

Daily Market Outlook

4 February 2020

Market Themes/Strategy

- An US ISM manufacturing print that outperformed expectations significantly overshadowed the marginally firmer than expected European manufacturing prints, lifting the UST yields and keeping the broad USD on the front foot after the slip-up on Friday.
- Risk sentiment consolidated somewhat over the past session (global equities gaining overnight), with the **FX Sentiment Index (FXSI)** holding at levels where it started the week, and within the Risk-Neutral zone. The risk related plays took a breather, with the antipodeans holding near lows, and the JPY giving back some gains.
- The GBP was the main underperformer overnight as PM Johnson took a hard line on the EU-UK trade negotiations. Trade negotiations this year will take the role of the Brexit talks last year as the main short term driver for the GBP. Expect a lot of gamesmanship in negotiations such as this, especially in the early stages. Any inkling of negotiations edging towards no-deal or a very bare-bones deal will be GBP-negative, likely seeing it revert to mid- to low-1.20s against the USD.
- The **RBA** is scheduled today (0330 GMT) with a hold expected. However, we also expect the rhetoric to lean dovish given the current coronavirus and bushfire episodes, with a rate cut likely by the middle of the year. Couple a likely-dovish RBA with declining ACGB yields (10y yields near record lows) and the global risk-off environment; **expect the AUD to stay heavy for now**. On a broader perspective, **near term risk-off and the prospect of a softer growth rebound compels us to stay defensive for now**.
- **Trading idea:** Although selected EZ data-prints are showing some signs of improvement, the broader picture remains a mixed bag. Moreover, as the macro stabilization theme matures, the bar may be set higher for subsequent data outperformance to move the EUR higher. Short term risk-off sentiment may favour the USD as well. In this context, we initiate a tactical short EUR-USD (spot ref: 1.1027, target price: 1.0880, stop-loss: 1.1104) on 31 Jan 2020.

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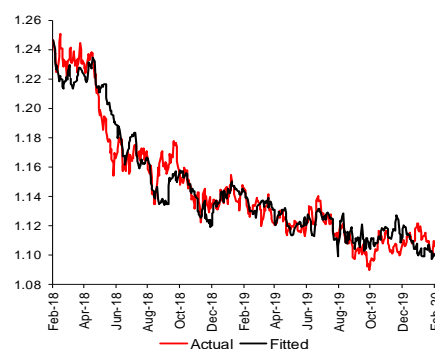
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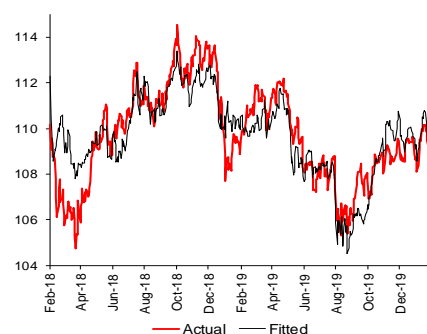
EUR-USD

Heavy. The lack of follow through after Friday's move to 1.1100 implied that the downside bias may be intact. Expect further downside for now, with next target at 1.1040. Breaching that level opens up further downside to 1.1000. Stay on a sell-on-rallies mode for now.



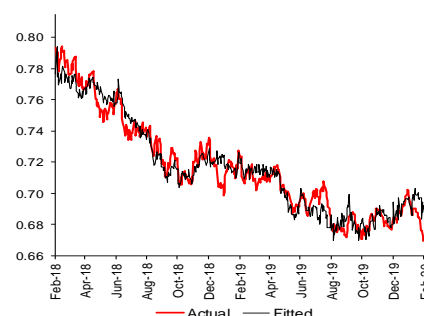
USD-JPY

Headline driven for now. The failure to breach of the 200-day MA (108.41) would frustrate the USD-JPY bears for now, but further declines were always expected to be a slow grind. Continue to watch headlines for prospects for further downside, with the 200-day MA (108.41) as an immediate target. North-bound resistances at 108.80, before the 55-day MA (109.16).



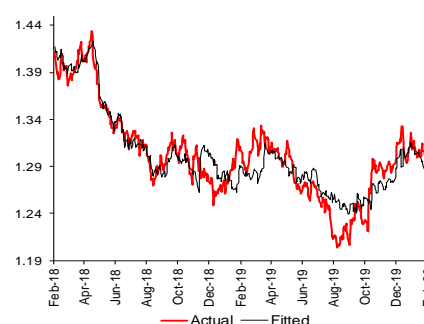
AUD-USD

Southbound. The AUD-USD retains a heavy bias as it heads into an event-laden week, starting with the RBA decision later today (0330 GMT). The October 2019 low at 0.6671 holds for now, but expect ongoing tests. A breach of that level should open up further downside. Immediate resistance enters at 0.6710.



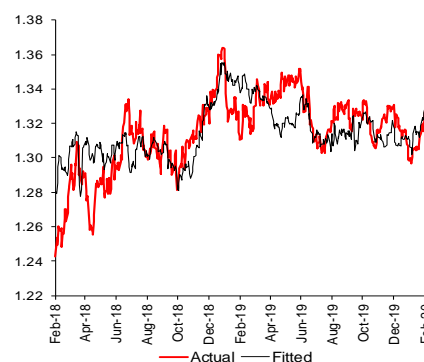
GBP-USD

Range. The GBP-USD turned aggressively south after some harsh rhetoric by PM Johnson on the EU-UK trade negotiations. With the USD again resilient, expect implicit heaviness in the coming sessions. Nevertheless, we see limited justification for it to dip below 1.2950 as well. Trade the range for now.



USD-CAD

Supported. The pair sailed higher to 1.3300 as expected, with the next immediate target at 1.3330. However, the extension may see limited traction significantly over current levels. Watching for levels to start shorting this pair.



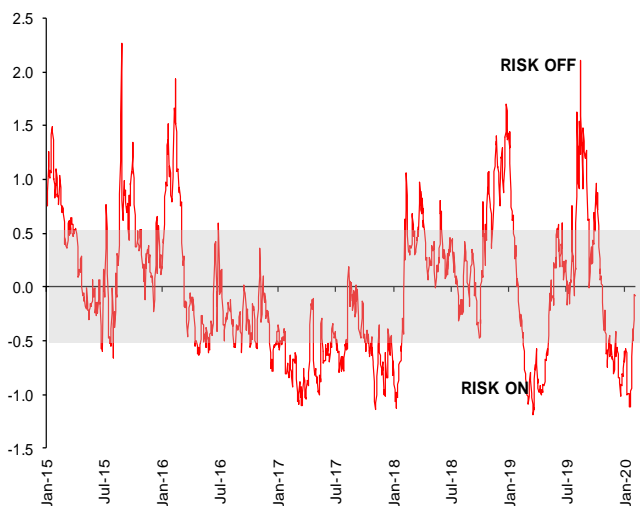
Daily Market Outlook

4 February 2020

Asian Markets

- USD-Asia:** The USD-CNY sailed north of 7.0000 yesterday on the first day of trade post-LNY holidays. For now, expect the pace of ascent in USD-CNH and USD-CNY to slow, with limited traction expected above 7.0000. Do not rule out some near-term consolidation. Overall, expect USD-Asia to track the RMB complex in the interim.
- A host of Asian central banks are scheduled later this week, starting with **BOT** (Wed), and **RBI** and **BSP** later (both Thu). A cut is expected at the BSP, but watch for comments on the coronavirus, specifically if the other central banks are also going to turn on the taps further in terms of monetary support. Note that the **BI** is now showing more willingness to cut.
- USD-SGD:** Since the start of the coronavirus issue, the SGD has underperformed both the G10 and most Asian currencies, taking the SGD NEER basket to +0.71% above its perceived parity (1.3814) this morning, compared to +1.70% before the episode. For now, the USD-SGD uptrend remains unabated. Expect an intra-day range of 1.3680 – 1.3730, with an upside bias.

FX Sentiment Index



Technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|-----------|---------|---------|---------|---------|---------|
| EUR-USD | 1.0996 | 1.1000 | 1.1057 | 1.1100 | 1.1101 |
| GBP-USD | 1.2913 | 1.2950 | 1.2990 | 1.3000 | 1.3077 |
| AUD-USD | 0.6669 | 0.6679 | 0.6688 | 0.6700 | 0.6861 |
| NZD-USD | 0.6450 | 0.6452 | 0.6458 | 0.6500 | 0.6507 |
| USD-CAD | 1.3226 | 1.3292 | 1.3293 | 1.3300 | 1.3304 |
| USD-JPY | 108.34 | 108.41 | 108.65 | 109.00 | 109.20 |
| USD-SGD | 1.3693 | 1.3700 | 1.3716 | 1.3730 | 1.3800 |
| EUR-SGD | 1.5100 | 1.5139 | 1.5166 | 1.5186 | 1.5200 |
| JPY-SGD | 1.2600 | 1.2608 | 1.2623 | 1.2631 | 1.2647 |
| GBP-SGD | 1.7721 | 1.7800 | 1.7816 | 1.7900 | 1.7927 |
| AUD-SGD | 0.9118 | 0.9125 | 0.9172 | 0.9200 | 0.9297 |
| Gold | 1516.32 | 1542.43 | 1575.50 | 1587.32 | 1600.00 |
| Silver | 17.49 | 17.60 | 17.68 | 17.70 | 18.36 |
| WTI Crude | 49.66 | 50.40 | 50.45 | 50.50 | 57.24 |

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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 |

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