

Daily Market Outlook

22 August 2019

Market Themes/Strategy

- With the UST curve lifting and bear flattening (as did most other core curves), the USD ended mildly stronger against the EUR and GBP while the CHF and JPY also underperformed (including across G10 space) as risk appetite recovered further. On this front, the AUD and CAD managed to hold their ground against the greenback.
- Elsewhere, **GBP** continued to underperform across the board with German Chancellor Merkel giving UK PM Johnson 30 days to find a “solution” to the issue of the Irish backstop and with France expecting a no-deal Brexit as a central scenario.
- Overall, amid positive EZ/US/EM equities and stabilizing base metals, the **FX Sentiment Index (FXSI)** inched lower on Wednesday but remained trapped in **Risk-Off** territory.
- **FOMC minutes** meanwhile, did not shed new light despite a discussion of a 50bps cut, as proceedings showed an intent not to telegraph more rate cuts on a preset course but remain data dependent. Instead, the 25bps cut was viewed as a recalibration of policy stance. **Going ahead, it remains to be seen of Fed-speak at Jackson Hole this Friday will echo this sentiment (we think not), with market implied pricing long suggesting a more aggressive easing cycle ahead after the US administration escalated the Sino-US trade war a day after the FOMC.**
- **ECB meeting minutes** later today (1130 GMT) and EZ flash PMIs (0800 GMT) may dictate the near term prospects for the EUR while US preliminary US PMIs are also due 1345 GMT.
- Markets may remain heavy on the EUR-USD (note background Italian political uncertainty) while cyclicals like the AUD-USD and USD-CAD may continue to loiter in familiar ranges (and not out of the woods yet) pending further macro headline risks. Needless to say, the JPY and CHF will remain a function of risk appetite gyrations.

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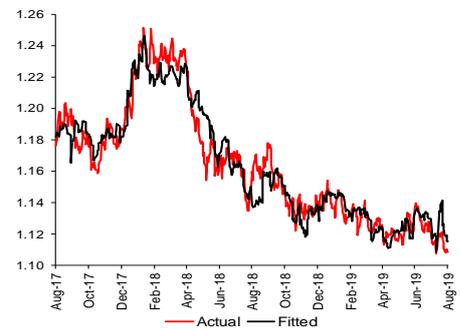
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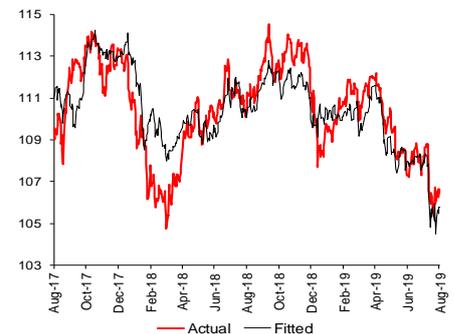
EUR-USD

Heavy. The EUR-USD stepped lower in response to the FOMC minutes. Near-term range between 1.1070 and 1.1120 may hold into the weekend as investors remain side-lined pre-Jackson Hole, despite the still falling short term implied valuations. Safe for the tail-risk of Powell sounding considerably more dovish than the July FOMC, expect the pair to retain a heavy stance.



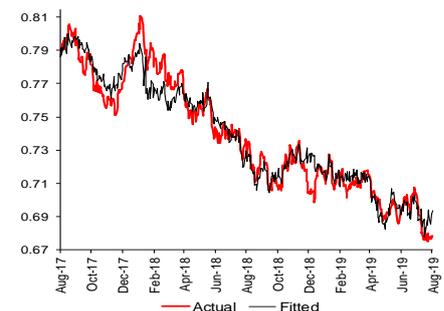
USD-JPY

Base build. Although short term implied valuations continued to tick higher, the USD-JPY remains beholden to risk sentiments for now. 106.70/80 may continue to limit upside searches, with the downside support at 106.00, then 105.70.



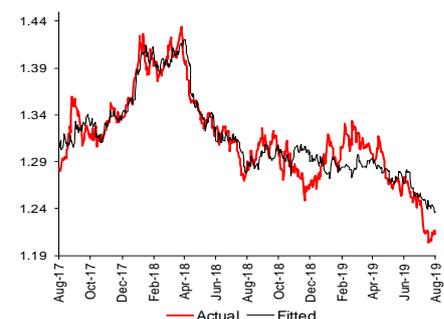
AUD-USD

Tight range. The tight range for the AUD-USD continues to persist, with investors keenly looking for the directional break. For now, short term implied valuations has pushed higher, although the appearance by the RBA's Lowe at Jackson Hole will be the near term focus.



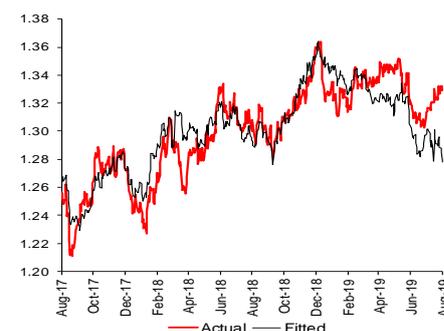
GBP-USD

Recovery halted. Despite official rhetoric from various EU leaders seemingly indicating a greater level of acceptance of an eventual no-deal Brexit, investors still appear keen to test the upside for the GBP-USD. This may keep the pair relatively supported within the 1.2000 and 1.2200 zone.



USD-CAD

Range. The balance remains poised for now, although the downside argument is strengthened by the June CPI coming in firmer than expected, and perhaps reducing the case for further rate cuts at the BOC. Expect 1.3250 and 1.3350 to bookend this pair in the interim.



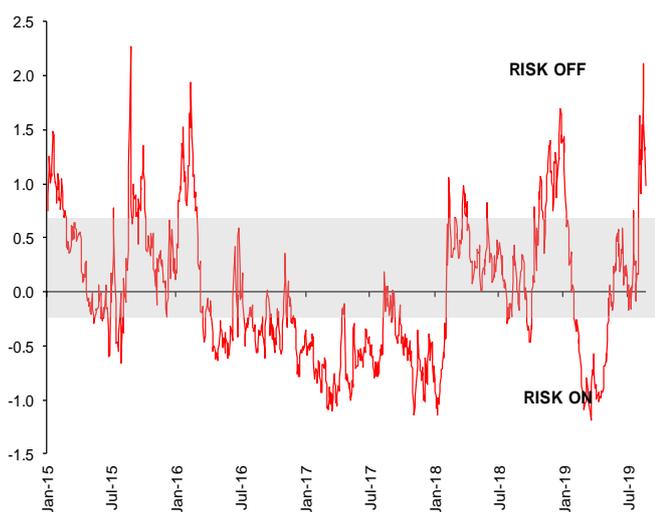
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Asian Markets

- USD-Asia: Eased lower, but is it sustainable?** Spillovers from positive EM FX and global equities should support the Asian currencies intraday. The RMB complex, meanwhile, retains an air of stability (USD-CNH locked in range, but note that the CFETS RMB Index is inching lower again), with USD-CNY turning away from ytd highs near 7.0700. **Expect immediate upside impetus for USD-Asia to be in check for now, although we urge caution in any chase lower.**
- Asian central banks continue to exhibit discomfort in their macro outlook, with the **BOT** looking for “policy coordination... to support growth recovery”, and the **RBI** putting priority on closing the output gap, as seen in their latest policy meeting minutes. **Considering that there is the lack of downside room for policy rates in some central banks, one may expect the currencies to bear the brunt of stimulus.** Thus, the prospect of sustainably lower USD-Asia beyond the immediate horizon may not be realistic. Watch **Bank Indonesia’s** policy decision later today.
- USD-SGD: Upside paused for now.** The USD-SGD bounced off day-lows but retained a heavy tone overnight. At this juncture, expect the pair to be hemmed in within the 1.3820 and 1.3880 zone. Meanwhile, the SGD NEER firmed further to +0.68% above parity (1.3932), with the NEER-implied USD-SGD thresholds inching higher

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1027	1.1042	1.1089	1.1100	1.1211
GBP-USD	1.2015	1.2100	1.2133	1.2200	1.2283
AUD-USD	0.6700	0.6703	0.6772	0.6800	0.6891
NZD-USD	0.6378	0.6400	0.6402	0.6500	0.6591
USD-CAD	1.3183	1.3200	1.3297	1.3300	1.3311
USD-JPY	105.05	106.00	106.45	107.00	107.53
USD-SGD	1.3694	1.3800	1.3836	1.3900	1.3906
EUR-SGD	1.5300	1.5338	1.5342	1.5387	1.5400
JPY-SGD	1.2725	1.2900	1.2997	1.3000	1.3215
GBP-SGD	1.6631	1.6700	1.6787	1.6800	1.6910
AUD-SGD	0.9300	0.9325	0.9370	0.9400	0.9445
Gold	1428.05	1500.00	1504.60	1531.40	1550.44
Silver	16.06	17.00	17.10	17.10	17.49
Crude	51.88	55.80	55.84	55.90	56.23

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