

Daily Market Outlook

28 August 2019

Market Themes/Strategy - Inversion therapy

- As the UST yields continued to come off and bull flatten (10y yield fell below 1.5000%; 3/30s inverted; 2/10s inverted further), USD-JPY softened with the JPY outperforming on the crosses. Meanwhile, accompanying global growth concerns also saw the cyclicals turning lower against the USD.
- Elsewhere, the GBP continued to bounce as hopes of a 'no-deal' Brexit were allayed slightly while the EUR-USD edged lower on ongoing Italian political uncertainty and dovish comments from the ECB.
- Despite positive gold and negative US equities, the **FX Sentiment Index (FXSI)** still managed to slip lower but remained in Risk-Off territory nonetheless.
- The data calendar today is relatively light, but look out for comments from the Fed's Barkin and Daly.
- **Hunkering down.** Near term view remains fairly intact at this juncture, with investors likely to fade the cyclical FX (note latest cautionary comments from the RBA and RBNZ) on upticks. Meanwhile, inherent USD weakness may also continue to manifest via the USD-JPY. On other fronts, against a backdrop of economic malaise, expect the global race to the bottom for yields to persist, with equities continuing to look tenuous.

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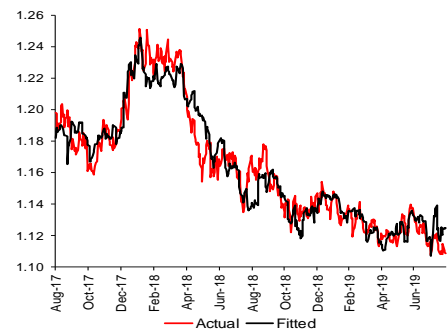
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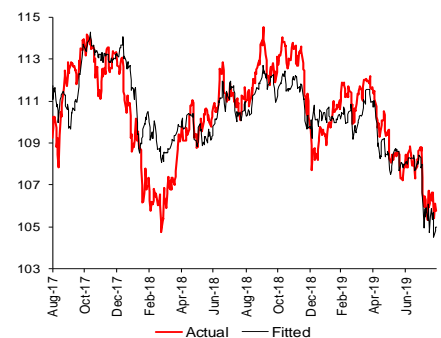
EUR-USD

Heavy tone. Sufficiently dovish comments by the ECB's de Guindos continue to put the EUR-USD under negative pressure. Uplift in the short term implied valuation has also flattened out. Expect the pair trade heavy, with 1.1050 potentially attracting as an interim waypoint.



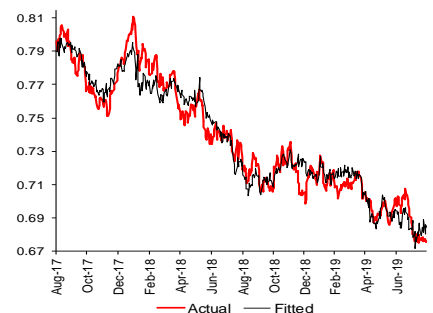
USD-JPY

Slippery slope. With no news-flow from the Sino-US front yesterday, the USD-JPY saw some consolidation between the 105.50 and 106.00. With overall risk sentiments jittery and short term implied valuation pointing south, the risk-reward continues to favour a lower USD-JPY posture for now. Expect 105.50 to be the first waypoint to the downside, while any further escalation will quickly put 105.00 back into the picture.



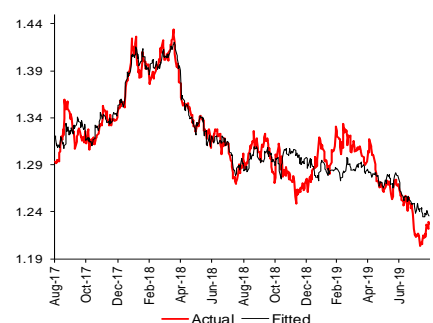
AUD-USD

Heavy within range. Even as the short term implied valuation for the AUD-USD tipped marginally higher, there might be little incentive to push the pair materially higher, especially with the pair stuck near the 0.6750 locus and next week's RBA meeting coming increasingly into focus. The 0.6700-0.6820 range should hold for now, with renewed directional impetus possibly to follow when that range breaks.



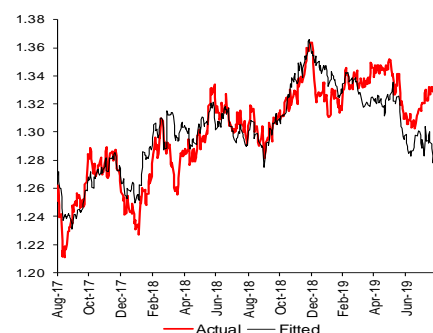
GBP-USD

Choppy trade. Positive Brexit headlines (Merkel/Macron possibly open to softening language, opposition MPs united to block no-deal) provided the lift for the GBP-USD, although the 1.2300 continued to cap. With the pair still within a downtrend channel and the short term implied valuation edging further south, we urge caution in chasing the pair higher for now.



USD-CAD

Range. The USD-CAD turned back into the recent ranges as market attention shifted to next week's Bank of Canada meeting, with some expectation that the BOC will turn dovish (potentially signaling for a rate cut later in the year) on the back of renewed trade tensions. Look for the pair to persist within the 1.3250 and 1.3350 range for now.



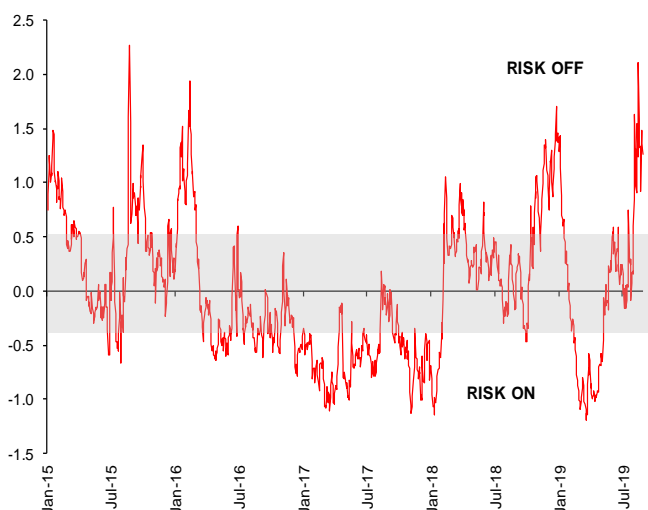
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Asian Markets

- USD-Asia:** Although EM equities ended in positive territory on Tuesday but we note that EM risk premiums remain elevated. Asian FX, we think, may continue to be subject to generalized caution (USD seen resilient on dips) while Asian govie yields may continue ease lower under the lead of global core curves.
- Renminbi anchor illusory.** With the USD-CNY mid-points essentially in lockdown mode in the last few sessions (i.e., fixings consistently below model-driven estimates), regional currencies may be seeking some modicum of stability from the **renminbi complex**. Note however that the **CFETS RMB Index** has continued to decay to 91.03 this morning in the face of heightened Sino-US trade tensions, with the next key support expected at 90.00. **Structurally, the continued depreciation of the CFETS RMB Index essentially also paves the way for the rest of the region to follow suit.**
- USD-SGD: Upside bias.** The 1.3900 mark continues to cap the USD-SGD for now, but the implicit buoyancy should still characterize the pair. We prefer to buy on any dips to 1.3860. The SGD NEER eased to +0.45% above parity (1.3952) this morning, with NEER-implied thresholds essentially static.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1027	1.1035	1.1088	1.1100	1.1202
GBP-USD	1.2015	1.2200	1.2274	1.2298	1.2300
AUD-USD	0.6700	0.6734	0.6746	0.6800	0.6808
NZD-USD	0.6330	0.6342	0.6357	0.6400	0.6558
USD-CAD	1.3188	1.3200	1.3298	1.3300	1.3313
USD-JPY	105.00	105.24	105.82	106.00	107.14
USD-SGD	1.3778	1.3800	1.3891	1.3900	1.3920
EUR-SGD	1.5382	1.5400	1.5402	1.5500	1.5567
JPY-SGD	1.2875	1.3100	1.3127	1.3200	1.3211
GBP-SGD	1.6947	1.7000	1.7050	1.7064	1.7092
AUD-SGD	0.9300	0.9338	0.9372	0.9400	0.9417
Gold	1442.87	1500.00	1541.00	1543.30	1557.76
Silver	18.12	18.20	18.23	18.30	18.31
Crude	52.08	55.50	55.51	55.60	56.10

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