

Daily Market Outlook

7 January 2020

Market Themes/Strategy

- The USD bounce halted on Monday as market attention back to macro fundamentals following a round of stronger than expected European services PMI prints. The GBP led gains within the European complex, and the JPY underperformed on the fading of risk aversion. Elsewhere, the USD-CAD stayed heavy both on USD weakness and a firmer crude complex.
- With Mideast tensions limited to angry rhetoric thus far, the issue should move slightly into the background from here, although there is still side chatter about a US withdrawal from Iraq. Risk-off plays are essentially reversing across different asset classes – crude oil and gold lower, UST and core global yields firmer, US equities also steadied. The **FX Sentiment Index (FXSI)** held steady within the **Risk-On** zone.
- Expect investors to continue playing off relative macro outcomes between the US and Europe, at least until Friday's non-farm payrolls. The initial attention will be centred on Eurozone CPI prints (1000 GMT) and the US ISM non-manufacturing index (1500 GMT).
- Within the G10 space, a number of themes may shape directionality in the near term. Primarily, we prefer to return to a near term USD-negative stance, especially reflected against the European complex. A reversal of the risk-off dynamic may keep the USD-JPY and JPY-crosses buoyant for now. Elsewhere, another emerging theme that may be worth exploring is a short AUD play on the economic impact of the bush-fires.

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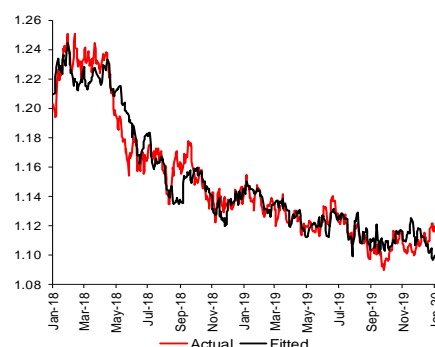
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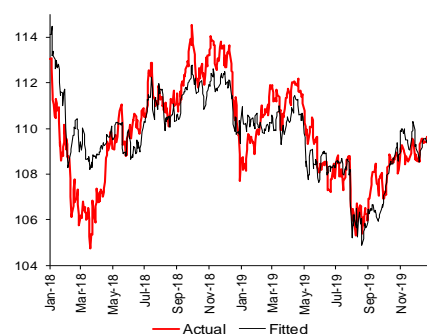
EUR-USD

Buoyant. The EUR-USD reverted to an upward trajectory, following stronger than expected services PMI prints. The 1.1200 handle remains a key resistance level, and the failure to pull higher from there should keep the pair anchored within the 1.1120 to 1.1190 zone. Still-sinking short term implied valuations remain a concern though.



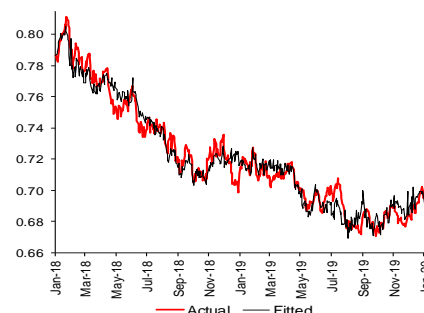
USD-JPY

Back into range. Even though Mideast headlines persist, the lack of concrete escalation for now should limit the downside for the USD-JPY, putting the pair back within the wide 107.80 – 109.80 range. Nevertheless, downside is not completely negated until the rebound can breach 108.75/95 levels.



AUD-USD

Heavy. Despite the easing of the risk-off sentiment, the AUD-USD may not see significant uptick given the impact of the bushfires on the macro-economy. The RBA remains closer to the accommodative end of the spectrum compared to the Fed for now, and the economic impact of the bushfires may lower the barrier for putting in another rate cut. Key downside support at 0.6900/20 level. A breach of this level risks further downside.



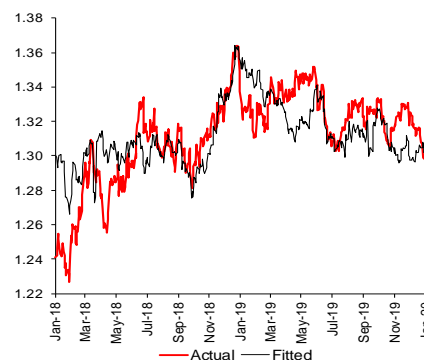
GBP-USD

Trudging a wide range. The GBP-USD bounced higher following the beat in the services PMI. Brexit debate re-opens in Parliament, but the passage is mostly secure, given PM Johnson's large majority. Focus should shift to the details of the Withdrawal Agreement.



USD-CAD

Heavy posture. The USD-CAD retains a heavy stance on the back of a firmer crude and USD weakness. The recent low at 1.2952 may support for now, but a breach may see few downside resistances until levels closer to 1.2800.



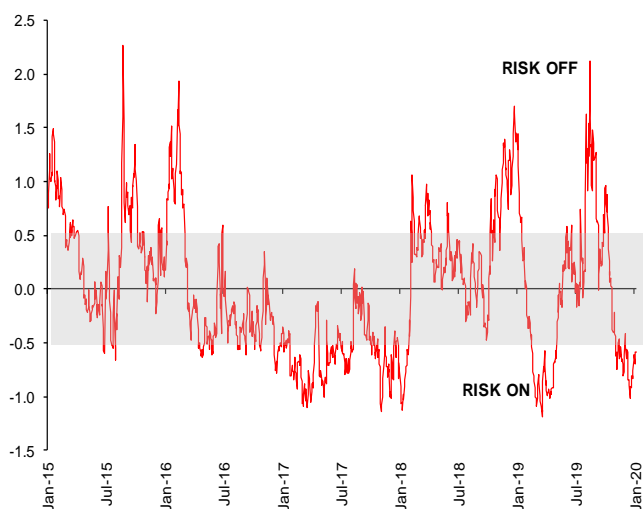
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Asian Markets

- USD-Asia:** Without concrete escalation in the Mideast issue, the subsequent turn in risk sentiment may force a halt in the recent USD-Asia rally. The overnight rebound in US equities should also support Asian currencies on an intraday basis. Meanwhile, the USD-CNH remains an anchor of stability around the 6.9600/9700 handle. Overall, barring any headline developments in Mideast, expect the USD-Asia to consolidate lower.
- Latest rhetoric from the Bank of Thailand (BOT)** marked 30.000 as the line in the sand for the USD-THB. For now, we retain the view that measures to rein in on THB strength may be sufficient to cause THB underperformance relative to Asian peers, but insufficient in themselves to spark a turn in USD-THB trajectory.
- USD-SGD:** The USD-SGD saw little traction above the 1.3500 mark, and dipped back below that level with the turn in overall risk appetite. For now, expect the pair to track the USD-CNH and other USD-Asia pairs lower, with immediate downside support entering at 1.3470. The SGD NEER firmed to +1.72% above its perceived parity (1.3720) this morning, with NEER-implied thresholds softer.

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

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