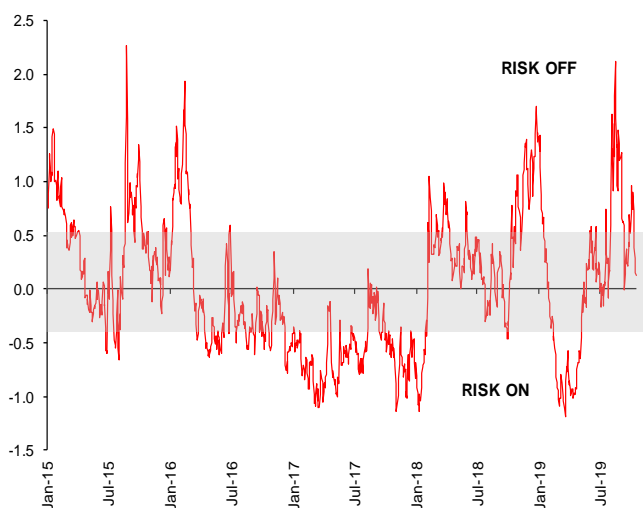
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1000	1.1037	1.1078	1.1083	1.1100
GBP-USD	1.2714	1.2800	1.2826	1.2830	1.2877
AUD-USD	0.6703	0.6778	0.6789	0.6800	0.6806
NZD-USD	0.6204	0.6248	0.6299	0.6300	0.6338
USD-CAD	1.3172	1.3200	1.3202	1.3263	1.3287
USD-JPY	107.15	108.00	108.78	108.90	108.97
USD-SGD	1.3679	1.3680	1.3690	1.3700	1.3813
EUR-SGD	1.5075	1.5100	1.5166	1.5197	1.5200
JPY-SGD	1.2530	1.2566	1.2585	1.2600	1.2893
GBP-SGD	1.7359	1.7500	1.7558	1.7561	1.7600
AUD-SGD	0.9229	0.9254	0.9294	0.9300	0.9358
Gold	1458.30	1468.90	1488.00	1500.00	1507.26
Silver	16.96	17.30	17.37	17.40	17.71
Crude	50.99	52.90	52.94	53.00	55.35

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Emmanuel Ng
Senior FX Strategist
NgCYEmmanuel@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Carie Li
Hong Kong & Macau
carieli@ocbcwh.com

Dick Yu
Hong Kong & Macau
dicksnyu@ocbc.local

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com