

Daily Market Outlook

6 February 2020

Market Themes/Strategy – Risk-on plus USD strength

- The risk rally got a boost yesterday with talks of an effective cure/vaccine to the coronavirus. Although that was dismissed by the WHO and various drugmakers, risk sentiment broadly held up. Cross asset performance – global equities, core yields firmer, UST yield curve back on a steepening bias – continues to feed into risk. The **FX Sentiment Index (FXSI)** dipped back stayed within the Risk-Neutral zone, but took a big step towards the Risk-On territory. In this context, the cyclicals continued to outperform as a group, while the JPY and CHF marked losses.
- Broad USD strength was also backed by US-centric drivers, namely the significant beats in US ADP, ISM non-manufacturing data prints. **The setup is likely positive for the DXY index, so we do not rule out further extensions higher for the broad USD.** The EUR underperformed, with firm US data comparing favourably to a mixed bag of European services/composite PMI and CPI prints. At this juncture, **the recent EZ data prints have not outperformed to a level that can convince the market of sustained economic recovery in Europe.** We stay negative on the EUR for now.
- The GBP was taken lower again on headlines that the EU may roll back the concessions given to London in the MiFID II discussions. Yet the cable bounced off the 1.2950 again. **With the 1.2900 – 1.3200 range holding, we may consider entering GBP-USD longs below 1.2950, targeting 1.3050 – 1.3100.**
- Going forward, the playbook depends on the view on the longevity of the risk rally and USD strength. Between the two, **we think USD strength may persist, but the risk rally may eventually have to fade.** Thus, **prefer to stay negative on the EUR-USD and AUD-USD.** On the flipside, optimists on the risk rally may want to find opportunities to chase the USD-JPY higher, though we are not in that camp just yet.
- **Trading idea:** The RBA was less-than-dovish at its February policy meeting, but rate cut expectations may not be brushed aside for long. Prefer to fade the RBA bounce. At a spot ref of 0.6750 on 5 Feb, we enter a tactical short AUD-USD, with a target at 0.6604 and stop loss at 0.6822.

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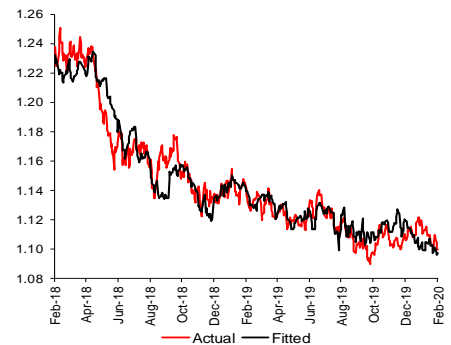
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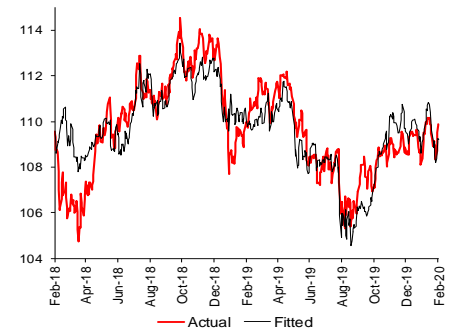
EUR-USD

Heavy. As expected, a firm set of US data depressed the EUR-USD towards 1.1000. This is the fourth test of the 1.1000 level since Nov 2019. Short term implied valuations continue to point south. Any clear breach of the 1.1000 level will see deeper retracement towards 109.00, while any bounce should be capped at 1.1040.



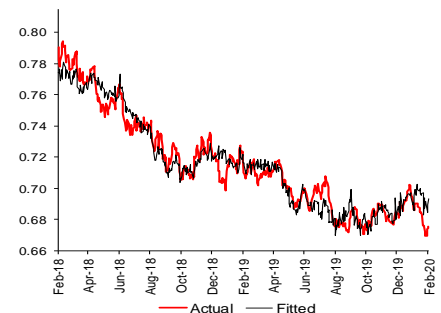
USD-JPY

Headline driven for now. The 110.29 Jan 2020 high is in sight after persistent uplift in the USD-JPY. Upward momentum is unabated, although it has move to the top end of the confidence interval in our short term implied valuations.



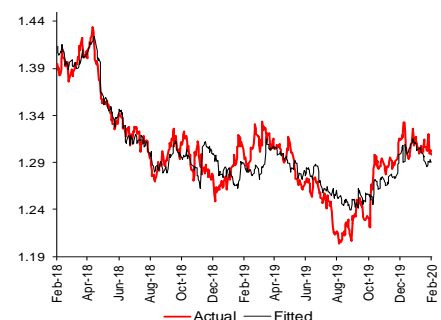
AUD-USD

Southbound. The AUD-USD bounce on the back of risk-on tone was well-kept at 0.6770/80, and that may discourage the AUD bulls for now. We still prefer sell on rallies for now.



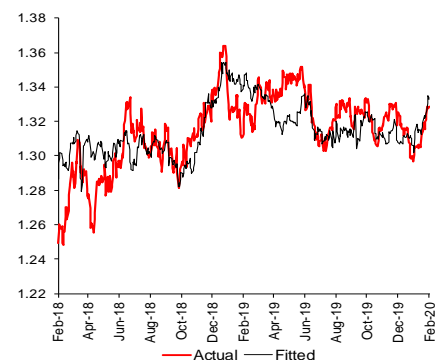
GBP-USD

Range. The GBP-USD bounced off 1.2950 overnight, keeping the 1.2900 – 1.3200 range intact. Although there is a slight downside bias, the bottom extreme of the range is yet to be under serious threat. Retain a range-trading stance for now.



USD-CAD

Supported. The USD-CAD failed to make headway above 1.3300 for the third consecutive sessions, and that may dull upside momentum somewhat. Expect the pair to drift between the 1.3250/60 and 1.3300/10 range for now, pending new drivers.



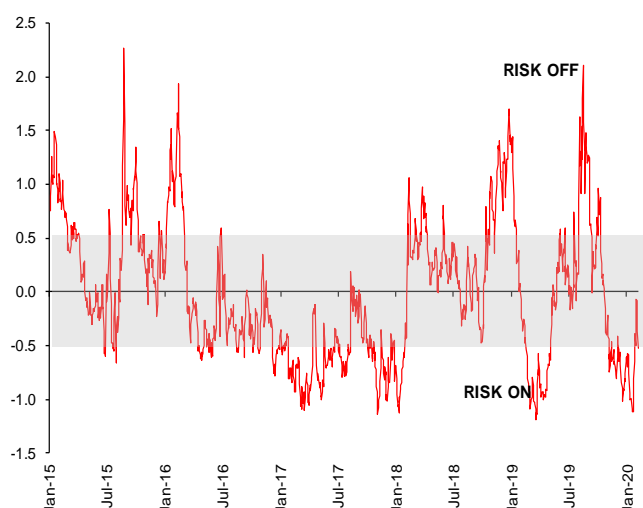
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Asian Markets

- **USD-Asia:** With the USD-CNH consolidating south of 6.9800, expect some implicit support for the North Asian currencies on an intraday basis. However, the lead is more diffused for the South Asian currencies. Expect idiosyncratic drivers from the respective central banks (especially the BOT and MAS) to dictate near term movement.
- **USD-SGD:** The USD-SGD spiked north of 1.3800 (and the SGD NEER submerged below parity) post the MAS media release yesterday morning, on thoughts that the MAS may be more inclined to more policy easing in April 2020. Overall, we think it is premature to interpret the statement as such. We take a more conservative interpretation, which is that the MAS may now be comfortable for the SGD NEER to drift lower. For now, the SGD NEER stands at -0.25% below parity (1.3813). Expect implicit uplift for the USD-SGD in the interim.
- During the **SARS** episode, the peak-to-trough move in the SGD NEER is around 3.50%. Directly applied, this translates to around -1.80% below parity (from +1.70% above parity pre-coronavirus). **This is perhaps overstated, given that the coronavirus episode is likely better managed, less severe, and instill less fear factor.** Taking a discount to the 3.50% move to 2.50-3.00%, the **-1.00% below parity (currently estimated at 1.3953 for USD-SGD)** is the first waypoint we are watching for now.

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.
2	05-Feb-20		S	AUD-USD	0.6750	0.6604	0.6822	Fade less-than-dovish RBA bounce; ongoing risk recovery may be on shaky grounds
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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