

Daily Market Outlook

18 October 2019

Market Themes/Strategy

- The broad USD extended declines on Thursday, clobbered by developments in the geopolitical front and soft data. Antipodeans were the big winners overnight, with positive Chinese comments on the Phase 1 deal, and **RBA's** Lowe playing down rate cuts. Elsewhere, the GBP also tested 1.3000 briefly before retracing, while the EUR broke through the 1.1100 handle.
- Just as we thought that positive risk drivers are fading off, the headline that China wants to conclude the Phase 1 deal as soon as possible gave risk another shot in the arm. The **FXSI (FX Sentiment Index)** edged slightly lower yet again within the **Risk-Neutral** zone. **Eyes on US equity markets for now. If breaks into new highs, we may see another sustained run in positive risk sentiments.**
- **Brexit dynamics.** Round 1 achieved with a deal with EU, but Johnson faces a potentially more difficult Round 2 in the UK Parliament on Saturday. If the deal doesn't pass, and we instead have a deadline extension, we may see a partial give back of the GBP gains seen in the last 6 sessions. A no-deal Brexit remains the tail-end risk, but a deeper retracement beyond 1.2200 cannot be ruled out in that case.
- Apart from geopolitics, **a swathe of US data turned in softer than expected, effectively chipping away the thesis that the US/Fed is in a better position relative to the rest of the world.** The convergence lower of US growth towards the global experience is perhaps too fast for comfort at this juncture.
- **Expect the USD to stay suppressed in the near-term, although some consolidation may be had after the breakouts in the major pairs. The EUR is expected to stay supported for now, and we are also turning positive on the AUD following its break higher. Further out, our structural positive USD view on the back of relative macro is being chipped away faster than we like.**

Treasury Research

Tel: 6530-8384

Emmanuel Ng

+65 6530 4037

ngcyemmanuel@ocbc.com

Terence Wu

+65 6530 4367

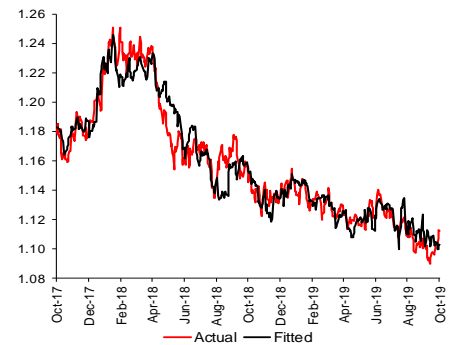
TerenceWu@ocbc.com

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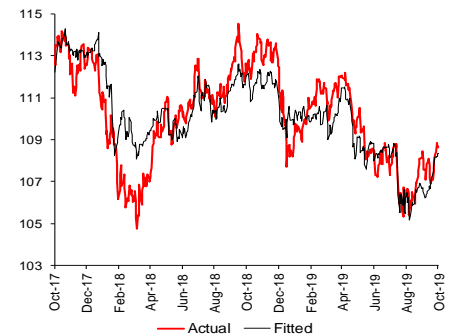
EUR-USD

Search higher. Soft US data prints translate to tailwinds for the EUR-USD, keeping the pair supported for now. Short term implied valuations, however, are not keeping up with the up-move. Nonetheless, the 100-day MA (1.1138) should attract for now, while the 1.1100 mark enters as support.



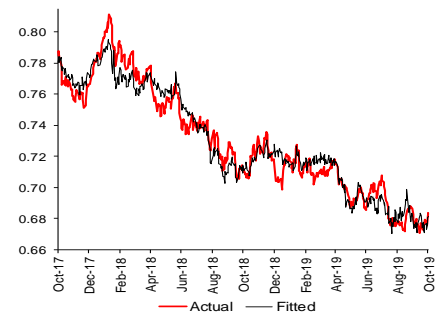
USD-JPY

Supported in near term. Renewed risk-on sentiments should continue to keep the USD-JPY supported, but the failure to break through the 109.00/10 level may hamper its upside momentum. Prefer to buy on dips towards 108.20/30 for now, targeting 109.00/10.



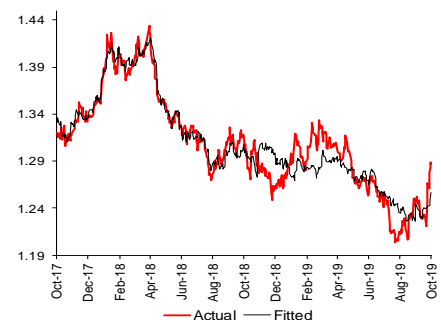
AUD-USD

Break higher. The AUD-USD pushed beyond the 0.6800 resistance, with the short term implied valuations also tracking higher. Note that RBA's Lowe played down rate cut expectations overnight. We are turning positive on the pair, and look for a possible extension towards 0.6860 for now. Dips should be limited to 0.6780.



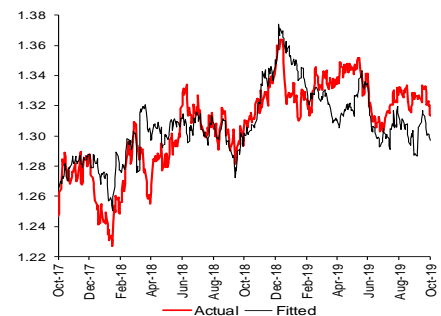
GBP-USD

Headline-driven. The GBP-USD turned just south of 1.3000 as expected as caution over getting the Brexit deal over the Parliament line filtered through. The pair remains overbought, but the tracking higher of the short term implied valuations provides some comfort. In the interim, 1.3000 should cap pending headline developments.



USD-CAD

Heavy. Expect a heavy stance for the USD-CAD on the back of a negative USD posture. Failing to hold the 1.3120/30 level may risk further capitulation to 1.3020/30.



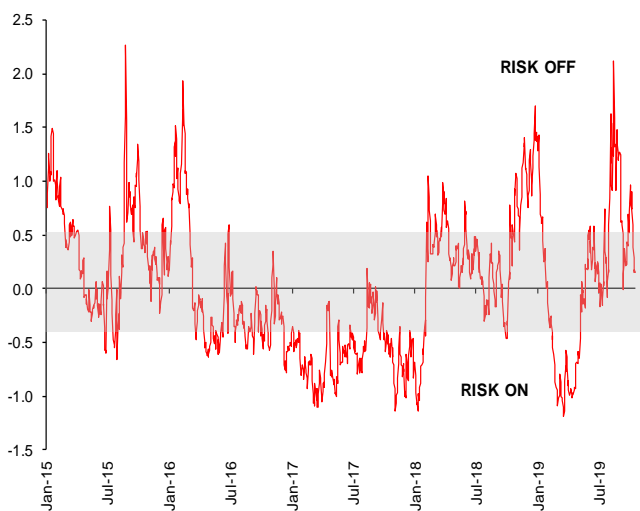
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Asian Markets

- USD-Asia:** The USD-CNH dipped lower overnight towards the 7.0800 area on the back of broad-based USD weakness. Positive risk sentiments, on the back of firmer EM equities, and the ceasefire between Turkey and Syria, should be positive for Asian currencies as well. At this juncture, we think the USD should lead USD-Asia lower.
- Higher frequency data (industrial production, retail sales) in China** were in-line to firmer than expected, offsetting the slightly weaker than expected headline 3Q GDP print. In particular, the stronger than expected IP (5.8% yoy vs. consensus 4.9% yoy), and trade truce may set the platform for a stabilization in the manufacturing sector. **Overall, this should allay immediate fears of any worsening in the Chinese domestic economy, but we have also yet to turn the corner.**
- USD-SGD:** Broad-based USD weakness continues to cut down the USD-SGD. If the current risk-on sentiments persist, we expect a slow grind lower for the pair, with the 1.3630 being the first waypoint south. Meanwhile, the SGD NEER turned higher, standing at +1.58% above its perceived parity (1.3859). **At this juncture, expect the softening USD (and JPY) to keep the SGD NEER elevated despite domestic macro concerns.**

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1100	1.1116	1.1125	1.1140	1.1200
GBP-USD	1.2715	1.2800	1.2853	1.2900	1.2903
AUD-USD	0.6800	0.6828	0.6836	0.6895	0.6900
NZD-USD	0.6348	0.6359	0.6372	0.6400	0.6451
USD-CAD	1.3100	1.3131	1.3135	1.3137	1.3200
USD-JPY	107.21	108.00	108.58	108.94	109.00
USD-SGD	1.3600	1.3635	1.3643	1.3648	1.3656
EUR-SGD	1.5074	1.5100	1.5178	1.5200	1.5230
JPY-SGD	1.2525	1.2529	1.2566	1.2600	1.2881
GBP-SGD	1.7360	1.7500	1.7535	1.7600	1.7620
AUD-SGD	0.9255	0.9300	0.9326	0.9360	0.9361
Gold	1458.30	1468.41	1492.30	1500.00	1506.96
Silver	16.98	17.50	17.55	17.60	17.73
Crude	50.99	53.90	53.95	54.00	55.39

Treasury Research & Strategy

Macro Research

Selena Ling

Head of Strategy & Research

LinaSSSelena@ocbc.com

Emmanuel Ng

Senior FX Strategist

NqCYEmmanuel@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

carierli@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

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