

Daily Market Outlook

21 October 2019

Market Themes/Strategy – The week ahead

- The broad USD was further undercut on Friday, with some all-round negativity for the USD. But note that this is largely on the back of global drivers, and not so much domestic cues in the US. Antipodeans outperformed again on the paring of RBA rate cut expectations, while the European complex drew support from the Brexit situation.
- Global equities closed in the red on Friday, dampening risk sentiments marginally. The **FXSI (FX Sentiment Index)** ticked higher, but stayed well within the **Risk-Neutral** zone. Eyes on US equity markets this week, with earnings season in full swing.
- **Brexit drama rolls over to this week.** UK Parliament did not vote on Johnson's Brexit deal on Saturday, but instead voting on an amendment to compel Johnson to ask EU for a deadline extension. Johnson complied, but the EU is in a wait-and-see posture for now. Developments on late Friday – early Saturday suggest that Johnson may have the numbers to pass the deal, keeping the GBP still supported for now.
- **US domestic cues largely unchanged for now.** Fed's Clarida presented a balanced view on Friday, with slowdowns in business investment and global growth offset by strong US consumers. Expectations for the October rate cut not shaken out, still effectively fully priced in.
- On the **CFTC** front, non-commercial and leveraged accounts extended implied USD longs (largely due to a flip into net JPY shorts), whereas asset managers increased their implied USD shorts. The flip into a net short on JPY underlies the improvement in risk sentiments. Note that EUR and AUD shorts were pared by leveraged accounts.
- In a relatively light calendar this week, watch for global preliminary PMIs later this week, and the ECB policy decision on Thursday.
- **Our sights remain set on the short term for now, retaining a sell-on-rallies mode for the USD, especially against the EUR. We also prefer AUD upside, although the pace may slow, with RBA expectations still being pared and the Australian 10y yield on a higher plane.**

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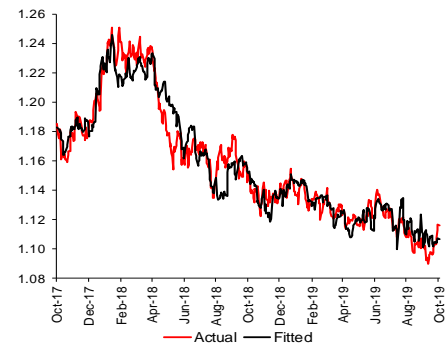
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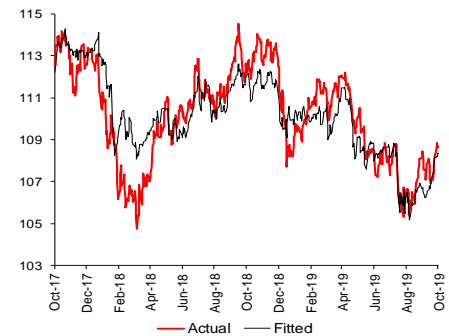
EUR-USD

Search higher. Upside momentum for the EUR-USD remains firm, with the pair now at the top end of the short term implied tolerance band. Lack of upside interest in the short term implied valuations keeps us suspicious of the longevity of this ascent, but we stick to the momentum for now, and prefer not to rule out further extensions towards 1.1200/10 levels. Meanwhile, expect 1.1138 to cushion any retracement lower for now.



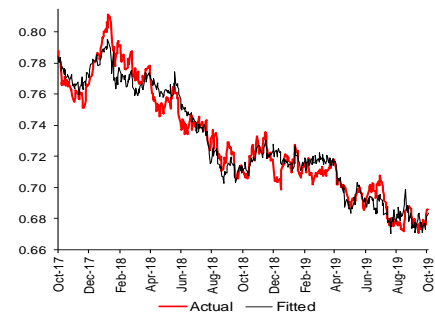
USD-JPY

Consolidation. The USD-JPY trudged lower within a narrow range, with the 109.00/10 level still hovering as a strong resistance on the upside. Expect the pair to ply the 108.20 to 109.00 range, pending new directional cues.



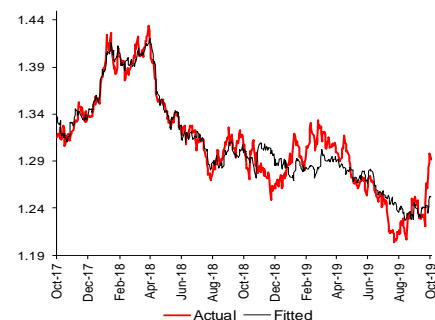
AUD-USD

Buoyant. Expect the AUD-USD to stay buoyant for now, on the back of diminishing RBA rate cut expectations and higher back-end yield support, although the pace may slow down ahead of 0.6900. Prefer to buy on any dips to 0.6820/40,



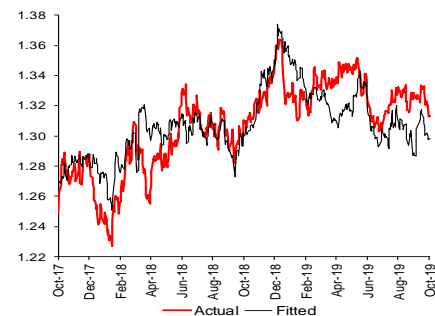
GBP-USD

Headline-driven. Expect the GBP-USD to stay supported as indications over the weekend suggest that Johnson has the numbers to pull through the Brexit vote. 1.2990 will be the immediate topside target for now, with 1.2870 the immediate support on negative headlines.



USD-CAD

Heavy. The USD-CAD may see some headline-driven volatility on the Canadian elections early week. Continue to watch the 1.3120/30 locus for now.



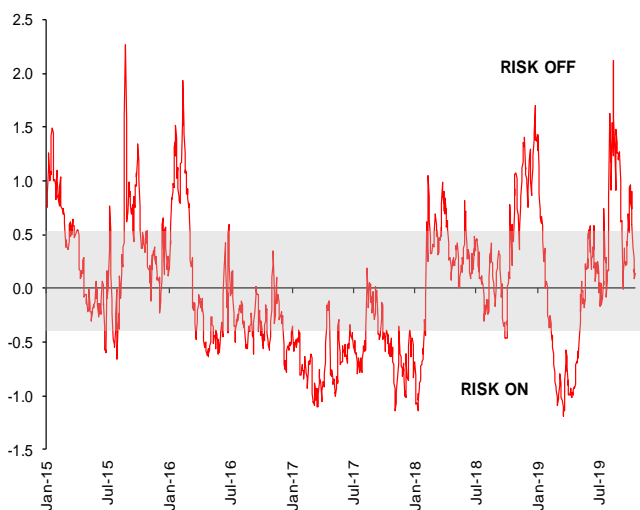
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Asian Markets

- USD-Asia:** EM Asia sentiments remain positive at the start of this week, on USD weakness, expected rate cuts (BI rate cut expected Thu) and also the sense that Chinese growth may not be worsening significantly from here. Note that PBOC's Yi Gang described the current RMB level as appropriate. We think this reinforces RMB stability, and provides shelter Asian currencies. Overall, we expect USD-Asia to be heavy early week.
- On the EPFR front,** implied equity outflows worsened in the latest week, somewhat offset by an improvement in implied bond inflows. This picture is slightly different from the actual portfolio flows, which shows equity inflow momentum picking up, against an easing bond inflow momentum. Nevertheless, it is clear that the Asian currencies still do not have background support from the flow environment.
- USD-SGD:** The USD-SGD should continue to grind lower early week, led largely by USD weakness. Expect the 1.3600 level to implicitly attract for now, while 200-day MA (1.3657) caps for now. Meanwhile, the SGD NEER stayed relatively supported, standing at +1.57% above its perceived parity (1.3845) this morning.

FX Sentiment Index



Technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1100 | 1.1154 | 1.1158 | 1.1172 | 1.1200 |
| GBP-USD | 1.2716 | 1.2900 | 1.2912 | 1.2990 | 1.2998 |
| AUD-USD | 0.6800 | 0.6850 | 0.6863 | 0.6895 | 0.6900 |
| NZD-USD | 0.6381 | 0.6400 | 0.6401 | 0.6451 | 0.6500 |
| USD-CAD | 1.3117 | 1.3120 | 1.3134 | 1.3200 | 1.3258 |
| USD-JPY | 107.27 | 108.00 | 108.49 | 108.94 | 109.00 |
| USD-SGD | 1.3625 | 1.3627 | 1.3629 | 1.3657 | 1.3700 |
| EUR-SGD | 1.5066 | 1.5200 | 1.5207 | 1.5218 | 1.5233 |
| JPY-SGD | 1.2517 | 1.2525 | 1.2562 | 1.2600 | 1.2869 |
| GBP-SGD | 1.7362 | 1.7500 | 1.7598 | 1.7600 | 1.7720 |
| AUD-SGD | 0.9251 | 0.9300 | 0.9354 | 0.9362 | 0.9368 |
| Gold | 1458.30 | 1468.24 | 1489.90 | 1500.00 | 1506.64 |
| Silver | 17.07 | 17.50 | 17.57 | 17.60 | 17.74 |
| Crude | 51.11 | 53.60 | 53.68 | 53.70 | 55.37 |

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