

Daily Market Outlook

21 August 2019

Market Themes/Strategy - Recuperate

- Amid softer global yields, the dollar ended broadly weaker with G10 space on Tuesday as the US curve continued to flatten. Note a tinge of investor caution as the CHF and JPY outperformed across the board.
- The EUR was buoyed by the Italian PM's planned resignation (**BTP-Bund spread** narrowed slightly) while GBP-USD retained its intra-day gains even as PM Boris Johnson called for the Irish backstop to be replaced by pledge and German Chancellor Merkel seemed to suggest room for compromise (but not via the Withdrawal Agreement). Elsewhere, the AUD-USD was also lifted in Asia after **RBA meeting minutes** did not denote undue bearishness.
- **Increasing risks in EM.** Negative EZ/US equities and still cautious investor sentiment eventually saw the **FX Sentiment Index (FXSI)** ticking higher within **Risk-Off** territory. Notably **short-end EM FX vols are beginning to outpace their G7 counterparts**, potentially indicating heightened global market volatility ahead.
- Ahead of **Jackson Hole**, headline risks starting from Friday, **Sino-US tensions** remain near a boil with late Tuesday comments from US Secretary of State Pompeo on Huawei. **FOMC minutes** are due today (1800 GMT) while the Fed's Kashkari (2230 GMT).
- **Overall, EUR-USD expected to remain top heavy while GBP-USD may base build while it can (with EUR-GBP seen top heavy). Risk appetite levels we think remain fragile with USD-JPY looking suppressed again and the AUD-USD dead in the water.**

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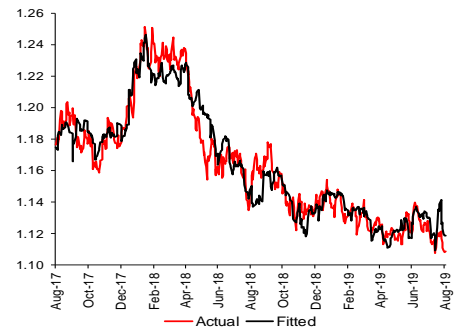
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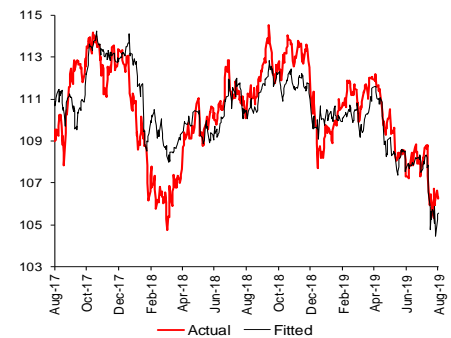
EUR-USD

Heavy. Italian political developments may add another layer of uncertainty to the EUR-USD going forward, although there was little negative impact overnight. Expect the pair to stay heavy within the 1.1070 to 1.1120 range, with the short term implied valuations still pointing south.



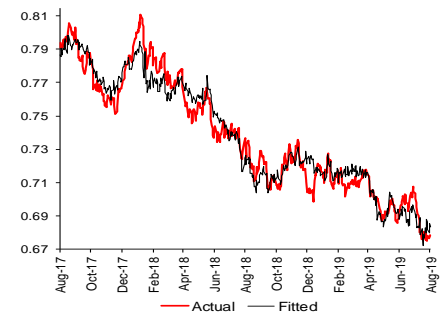
USD-JPY

Base build. Nascent recovery in the USD-JPY may be snuffed by Pompeo's comments on Chinese companies, other than Huawei, posing risk. Short term implied valuations continue to recover higher, but the pair may remain headline-driven, rather than tracking fundamentals for now. Expect near-term resistance at 116.80, with support coming in at 116.00.



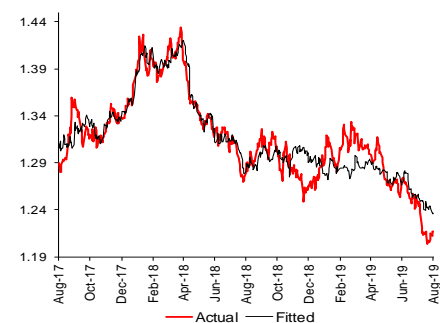
AUD-USD

Stabilizing but fragile. The AUD-USD is stuck in a holding pattern within the 0.6740-0.6820 range in the interim, with the risk-reward evenly poised on either side. Expect this posture to persist, pending further developments from Jackson Hole and Sino-US trade front. Note that short term implied valuations firmed slightly on the day.



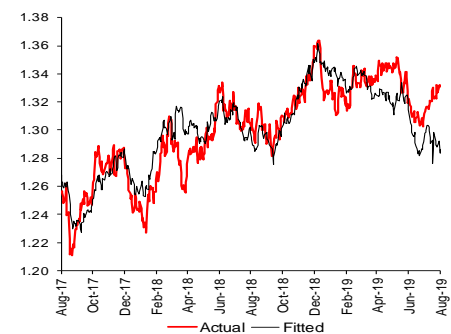
GBP-USD

Recovery halted. The GBP-USD remained volatile on Brexit developments, with the EU still outrightly refusing to reopen negotiations but seemingly willing to consider other alternatives. The pair may populate a wide range between 1.2000 and 1.2200 until further clarity on the Brexit front.



USD-CAD

Uptrend remains intact. The 1.3350 continues to turn away the USD-CAD for now. Noting that the firmer crude complex is not translating to a lower USD-CAD, we retain a slight upside bias for now, while noting that the 1.3350 level may still act as a cap in the immediate horizon.



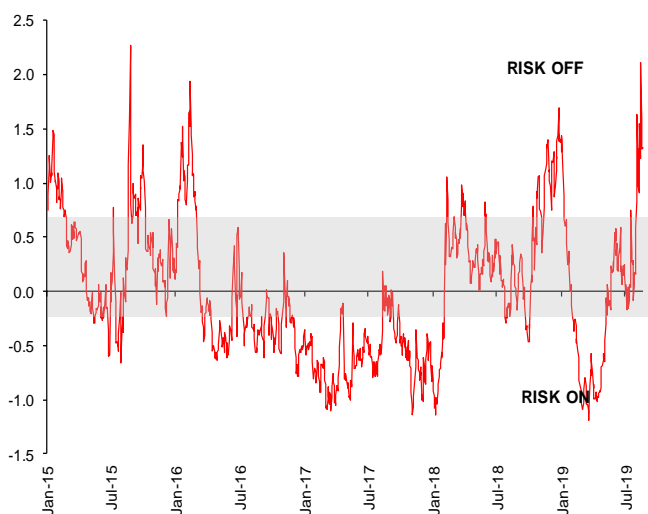
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Asian Markets

- USD-Asia:** Positive EM equity sentiment from overnight may be tempered by a mixed EM FX performance (ZAR's gains against the TRY's slump), providing yet another mixed lead for the Asian session today. Nevertheless, the relative stability on the RMB front (CNH vols and riskies easing lower) may continue to impart positives for the USD-North for now. **In particular, with additional support from a tentative return of bond inflows, expect the USD-KRW to remain heavy, with the 1200 handle possibly attracting.**
- Note that EM risk premiums remain palpable despite expectations of easier monetary conditions (see Loan Prime Rate headlines out of China) from regional central banks and as regional governments bring to bear increased fiscal stimulus (e.g., Indonesia's budget announcement last Friday).
- On the **actual portfolio flows** front, aggregate equity flows across Asia stepped deeper into outflow territory, while aggregate bond flows attempt to stabilize just north of neutral. With the exception of South Korea, we continue to see no background support from the flow environment for the Asian currencies.
- USD-SGD: Upside paused for now.** With most of the domestic growth concerns already well-understood and global trade tensions not boiling over, the immediate upside pressure for the USD-SGD may have eased for now. The pair may continue to orbit the 1.3850 neighborhood pending further external headlines. The SGD NEER is effectively static at +0.58% above parity (1.3928), with the NEER-implied USD-SGD thresholds easing marginally lower.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1050	1.1100	1.1101	1.1200	1.1215
GBP-USD	1.2015	1.2100	1.2170	1.2200	1.2357
AUD-USD	0.6691	0.6700	0.6782	0.6800	0.6907
NZD-USD	0.6378	0.6400	0.6416	0.6500	0.6594
USD-CAD	1.3184	1.3300	1.3305	1.3311	1.3346
USD-JPY	105.05	106.00	106.46	107.00	107.57
USD-SGD	1.3679	1.3800	1.3844	1.3900	1.3906
EUR-SGD	1.5300	1.5340	1.5368	1.5388	1.5400
JPY-SGD	1.2718	1.3000	1.3003	1.3100	1.3215
GBP-SGD	1.6604	1.6800	1.6848	1.6900	1.6969
AUD-SGD	0.9300	0.9316	0.9390	0.9400	0.9447
Gold	1428.05	1500.00	1505.00	1531.40	1550.49
Silver	16.01	17.10	17.11	17.20	17.49
Crude	56.20	56.20	56.27	56.27	56.30

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