

Daily Market Outlook

26 August 2019

Market Themes/Strategy – The week ahead

- The tit-for-tat escalation of the Sino-US trade war on dragged the USD lower against the JPY and the CHF, with the EUR-USD also trading above 1.1150. In a nutshell, China announced retaliatory tariffs on Friday, which in turn triggered Trump and consequent imposition/hikes in US tariffs on Chinese goods and a call for US companies to move out of China.
- Global equities (including in EM) burned and crude slumped while UST yields slumped (10y<1.5000% early Monday in Asia). Not surprisingly, the **FX Sentiment Index (FXSI)** rocketed higher into Risk-Off territory on Friday.
- **AUD-USD** crashed out (briefly below 0.6700) further on Monday in Asia after the White House clarified over the weekend that Trump wished he had raised tariffs on Chinese goods by more than 5% last Friday. Trump over the weekend however backtracked on his Friday threat to order US companies out of China.
- Elsewhere, comments from the Fed's **Powell** on Friday did not portend undue dovishness (but naturally more guarded compared to the FOMC minutes). Any potential implications from Fed-speak (including from Bullard and Mester) were overtaken by the Trump's tweets soon after, railing against China and the Federal Reserve.
- Going ahead, it remains to be seen if the higher temperature on the Sino-US front will materially alter the Fed's demeanor (i.e., increase dovishness). Secondly, watch for any headway with respect to any potential face-to-face **Sino-US trade negotiations** in September.
- **At the onset of the week, expect safe havens like the CHF and JPY (including XAU and US Treasuries) to remain resilient across the board. While the USD may also be vulnerable with respect to the EUR, expect the antipodeans to underperform as growth worries accumulate (note the US3/30s are now threatening to invert).**

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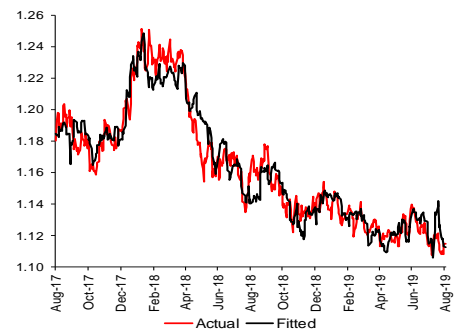
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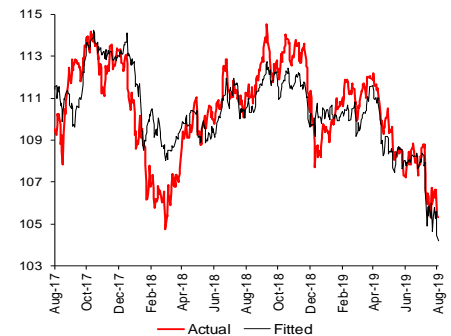
EUR-USD

Supported for now. The EUR benefited from Friday's shenanigans on the trade front, despite the short term implied valuation still slipping lower. Expect this pair to stay supported as long as the market focus remains on the trade front. However, with a (potentially dovish) ECB meeting in the horizon, there may still be downside room for this pair. Overall, expect a near-term cap at 1.1160/70, while dips may be supported at 1.1120 for now.



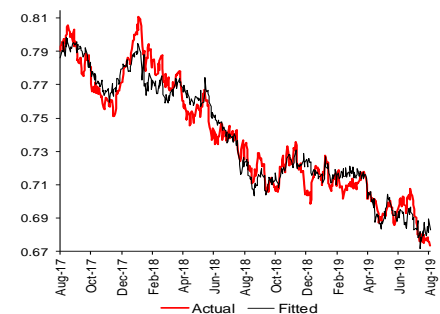
USD-JPY

Slippery slope. Worsening risk sentiments may cause the 105.00 handle to attract for now, with 104.40/50 being the next significant downside support after that. 105.50/60 may cap bounces. Short term implied valuations also turned sharply lower at the start of this week, after a period of consolidation last week. Overall, expect this pair to be headline-driven and reactive to Sino-US developments.



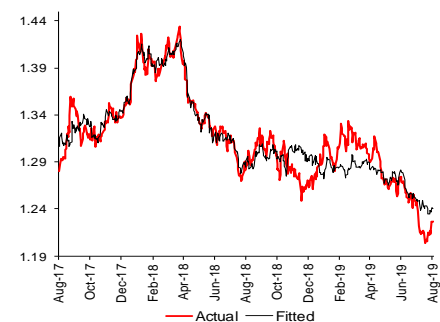
AUD-USD

Fading. The downside impetus for the AUD-USD may be reinvigorated on headline risks, with the 0.6700 base still attracting and looking porous. Expect any rebound to run out of air near 0.6740 in the interim. Nevertheless, the short term implied valuation remained in an uptrend despite the latest dip, but that should provide limited support for now.



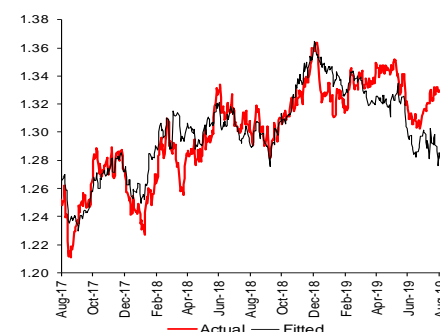
GBP-USD

Choppy trade. The GBP-USD pushed higher towards 1.2300 on the back of USD weakness before retracing. Expect some tangential support for pair as Sino-US tensions swirl, but mainly watch the closing of the G7 meeting (later today) for any Brexit-related headlines. Meanwhile, short term implied valuations continued to ease lower.



USD-CAD

Range. Expect the USD-CAD to be taken in opposite directions, with a weaker USD flexing against renewed global growth concerns and a softer crude complex. Expect the pair to traverse within the recent range of 1.3250 – 1.3350.



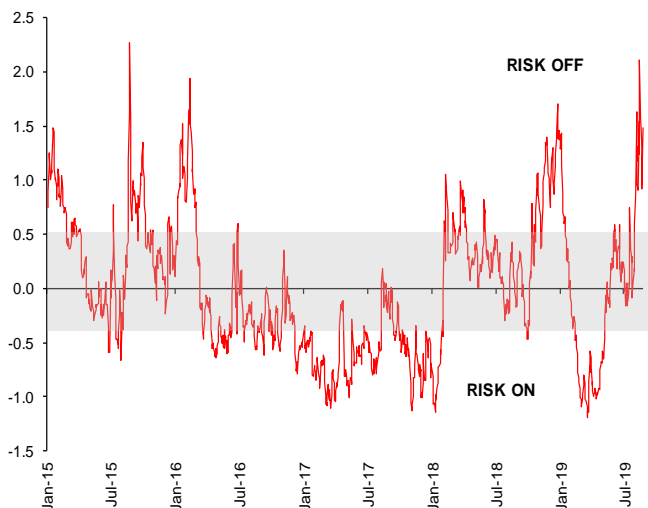
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Asian Markets

- USD-Asia:** USD-CNH jumped above 7.1300 on Friday and surged further early Monday in Asia before retracing slightly on the back of the lower than expected USD-CNY midpoint (7.0570). Nevertheless, expect the USD-Asian complex to be lifted in the current environment (and Asian govies yields to hunt lower still) as the EM complex remains under the spotlight (note the TRY's early weakness in Asia). **Expect the likes of the INR, IDR and PHP (CA deficit countries) and USD-North (trade exposure) to remain inherently vulnerable – ironically leaving the THB more sheltered than (and perhaps outperform) the rest of Asia.**
- The **BOK** policy meeting on Friday is expected to see the central bank standing pat although accompanying rhetoric may well darken. Regional authorities meanwhile will be expected to remain accommodative, with **India** on Friday rolling back levies on foreign funds and unveiling more fiscal measures.
- On the **EPFR** front, net implied equity outflows from Asia (excl Japan, China) increased slightly in the latest week while net implied bond outflows ballooned in the same period.
- USD-SGD: Upside bias.** The USD-SGD spiked north of 1.3920 this morning, before reverting to trade around 1.3900. With the USD-CNH at a higher plane, expect the USD-SGD to revert back to its upside bias, with 1.3920 still the near-term target, before 1.3960. Any dips should be limited to 1.3870. The SGD NEER stands at +0.22% above parity (1.3926), with NEER-implied thresholds lower. The parity level remains the near-term target, and we do not rule out a further extension lower to -0.50% below parity (currently estimated at 1.3997) if the current trade environment worsens.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1041	1.1100	1.1146	1.1200	1.1208
GBP-USD	1.2018	1.2200	1.2267	1.2269	1.2300
AUD-USD	0.6700	0.6714	0.6731	0.6800	0.6846
NZD-USD	0.6336	0.6342	0.6384	0.6400	0.6586
USD-CAD	1.3179	1.3200	1.3298	1.3300	1.3313
USD-JPY	104.63	105.00	105.26	106.00	107.41
USD-SGD	1.3734	1.3800	1.3892	1.3900	1.3925
EUR-SGD	1.5385	1.5400	1.5485	1.5500	1.5591
JPY-SGD	1.2747	1.3100	1.3199	1.3200	1.3299
GBP-SGD	1.7000	1.7004	1.7041	1.7092	1.7100
AUD-SGD	0.9300	0.9334	0.9351	0.9400	0.9423
Gold	1439.17	1500.00	1543.30	1543.30	1557.52
Silver	16.12	17.60	17.67	17.70	17.71
Crude	53.00	53.30	53.50	56.15	56.33

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