

Daily Market Outlook

23 August 2019

Market Themes/Strategy

- The cyclicals (AUD, NZD, CAD) continued to underperform on Thursday with the JPY mildly stronger on the crosses as EZ/US equities slipped (base metals and crude also softened). Nonetheless, the **FX Sentiment Index (FXSI)** slipped but still remained within Risk-Off territory.
- EUR-USD only derived temporary support from better than expected preliminary August PMI readings before ending flat on the day, with **ECB meeting minutes** denoting a sufficiently dovish outlook/policy intention. Elsewhere, GBP-USD jumped after German Chancellor **Merkel** noted that a solution to the Brexit impasse could still be reached within a month. Note however that skepticism on this front remains significant.
- With UST yields slightly firmer (2/10s bear flattened) despite deteriorating preliminary US August PMIs, the USD on balance edged higher within G10 except against the JPY and GBP. Notably, the Fed's **George, Harker, and Kaplan** pushed back on Thursday against overly dovish FOMC expectations.
- Ahead of Powell's speech at 1400 GMT, markets may remain in a lull, given that Fed speak in the last 2 sessions has attempted to downplay excessive dovishness. Heading into Jackson Hole get-together, we think it is unlikely that we will see a wholesale embrace of rate cuts. The risk remains for the market to perceive Powell to be sticking too close to the July FOMC line – and therefore be less dovish than expected. **Overall, we prefer to stay short on the EUR on relative ECB/Fed dynamics, and also short on the AUD on growth concerns (although this may be diffused somewhat by risk sentiments).**

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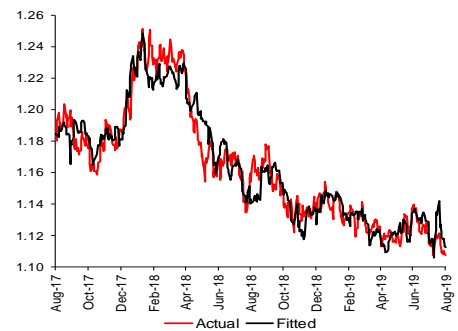
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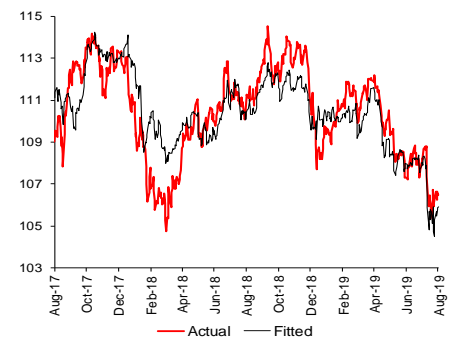
EUR-USD

Heavy. With short term implied valuations sinking amid dovish expectations surrounding the ECB, we think the EUR-USD should remain downcast. Note however that the cluster of technical supports residing from 1.1025 to 1.1055 may slow the pair's descent into the weekend.



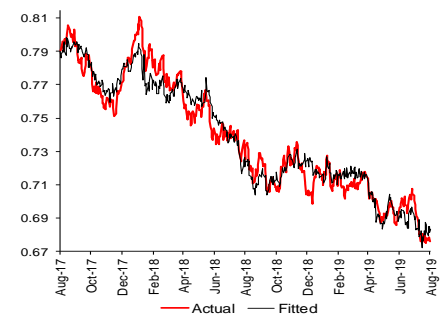
USD-JPY

Base build. With the near term stabilization in broader risk appetite levels, USD-JPY may continue to base build in line with its short term implied valuations for the pair. Pending weekend headline risks from the Jackson Hole symposium, expect a 106.00-107.00 range to prevail.



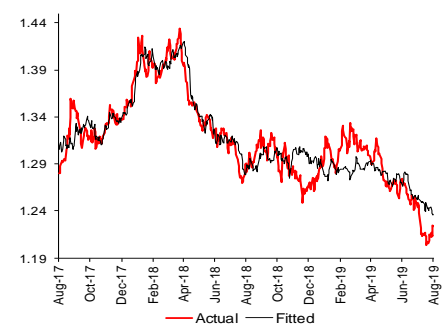
AUD-USD

Fading. Fragile global macro sentiment may begin to usher the AUD-USD towards the 0.6700 region, especially if 0.6750 is finally breached. Short term implied valuations for the pair meanwhile have steadied, albeit still on a downtrend.



GBP-USD

Choppy trade. The GBP spiked higher after Merkel's comments that there is still time for a deal before the October deadline. A good run of neutral-to-positive Brexit headlines may point to an extended recovery towards 1.2400, but the GBP-USD cannot be said to be out of the woods just yet. Downside supported at 1.2000.



USD-CAD

Range. Despite short term implied valuations dislocating lower, downside drivers for the USD-CAD appear scarce at the moment. Topside remains capped by 1.3350. Expect the pair to fluctuate near the 200-day MA (1.3312) locus, pending further directionality.



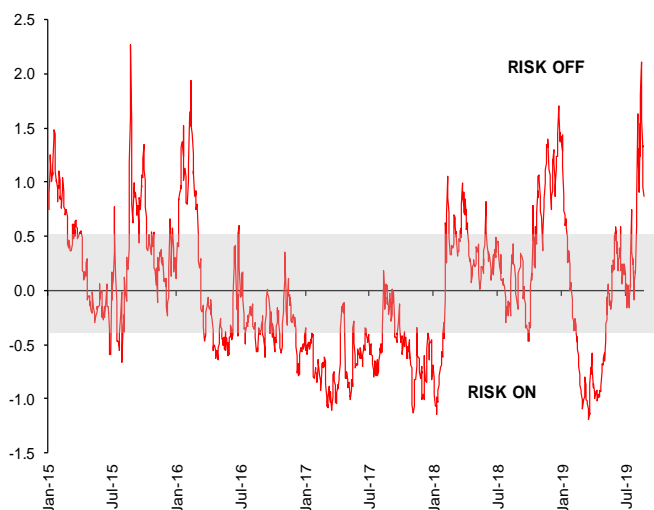
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Asian Markets

- USD-Asia: Reverting higher?** The USD-CNH floated onto a higher plane on Thursday (testing 7.1000) despite the PBOC's attempts to temper excessive upside through lower-than-expected fixes. The 7.1000 handle for the USD-CNH (and USD-CNY) will be key to watch ahead, as we may enter a situation whereby the USD-RMB leads the rest of USD-Asia higher. Overall, RMB dynamics and negative EM equities from overnight should lead to cautionary trading and USD resilience ahead of Powell tonight.
- Bank Indonesia** surprised with a rate cut yesterday, with accompanying rhetoric tilting more dovish. Concerns about growth were central to BI's rhetoric. Going forward, expect more BI rate cuts to be forthcoming before the end of the year.
- Asia meanwhile remains generally mired in **net portfolio outflows**, with deepening outflows registered for Malaysia, Thailand, Philippines and Taiwan. Overall net outflows for **Indonesia** are persisting, with both bond and equity flows still in the red. In **South Korea**, net bond inflows continue to rebound, although net equity outflows persist. For **India**, net bond inflows are rebounding tentatively with net equity outflows also looking to compress.
- USD-SGD: Back to upside bias.** We may potentially see further lift for the USD-SGD in the upcoming sessions, if the pick-up in USD-CNH remains unabated. Immediate upside target stands at 1.3880, while 1.3820 limit dips. The SGD NEER eased lower to +0.60% above parity (1.3943), with the NEER-implied USD-SGD thresholds edging yet higher. Pending developments into the weekend, the recent rise in the SGD NEER could taper off from here, with a reversion lower potentially on the cards in the upcoming sessions.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1027	1.1034	1.1073	1.1100	1.1208
GBP-USD	1.2027	1.2200	1.2239	1.2252	1.2300
AUD-USD	0.6700	0.6709	0.6762	0.6800	0.6869
NZD-USD	0.6333	0.6362	0.6392	0.6400	0.6588
USD-CAD	1.3300	1.3312	1.3315	1.3346	1.3363
USD-JPY	105.05	106.00	106.56	107.00	107.49
USD-SGD	1.3714	1.3800	1.3862	1.3900	1.3906
EUR-SGD	1.5300	1.5337	1.5350	1.5385	1.5400
JPY-SGD	1.2733	1.3000	1.3008	1.3100	1.3215
GBP-SGD	1.6946	1.6956	1.6966	1.7000	1.7097
AUD-SGD	0.9300	0.9330	0.9373	0.9400	0.9438
Gold	1406.21	1431.35	1497.30	1500.00	1531.40
Silver	16.50	16.80	17.00	17.49	17.54
Crude	51.85	55.40	55.49	55.50	56.20

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