# OCBC TREASURY RESEARCH

## Daily Market Outlook

2 January 2020

## Market Themes/Strategy – USD on the back foot

- The broad USD starts 2020 on the back foot, with the DXY index standing at around 96.50 and facing a bearish technical setup. Meanwhile, the antipodeans have outperformed since the last publication of the Daily Market Outlook on 16 December 2019, while the likes of GBP and EUR have mostly threaded water.

- For 2020, our eyes will be set on the following themes:

  - Early on, the expected finalization of the **Sino-US Phase 1 agreement on 15 Jan** will set a broad positive tone. The **FX Sentiment Index (FXSI)** starts the year still within **Risk-On** zone. At this juncture, ongoing risk-on sentiment should continue to weigh on the USD.

  - Further out, we are not ruling out a **global/Asian growth pick-up** that may become more pronounced in Q2-Q3 2020. The counter-cyclical properties of the USD suggest this development may impart a further structural negative on the greenback. On the flipside, given the late cycle dynamics, this growth rebound is not expected to be aggressive.

  - **US elections:** political risks abound for the USD, not just in November, but throughout the key stages of the election cycle. The front-runners, Trump and Warren have both articulated preference for a weaker USD, but their policy inclinations towards fiscal spending and trade protectionism may be a short-term boost to the USD, not unlike what we have seen when Trump's policies took effect in 2017.

- On balance, the structural setup for 2020 looks slightly negative for the USD early on. In the near term, we prefer to sell USD on rallies on the back of risk-on sentiment and a bearish technical setup. **For now, we prefer to express this view through a higher EUR-USD and AUD-USD.** Meanwhile, the USD-JPY we think may be clamped in by positive risk sentiment on one end, and a weaker USD on the other, leaving an overall range-bound posture.

**Terence Wu**
+65 6530 4367
TerenceWu@ocbc.com

**Treasury Research**
Tel: 6530-8384

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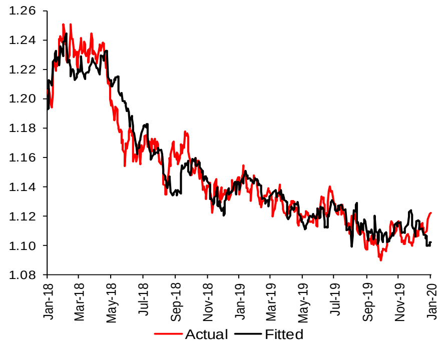
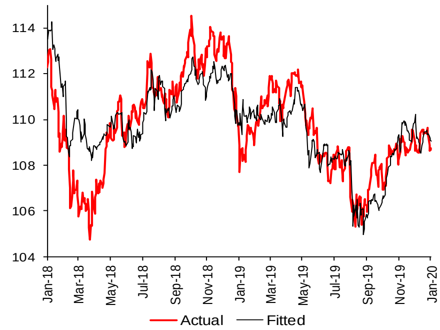
### EUR-USD

**Buoyant.** The EUR-USD may stay buoyant on the back of a weak USD construct for now, although the extended short term implied valuations point to a slight sense of caution. Prefer to buy on dips towards 1.1200, targeting 1.1260/80.



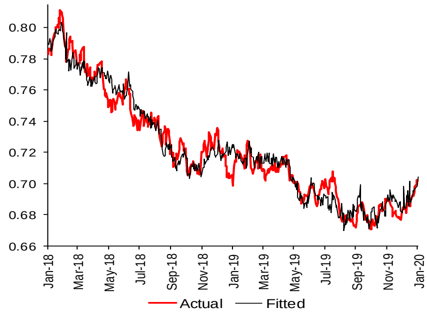

### USD-JPY

**Range-bound.** Positive risk sentiment should impart an upside bias to the USD-JPY, but that dynamic is being offset by the weak USD for now. Expect the pair to be bound by a floor at 108.50, and topside at 109.70. With the pair nearer the bottom end of the range now, we are biased for it to revert towards 109.00 in the interim.



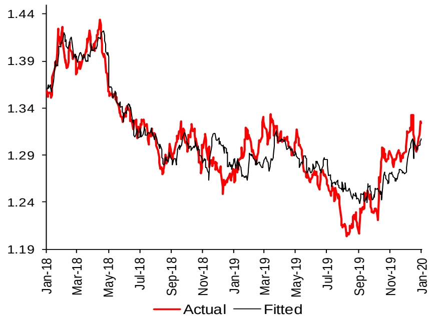

### AUD-USD

**Breaking free.** The AUD-USD has outperformed within the G-10 currencies in December, and broken free of the 200-day MA cap. The short term implied valuations tracked spot higher, and this gives us confidence that the ascent may have more legs to run. We are constructive on the pair, expecting support at 0.7000, while targeting 0.7080 for now.



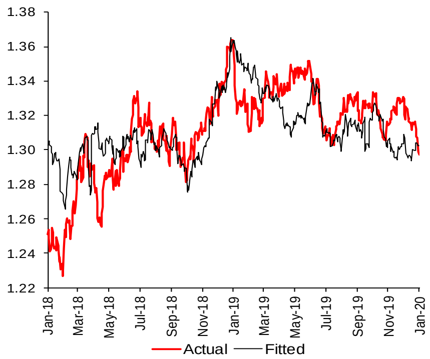

### GBP-USD

**Potential to revert lower.** A wild ride for the GBP-USD since the election day as it tries to settle on a new trading range. A near term base at 1.3000 should be firm for now, while further upside extensions may run into scarce air above 1.3400.




### USD-CAD

**Downside pace may slow.** The USD-CAD finally converged back to its short term implied valuations with the latest decline. However, with the implied valuations holding steady, expect the pace of decline to potentially ease up for now.



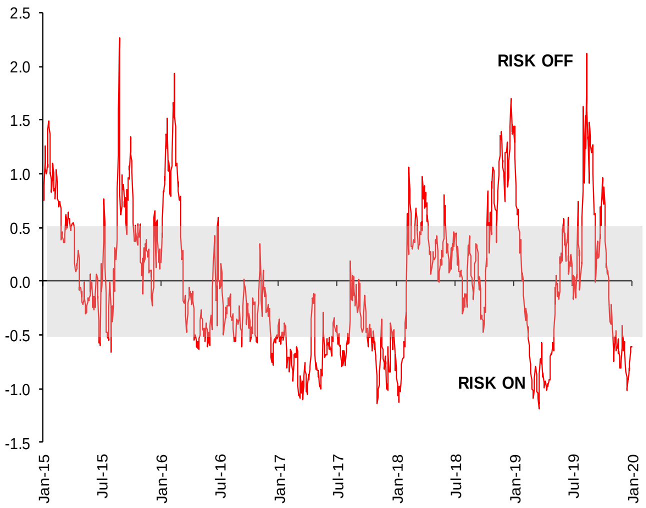
## Asian Markets

- **USD-Asia:** Investor sentiment in Asia remains very much positive, with the signing of the Sino-US Phase 1 deal is expected on 15 Jan. Assuming the base case of a partial roll-back of tariffs implemented on September 2019, the current USD-CNH is roughly in-line / at the low end of the "tariff-neutral" range. Thus, immediate downside impetus may be limited for now, unless we get a positive wild-card from any information on Phase 2.

- Notwithstanding the bounce from the liquidity driven dips into the year-end, **expect USD-Asia to stay top-heavy early in January.** Apart from positive sentiment from continued easing bias at the PBoC (yet another RRR cut), macro indicators have continued to stabilize, with the latest round of manufacturing PMIs showing improvement across all tracked countries (save the China Caixin gauge). In this context, although the **USD-THB** rebounded back above the 30.000 mark after some assuring comments from the **BOT**, we do not rule out another test of the 30.000 mark in the near term.

- **USD-SGD:** The USD-SGD should still trade on a heavy tone today, although the 1.3450 mark may provide a firmer support for now. Meanwhile, the SGD NEER remains buoyant at +1.75% above its perceived parity (1.3688) this morning, with NEER-implied thresholds softer on the back a weaker USD.

### FX Sentiment Index




### Technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---|---|---|---|---|---|
| EUR-USD | 1.1142 | 1.1200 | 1.1224 | 1.1229 | 1.1239 |
| GBP-USD | 1.2992 | 1.3200 | 1.3249 | 1.3300 | 1.3364 |
| AUD-USD | 0.6899 | 0.7000 | 0.7018 | 0.7032 | 0.7040 |
| NZD-USD | 0.6522 | 0.6700 | 0.6732 | 0.6754 | 0.6756 |
| USD-CAD | 1.2900 | 1.2952 | 1.2972 | 1.2978 | 1.3000 |
| USD-JPY | 108.35 | 108.43 | 108.67 | 108.68 | 108.97 |
| | | | | | |
| USD-SGD | 1.3445 | 1.3453 | 1.3459 | 1.3500 | 1.3588 |
| EUR-SGD | 1.5070 | 1.5100 | 1.5107 | 1.5131 | 1.5200 |
| JPY-SGD | 1.2295 | 1.2300 | 1.2385 | 1.2400 | 1.2470 |
| GBP-SGD | 1.7653 | 1.7800 | 1.7833 | 1.7900 | 1.8072 |
| AUD-SGD | 0.9400 | 0.9430 | 0.9446 | 0.9456 | 0.9479 |
| | | | | | |
| Gold | 1480.30 | 1500.00 | 1522.60 | 1526.37 | 1529.00 |
| Silver | 17.25 | 17.90 | 17.92 | 18.00 | 18.19 |
| Crude | 60.00 | 61.00 | 61.30 | 62.34 | 62.47 |

# Treasury Research & Strategy


## Macro Research

**Selena Ling**
*Head of Research & Strategy*
LingSSSelena@ocbc.com

**Tommy Xie Dongming**
*Head of Greater China Research*
XieD@ocbc.com

**Wellian Wiranto**
*Malaysia & Indonesia*
WellianWiranto@ocbc.com

**Terence Wu**
*FX Strategist*
TerenceWu@ocbc.com

**Howie Lee**
*Thailand, Korea & Commodities*
HowieLee@ocbc.com

**Carie Li**
*Hong Kong & Macau*
carierli@ocbcwh.com

**Dick Yu**
*Hong Kong & Macau*
dicksnyu@ocbcwh.com

## Credit Research

**Andrew Wong**
*Credit Research Analyst*
WongVKAM@ocbc.com

**Ezien Hoo**
*Credit Research Analyst*
EzienHoo@ocbc.com

**Wong Hong Wei**
*Credit Research Analyst*
WongHongWei@ocbc.com

**Seow Zhi Qi**
*Credit Research Analyst*
ZhiQiSeow@ocbc.com





Co.Reg.no.:193200032W