

Daily Market Outlook

6 January 2020

Market Themes/Strategy – The week ahead and refreshed FX forecasts

- Broad USD extended the new-year bounce across the G-10 space on Friday, after a bout of risk aversion due to the Mideast situation took over the market. The AUD and NZD led losses against the USD. JPY outperformed across the board.
- After a period of prevalent risk-on sentiment, the market may see this round of Mideast tensions as an opportunity to take profit on risk assets. Global equities closed mostly in the red, with global core yields slipping lower. The **FX Sentiment Index (FXSI)** moved higher within the **Risk-On** zone, denoting a weakening of overall risk sentiment. **Some short term risk aversion may be in play, but if history is any precedent, the impact should dissipate within a couple of days, if there is no concrete step-up in retaliatory actions.**
- Elsewhere, the US ISM manufacturing index printed 47.2, worse than all analyst expectations. **The US economy probably capitulated faster than expectations 1-2 months back, and this continues to add a structural negative on the USD.** In this context, expect investor attention on US Markit services/composite PMIs today (1445 GMT), ISM non-manufacturing (Tue) and non-farm payrolls (Fri).
- It is worth contemplating how the softening US economy will impinge on Fed messaging. The December FOMC minutes thread familiar ground, but note a number of Fed speakers speaking out on the 2% inflation target (Williams, Daly, Evans), perhaps underlying the easing bias. **Deeper into 2020, watch if there is any pick-up in easing rhetoric if US macro outlook continues to soften.**
- The latest CFTC release revealed that short term leveraged accounts added to their implied USD longs throughout December. Asset managers fared better, going the opposite way, and adding to their implied USD shorts in December.
- **At this juncture, the Mideast tensions have yet to impinge on the fundamental picture. The broad USD remains hampered by a softening macro outlook and diminishing rate differentials. However, watch for any short term gyrations in overall risk sentiment, which may impart tailwinds to the USD and JPY based on the risk-off dynamic.**

Terence Wu
+65 6530 4367
TerenceWu@ocbc.com

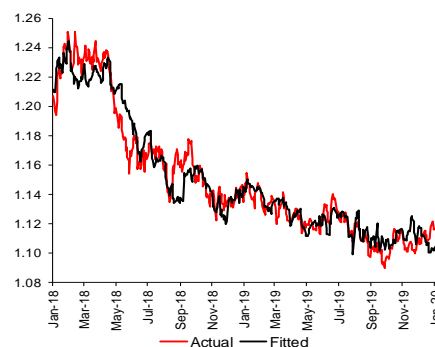
Treasury Research
Tel: 6530-8384

Daily Market Outlook

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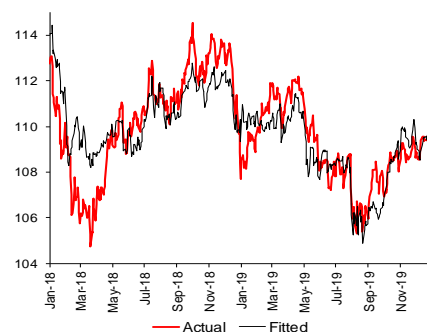
EUR-USD

Buoyant. The EUR-USD consolidated above 1.1150 on Friday, with its decline halted by softer than expected US economic prints. Expect a near term support at 1.1120, before a firmer base at 1.1090/00. Topside extensions may target 1.1200 in the interim.



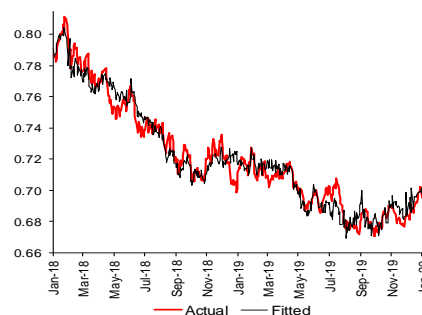
USD-JPY

Heavy for now. Risk-off dynamic came back into play on the latest Mideast situation, with the USD-JPY staying heavy in the interim. Further escalation in tensions may take the pair below the 107.90 level, opening up further declines to 107.30. Any near term rebound may be capped at 108.65.



AUD-USD

Heavy. A confluence of factors – soft China prints, Mideast issues – weighed negatively on the AUD-USD. Further downside extensions may see better support at 0.6900/10 levels. A breach of that level may see a deeper capitulation towards 0.6830.



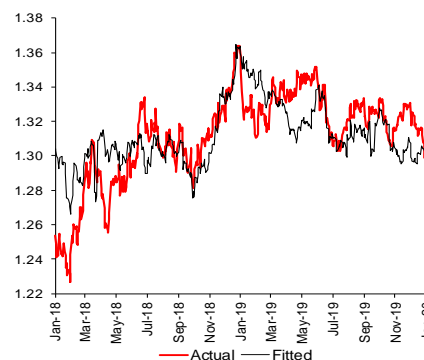
GBP-USD

Potential to revert lower. The tone and outcome of the UK-EU talks on Wednesday may set the tone for the GBP-USD going forward. A hostile and contentious meeting may provide the excuse to take the pair south of the 1.3000 floor in the short term.



USD-CAD

Downside pace may slow. The USD-CAD is consolidating just south of the 1.3000 handle for now, with limited downside technical levels until 1.2800 if current levels are breached. Any near-term bounce should be capped at 1.3000 for now.



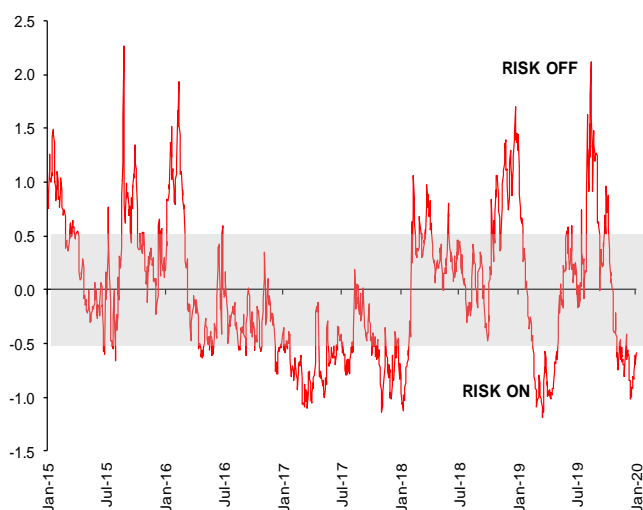
Daily Market Outlook

6 January 2020

Asian Markets

- USD-Asia:** USD-Asia pairs are still seeing some upside pressure on the risk-off tone. However, with the USD-CNH still sticky around the 6.9600/9700 handle, we take some comfort that the upswing is not going to be a structural one. However, expect the **INR** (spiking crude prices) and **KRW** (reversing recent outperformance) to be most impacted in the short term if tensions persist.
- Latest reading of implied portfolio flows from EPFR data mirrored actual portfolio flows, showing an uptick in implied equity inflow momentum into Asia (ex JP, ex CN) in general, and South Korea in particular. However, implied Equity inflow into China has been moderating lower. On the bond front, implied inflows are still weak, even though there is a bounce higher compared to the previous reading.**
- USD-SGD:** The USD-SGD surfaced about the 1.3500 mark on Friday, and remains on a slight buoyant mode. A near term cap may enter at 1.3530, barring another further capitulation on the broad USD itself. Meanwhile, the SGD NEER softened further to +1.67% above its perceived parity (1.3729) this morning, with NEER-implied thresholds tilted higher.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1100	1.1141	1.1167	1.1200	1.1220
GBP-USD	1.2920	1.3000	1.3087	1.3100	1.3346
AUD-USD	0.6898	0.6900	0.6947	0.7000	0.7032
NZD-USD	0.6529	0.6600	0.6660	0.6700	0.6750
USD-CAD	1.2952	1.2953	1.2980	1.3000	1.3181
USD-JPY	107.77	108.00	108.04	108.10	108.65
USD-SGD	1.3453	1.3500	1.3501	1.3583	1.3600
EUR-SGD	1.5011	1.5067	1.5076	1.5100	1.5127
JPY-SGD	1.2400	1.2469	1.2496	1.2500	1.2501
GBP-SGD	1.7600	1.7657	1.7669	1.7700	1.8039
AUD-SGD	0.9300	0.9331	0.9379	0.9400	0.9427
Gold	1500.00	1558.51	1579.30	1590.90	1600.00
Silver	17.29	18.40	18.47	18.50	18.54
Crude	63.50	64.30	64.39	64.40	64.44

Daily Market Outlook

6 January 2020

Refreshed FX Forecasts (correct as of 3 Jan 2020)

	Spot	Jan-20	Mar-20	Jun-20	Sep-20	Dec-20
USD-JPY	108.07	108.07	108.64	109.54	107.86	106.18
EUR-USD	1.1172	1.1228	1.1208	1.1273	1.1323	1.1374
GBP-USD	1.3131	1.3131	1.3330	1.3382	1.3416	1.3450
AUD-USD	0.6969	0.7022	0.7044	0.7067	0.7105	0.7142
NZD-USD	0.6681	0.6737	0.6775	0.6806	0.6831	0.6856
USD-CAD	1.2991	1.2954	1.2879	1.2855	1.2878	1.2902
USD-CHF	0.9696	0.9638	0.9655	0.9591	0.9577	0.9564
USD-SGD	1.3487	1.3460	1.3445	1.3388	1.3367	1.3347
USD-CNY	6.9652	6.9481	6.9327	6.8715	6.8394	6.8074
USD-THB	30.16	30.07	30.01	29.92	29.68	29.44
USD-IDR	13910	13,864	13,910	13,806	13,692	13579
USD-MYR	4.0988	4.0892	4.0844	4.0805	4.0594	4.0383
USD-KRW	1163.75	1154.38	1150.54	1146.75	1142.12	1137.49
USD-TWD	30.088	30.033	29.912	29.876	29.801	29.725
USD-HKD	7.7837	7.7800	7.7800	7.8000	7.7900	7.7800
USD-PHP	50.86	51.00	50.65	50.60	50.37	50.15
USD-INR	71.38	71.16	72.14	72.49	71.06	69.63
EUR-JPY	120.73	121.34	121.76	123.48	122.13	120.77
EUR-GBP	0.8508	0.8550	0.8408	0.8424	0.8440	0.8456
EUR-CHF	1.0831	1.0821	1.0821	1.0811	1.0844	1.0878
EUR-SGD	1.5067	1.5112	1.5069	1.5091	1.5136	1.5181
GBP-SGD	1.7710	1.7674	1.7923	1.7915	1.7934	1.7952
AUD-SGD	0.9399	0.9451	0.9471	0.9461	0.9497	0.9533
NZD-SGD	0.9011	0.9067	0.9109	0.9112	0.9131	0.9150
CHF-SGD	1.3909	1.3966	1.3926	1.3959	1.3958	1.3956
JPY-SGD	1.2481	1.2454	1.2376	1.2222	1.2393	1.2571
SGD-MYR	3.0390	3.0381	3.0378	3.0479	3.0368	3.0256
SGD-CNY	5.1641	5.1622	5.1563	5.1328	5.1165	5.1002

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

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