

Daily Market Outlook

5 February 2020

Market Themes/Strategy

- It is perhaps a slight surprise that the risk rally has persisted despite coronavirus headlines, with global equities and core yields stepping higher. We put that down to a combination of the market having confidence in the containment measures and calming effect of the liquidity injections in China (equity markets rebound; USD-CNY capped under 7.0000). Overall, the **FX Sentiment Index (FXSI)** stayed within the Risk-Neutral zone, but took a big step towards the Risk-On territory.
- In that context, cyclicals outperformed, led by AUD on the back of RBA's hold. The JPY (and to a lesser extent CHF) underperformed sharply across the board. The DXY index ended the day higher, with gains against JPY and EUR offsetting declines against the cyclicals. However, the DXY is still capped by the 98.00 level. GBP traversed the entire 1.2900 to 1.3200 range over the past two sessions, before settling back into familiar territory above 1.3000. Expect this range to hold for now, providing decent range trading opportunities.
- If there is any move by the **RBA** towards the dovish end of the spectrum due to the bushfires and coronavirus, the policy statement yesterday hid it very well. Governor Lowe's comment Wed morning also suggests the RBA to be on hold unless the unemployment and inflation conditions worsen. Lowe is scheduled for a parliamentary testimony tomorrow (Thu), before the release of the RBA Statement of Monetary Policy (Fri).
- At this juncture, two observations govern our short term view. First, the coronavirus situation is not improving. Second, it is clear that there will be a negative economic impact, the only question is how deep and how extended the growth downgrades will be going forward. **These two observations are not typically consistent with sustained risk-on.** Thus, we will not extrapolate the current risk-on environment too far into the future. Prefer to stay tactical for now, pending shifts in the risk appetite front.

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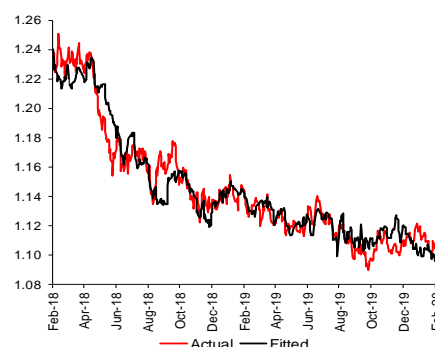
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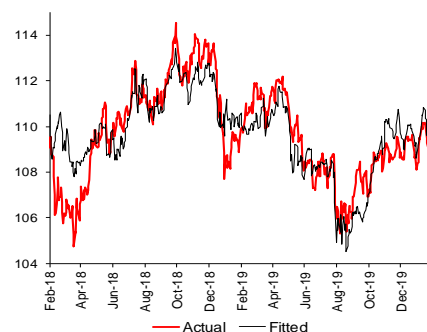
EUR-USD

Heavy. Expect the EUR-USD to flex against the 1.1040 handle, as investors bounce the EZ services/composite PMIs (starting 0815 GMT) against the US ISM non-manufacturing print (1500 GMT). Stay negative on the pair, with any significant breach of 1.1040 leaving space for further downside to 1.1000. Note that short term implied valuations continue to lead lower.



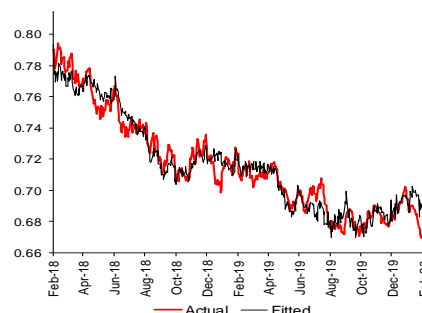
USD-JPY

Headline driven for now. Sharp bounce yesterday took out critical resistance levels, with the 55-day MA (109.19) now turning into a key support level. We resist the temptation to chase this pair higher for now, until further signs of an uptrend emerge.



AUD-USD

Southbound. The RBA-led bounce in AUD-USD led to some reprieve for bulls, but we expect the implicit heaviness to persist unless 0.6780/00 is breached. Prefer to sell on rallies for now.



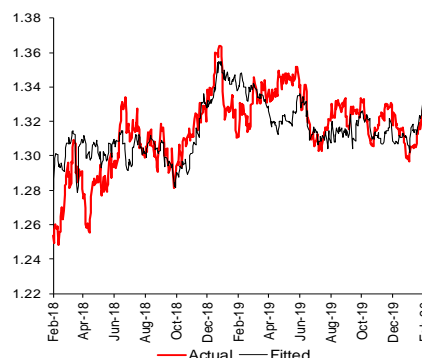
GBP-USD

Range. The GBP-USD remains well kept by the 1.2900 – 1.3200 range, with both extremes tested over the past 48 hours. Now back within comfortable area north of 1.3000, we take a range trading stance for this pair for now.



USD-CAD

Supported. The USD-CAD ascent lost some steam around 1.3300, and is now holding just south of that level. Short term implied valuation portends more upside, but 1.3300 will need to be breached meaningfully. Near term support enters at 1.3250/60.



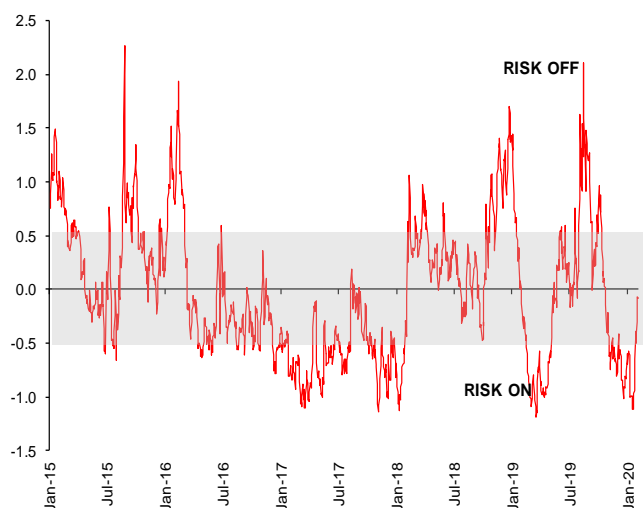
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Asian Markets

- **USD-Asia:** A risk positive environment, coupled with a contained USD-CNY and USD-CNH around the 7.0000 zone should keep the Asian currencies supported on an intraday basis. In the near term, expect the USD-CNY and USD-CNH to consolidate between the 6.9900 to 7.0200 zone.
- The USD-KRW rose to levels just north of 1195.00, as we have previously suggested ([Daily Market Outlook – 31 Jan](#)), before retracing. For now, expect USD-KRW to find little traction near 1200.00. **At current levels, prefer to be long USD-TWD instead, targeting 30.450.** If the current situation persists, we look to re-enter USD-KRW longs at levels closer to 1175.00.
- On the **Asian portfolio flows** front, equity inflow momentum across Asia has essentially evaporated, while bond inflow momentum is supported by inflows into Indonesia (already moderating since late last week) and South Korea. Elsewhere in Taiwan, Thailand and India, overall flow environment remained at neutral levels.
- **USD-SGD:** The MAS, in a statement on Wednesday morning, said its “monetary policy stance remains unchanged”, but there is “sufficient room within the policy band to accommodate an easing of the SGD NEER in line with the weakening of economic conditions”. After the release, the SGD NEER was taken lower to parity and the USD-SGD spiked north of 1.3800. The SGD NEER has already eased from +1.60% to +1.80% above parity pre-coronavirus to parity now. Nevertheless, **this statement may stoke expectations of further policy actions in the upcoming April MPS. Overall, expect the SGD to remain on the back foot in the coming sessions.**

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0992	1.1000	1.1034	1.1100	1.1101
GBP-USD	1.2951	1.3000	1.3014	1.3080	1.3100
AUD-USD	0.6679	0.6700	0.6738	0.6800	0.6862
NZD-USD	0.6449	0.6450	0.6483	0.6500	0.6507
USD-CAD	1.3200	1.3225	1.3291	1.3300	1.3304
USD-JPY	109.00	109.21	109.47	110.00	110.29
USD-SGD	1.3746	1.3800	1.3813	1.3819	1.3900
EUR-SGD	1.5200	1.5204	1.5242	1.5251	1.5300
JPY-SGD	1.2600	1.2610	1.2618	1.2643	1.2647
GBP-SGD	1.7729	1.7900	1.7977	1.7980	1.8000
AUD-SGD	0.9299	0.9300	0.9308	0.9346	0.9383
Gold	1517.64	1540.18	1555.00	1585.13	1600.00
Silver	17.49	17.50	17.57	17.60	18.30
WTI Crude	49.50	49.80	50.10	57.15	58.03

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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							
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	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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