

Daily Market Outlook

3 January 2020

Market Themes/Strategy

- Despite softer UST yields, the broad USD bounced higher across the G-10 space on the first trading day yesterday, reversing in part the declines seen into the year-end. The European complex underperformed, dragged down by the GBP, as soft PMIs across Europe and remnant Brexit uncertainties triggered declines. Antipodeans were also softer as weaker-than-expected China Caixin PMI reading offset optimism from the RRR cut and Sino-US progress.
- Global equities rose together with commodities to give an overall risk-positive tone to the trading day, although global core yields stepped lower. The **FX Sentiment Index (FXSI)** moved deeper within the **Risk-On** zone.
- On the calendar today watch for US ISM manufacturing data (1500 GMT) and CPI prints across Europe (from 0745 GMT). A series of Fed speakers (Barkin 1605 GMT; Brainard, Daly and Evens 1815 GMT; Kaplan and Daly 2030 GMT) also on tap, with the release of the December FOMC minutes (1900 GMT) mixed in.
- With investors still at a stage of re-positioning and re-establishing portfolios, there is no need to over-interpret the movements on the first day. **The basic picture is still negative for the USD in terms of overall risk sentiment. Add to that the diminishing rate differentials between the USD and the rest of the global core yields, the USD bounce may be short-lived.** For USD to pick up more sustainably, may need to see a turn in risk sentiment, which is still not forthcoming for now.
- **We prefer to stick to our guns in terms of expecting USD weakness in the immediate horizon, with the bounce yesterday perhaps providing better entry levels.**

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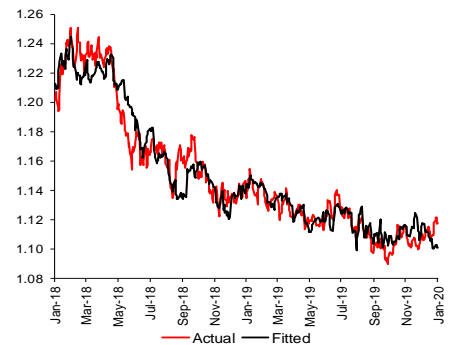
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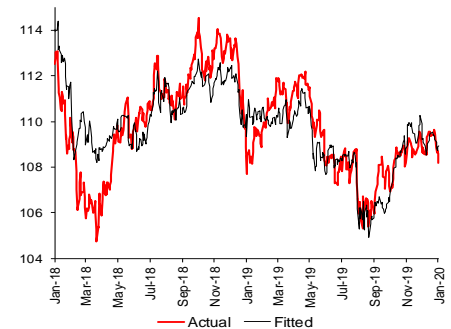
EUR-USD

Buoyant. The EUR-USD marked a retreat on Thursday, slipping south of the 1.1200 handle on broad USD rebound. The PMI prints perhaps provided the trigger (in-line to firmer than expectations but still deep in contraction zone). Do not rule out some consolidation south of 1.1200, but any further dips to find good support at 1.1142.



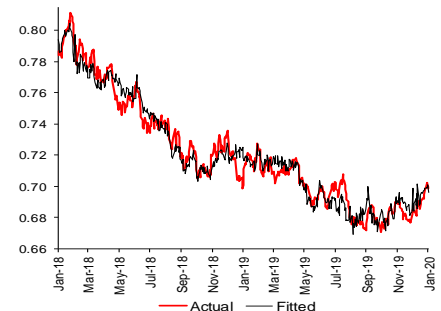
USD-JPY

Range-bound. The USD-JPY slipped Friday morning on headlines of the US bombing of Iraqi targets. Shift downside support to 108.00 for now, but we think any declines towards that level may be rejected. Prefer to buy on dips for now, targeting 108.70.



AUD-USD

Breaking free. The AUD-USD turned heavy on the back of the USD rebound and soft China Caixin PMI prints. The 0.7000 mark will be immediate upside target, with the first layer of support entering at the 200-day MA (0.6899) on the downside.



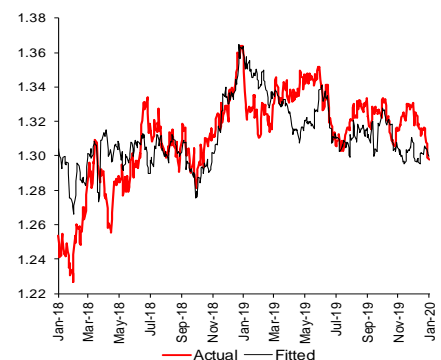
GBP-USD

Potential to revert lower. The GBP-USD reverted lower as expected on Thursday. Overall, with the euphoria of the election fading, expect focus to revert back to Brexit negotiations and economic prints – which both suggest limited room for further upside extensions for the pair. Expect a broad 1.3000 – 1.3400 range for now.



USD-CAD

Downside pace may slow. The USD-CAD continued to fade, as it moved back into the midpoint of the confidence interval of the short term implied valuations. Any near-term bounce should be capped at 1.3000 for now.



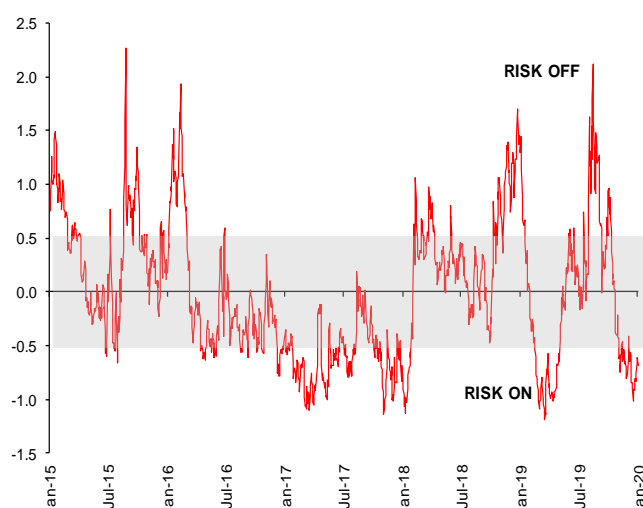
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Asian Markets

- USD-Asia:** USD-Asia pairs bounced higher on 2020's first trading day, but notably the USD-CNH remained quite heavy throughout. Overall, the fundamental picture – Sino-US optimism and stabilization of macro indicators – remains unchanged, and should impart implicit support for Asian currencies. Thus, we think the bounce in USD-Asia may not see significant traction ahead and may be short-lived.
- In terms of actual portfolio flows into Asia, we note selected pockets of strength in North Asia. Broad based recovery in inflow momentum into South Korea, both on the bond and equity fronts. Inflow momentum to Taiwan has also stabilized after a decline from its recent high peak. South Asia remains largely anaemic, with the flow environment effectively neutral. However, a tentative recovery in inflow momentum to Indonesia may be emerging. Overall, we are still lacking clear support from the flows front, leaving Asian currency gains largely sentiment-driven for now.
- USD-SGD:** The USD-SGD bounced higher after slipping under the 1.3450 mark briefly, while the SGD NEER is softer at +1.70% above its perceived parity (1.3706) this morning, with NEER-implied thresholds firmer. For now, we still see the +1.80% above parity mark (currently estimated at 1.3464) limiting the topside of SGD NEER basket. Thus, we prefer to lean against the SGD as it approaches 1.3464.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1100	1.1142	1.1176	1.1200	1.1222
GBP-USD	1.2997	1.3100	1.3140	1.3200	1.3352
AUD-USD	0.6899	0.6900	0.6969	0.7000	0.7032
NZD-USD	0.6522	0.6600	0.6682	0.6700	0.6752
USD-CAD	1.2952	1.2963	1.2981	1.3000	1.3182
USD-JPY	108.00	108.06	108.09	108.22	108.67
USD-SGD	1.3445	1.3453	1.3484	1.3500	1.3585
EUR-SGD	1.5008	1.5068	1.5070	1.5100	1.5127
JPY-SGD	1.2400	1.2469	1.2475	1.2500	1.2504
GBP-SGD	1.7655	1.7700	1.7719	1.7800	1.8053
AUD-SGD	0.9300	0.9330	0.9398	0.9400	0.9429
Gold	1500.00	1536.93	1540.00	1541.70	1600.00
Silver	17.27	18.10	18.16	18.20	18.20
Crude	57.80	60.00	63.00	63.38	65.00

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