# OCBC TREASURY RESEARCH

## Daily Market Outlook

3 February 2020

## Market Themes/Strategy – The week ahead

- Risk sentiment will likely be on the back foot early week, with the S&P 500 now negative year-to-date, UST yields leading global core yields (10y UST at the 1.50% handle), and the 3M-10Y yield curve inverting again. The reopening of the China market reopening may be a bit of a wildcard. Stability on that front may see risk sentiment improve later in the week. Overall, the **FX Sentiment Index (FXSI)** continued to step higher within the Risk-Neutral zone, signaling an ongoing worsening in risk appetite.

- Despite the risk-off tone, except against the cyclicals, the USD weakened significantly, ostensibly on month-end portfolio rebalancing flows. The GBP outperformed as it continued to extend on the post-BOE bounce. We prefer to fade the bounce above 1.3200. Meanwhile, the EUR bounce is capped at 1.1100.

- This week, **also expect some market attention on the AUD with a heavy schedule at the RBA**. It starts with the policy decision (Tue), where a dovish hold is expected. It is followed by Governor Lowe's testimony to Parliament (Thu) and the RBA statement on monetary policy (Fri). Keep a look-out for any comments on the bushfires and how it may affect the RBA's stance later in the year.

- Elsewhere, a heavy data calendar is ahead, starting with global manufacturing PMIs and US ISM manufacturing prints early week, and ending with US NFP on Friday. ECB appearances are also heavy, with Lagarde scheduled multiple times (Mon, Wed, Thu), Lane (Wed) and the release of Economic Bulletin (Thu). On the political front, the US election cycle heats up with the Iowa Caucus (Mon).

- Going forward, actions by the policy makers to contain the coronavirus will have a negative impact on the economy, especially in the 1Q 2020 readings. The question is how deep the impingement on the economy will be, and for how long. **These economic impacts will take some time to clarify, where does this leave the macro stabilization theme in the coming months?** A weakening macro stabilization theme would increasingly undermine the structural weak USD view this year.

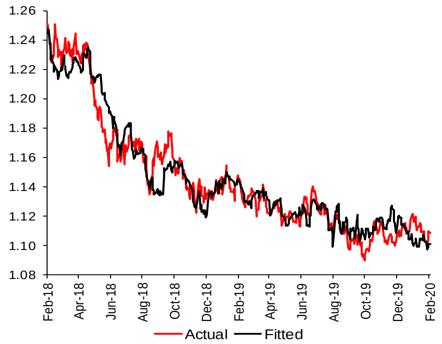
- In that context as well, even after the coronavirus situation has showed improvement, the defensive trades may have further room to run in the next 4-6 weeks until the economic impact is clarified. In the immediate horizon, we continue to stay on risk-off plays while looking for a turn in the coronavirus situation.

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

**Treasury Research**
Tel: 6530-8384

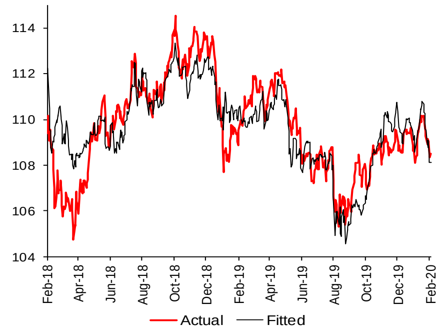
## EUR-USD

**Potentially supported.** The bounce in EUR-USD towards 1.1100 on Friday may potentially dampen the downside momentum in the short term. At this juncture, we remain cautious about being overly bullish on the this pair, especially when the global risk-off sentiment is still likely to favour the USD. Expect 1.1100 to cap bounces for now, with downside target at 1.1060.



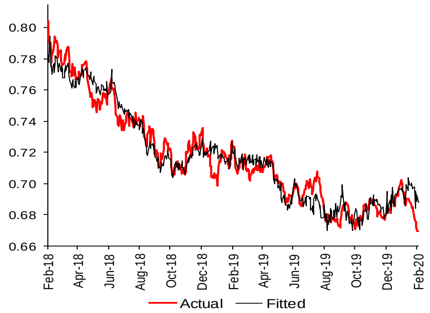

## USD-JPY

**Headline driven for now.** The USD-JPY found another leg lower, with the soft USD complex exacerbating the risk-off sentiment. We should not expect near term reprieve for the pair, especially with the market reaction to the coronavirus situation still negative. A breach of the 200-day MA (108.42) risks further deterioration towards 108.00.



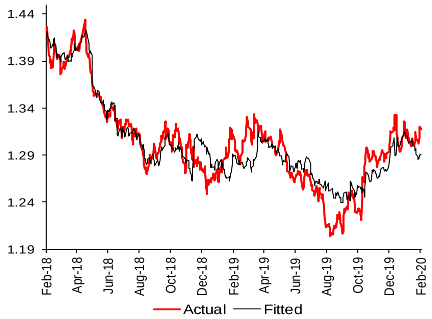

## AUD-USD

**Southbound.** The AUD-USD breached the 0.6700 handle on Friday, and tested the October 2019 low at 0.6671. Even though the pair looks stretched compared to short term implied valuations, we do not expect a mean reversion for now. Continue to expect the pair to flex the 0.6671 level, with bounces likely capped at 0.6710.



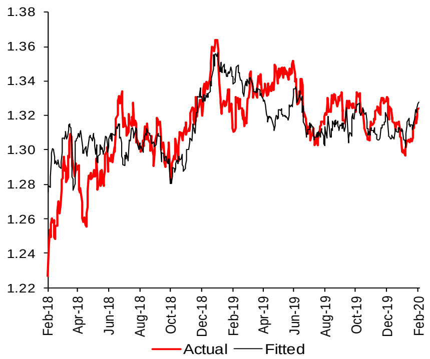

## GBP-USD

**Range.** The GBP-USD continued its post-BOE extension on Friday, but found limited traction above 1.3200. We see limited justification for an extension significantly beyond 1.3200 (perhaps to 1.3300 at most), so we will be sellers above 1.3200 for now. Note also, that the rebound is not supported by short term implied valuations.




## USD-CAD

**Supported.** With the 200-day MA (1.3226) breached, expect further extensions to target 1.3300 in the near term. Short term implied valuations also supportive of the move higher. Prefer to buy on dips for now.



## Asian Markets

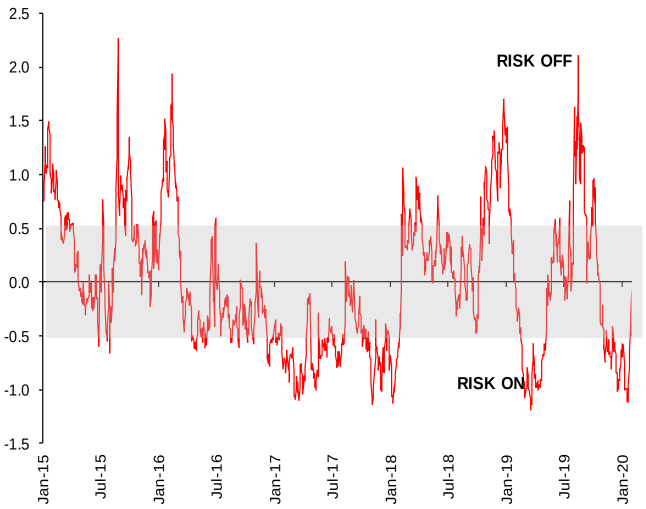
- **USD-Asia:** The USD-CNY morning fix was largely in line with expectations, and within historically accepted daily movement ranges. PBoC also acted quickly in terms of supportive measures, injecting liquidity and cutting 7- and 14-day reverse repo rates. **Nevertheless, as the situation progresses, we are becoming increasingly concerned about the real impact on the Chinese economy.** With both USD-CNH and USD-CNY lifting north of 7.0000 early Monday, expect overnight USD weakness to have no traction in Asia, and for USD-Asia to march higher intraday.

- China official Jan PMIs were in-line to stronger than expected on Friday, although Asian manufacturing PMIs this morning were mostly softer than the Jan reading (except for PH and TW).

- On the **EPFR** front, we are starting to see the first impacts of the coronavirus on implied fund flows, with the latest reading for equities to Asia (ex. JP, CN) tipping into an implied outflow situation. Implied equity inflows into China, although still positive, have moderated significantly from the previous week.

- **USD-SGD:** The SGD NEER dipped further to +0.92% above its perceived parity (1.3801), with NEER-implied thresholds taking a big step higher. For the USD-SGD, with the 200-day MA (1.3665) potentially at risk today, we eye 1.3700 as topside resistance, with dips probably limited to 1.3650/60.

### FX Sentiment Index




### Technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---|---|---|---|---|---|
| **EUR-USD** | 1.0998 | 1.1000 | 1.1082 | 1.1100 | 1.1101 |
| **GBP-USD** | 1.3078 | 1.3100 | 1.3174 | 1.3186 | 1.3200 |
| **AUD-USD** | 0.6682 | 0.6690 | 0.6694 | 0.6700 | 0.6863 |
| **NZD-USD** | 0.6400 | 0.6453 | 0.6464 | 0.6471 | 0.6500 |
| **USD-CAD** | 1.3200 | 1.3226 | 1.3244 | 1.3253 | 1.3256 |
| **USD-JPY** | 108.26 | 108.42 | 108.50 | 109.00 | 109.20 |
| | | | | | |
| **USD-SGD** | 1.3656 | 1.3665 | 1.3674 | 1.3679 | 1.3700 |
| **EUR-SGD** | 1.5100 | 1.5119 | 1.5153 | 1.5160 | 1.5200 |
| **JPY-SGD** | 1.2580 | 1.2600 | 1.2603 | 1.2606 | 1.2609 |
| **GBP-SGD** | 1.7965 | 1.8000 | 1.8013 | 1.8034 | 1.8100 |
| **AUD-SGD** | 0.9118 | 0.9131 | 0.9153 | 0.9200 | 0.9299 |
| | | | | | |
| **Gold** | 1514.39 | 1542.13 | 1582.10 | 1587.44 | 1600.00 |
| **Silver** | 17.52 | 17.90 | 17.91 | 18.00 | 18.38 |
| **WTI Crude** | 50.42 | 51.30 | 51.38 | 51.40 | 57.31 |

## Trade Ideas

| | Inception | | B/S | Currency | Spot/Outright | Target | Stop | Rationale | |
|---|---|---|---|---|---|---|---|---|---|
| | TACTICAL | | | | | | | | |
| 1 | 31-Jan-20 | | S | EUR-USD | 1.1027 | 1.0880 | 1.1104 | EZ data-prints still a mixed bag, risk-off environment favours the USD. | |
| | STRUCTURAL | | | | | | | | |
| | --- | | | --- | | | | --- | |
| | RECENTLY CLOSED TRADE IDEAS | | | | | | | | |
| | Inception | Close | B/S | Currency | Spot | | Close | Rationale | P/L (%) |
| 1 | 20-Jan-20 | 27-Jan-20 | B | USD-JPY | 110.19 | | 108.98 | Persistent risk-on sentiment; UST yields supported on the downside, curve with steepening bias | -1.08 |
| 2 | 08-Jan-20 | 30-Jan-20 | B | AUD-USD | 0.6872 | | 0.6728 | Risk-off sentiment on US-Iran tensions; Heightened RBA rate cut expectations | +2.19 |

# 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