

Daily Market Outlook

10 February 2020

Market Themes/Strategy – The week ahead

- A concerned tone dominates at the start of this week, with the global asset markets closing last week on a risk-off note after a largely risk-positive stance earlier. Global equities and core yields were lower on Friday. The **FX Sentiment Index (FXSI)** moved back into the Risk-Neutral after spending two sessions in the Risk-On zone on Thursday and Friday last week.
- Amid the risk-off sentiment, cyclicals capitulated lower and is expected to stay heavy early week. **The AUD stands at record lows, and front end risk reversals probably point to further pain in the coming sessions.** Expect the 0.66 handle to implicitly attract for now.
- The broad USD was also supported by a significant beat in non-farm payrolls. With EZ data-prints soft (see German Dec factory orders and industrial production), **relative macro dynamics put the EUR on the back-foot for now.** Expect a slow grind towards 1.0900 for now. Meanwhile, the GBP closed below the 1.2900 bottom extreme of the recent range, expect the **GBP to remain heavy until at least the UK data dump on Tuesday.**
- Based on **CFTC** data, the investment community is seen moving back to the USD on the growth concerns and risk-off dynamics. Non-commercial accounts rebuild implied USD longs, from an approximately neutral position, especially against the AUD and EUR. Long term asset managers also cut their implied USD shorts.
- The **RBNZ** policy decision (Wed) leads the central bank schedule. The Powell testimonies to the House (Tue) and Senate (Wed), and comments by Harker (voter, Mon) and Kashkari (voter, Tue) will draw attention. On the data front, watch US CPI (Thu), retail sales and IP (Fri), and EZ CPI and 4Q GDP (Fri).
- Going forward, the USD strength and risk-off themes should persist for the start of this week. We **prefer to stay negative on the EUR-USD and AUD-USD.** Beyond the immediate horizon, even after the coronavirus situation improves, we will need to contend with the economic fallout and downgrades. In this context, expect some implicit support for the USD on a multi-week timeframe.

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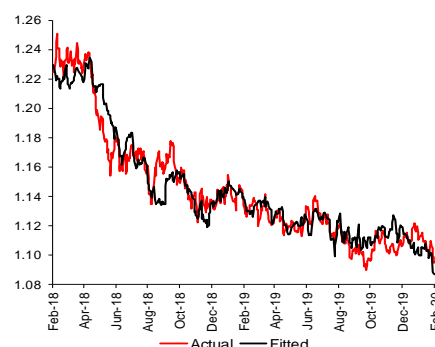
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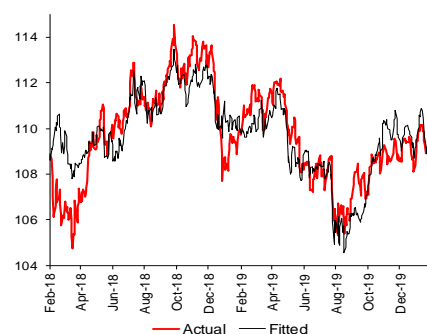
EUR-USD

Heavy. With the 1.1000 level breached, we eye the next southbound target at 109.00. Short term implied valuations have turned south, providing more conviction for the negative-EUR call. In the near term, US data prints outperforming Eurozone's should keep the EUR on the back-foot. Near term bounces should be limited to 109.80.



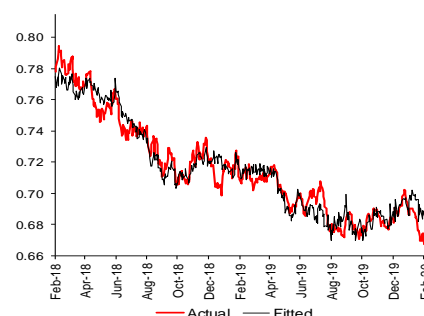
USD-JPY

Headline driven for now. The USD-JPY upswing from 108.32 to 110.02 last week probably ran ahead of fundamentals, especially with the 10y UST yields looking very capped. The top end of the confidence interval in our short term implied valuations is breached. In the near term, we think there might be limited scope for further upside extensions for the USD-JPY, even if risk turns positive.



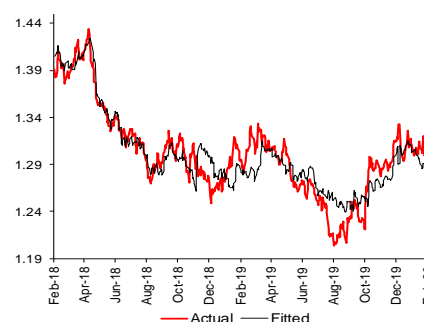
AUD-USD

Southbound. The AUD-USD closed at record lows on Friday, vindicating our longstanding negative-AUD stance. Do not rule out a retracement early week, but we think there should be further downside room from here. Expect 0.6600 to attract, with 0.6720 likely capping rebounds.



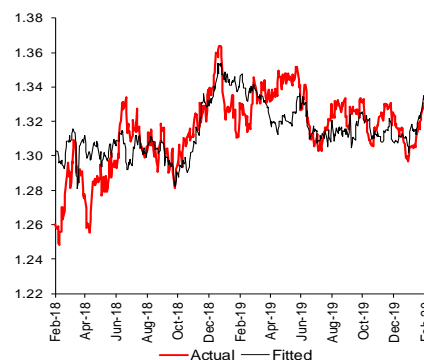
GBP-USD

Range. The GBP-USD slipped off the base of the recently established range, portending further downside in the near term. GBP bulls may have to look to Tuesday's data dump to look for positives, and hopefully retake the 1.2900 level. Further declines from here open up 1.2800 before the 200-day MA (1.2693).



USD-CAD

Consolidate. The USD-CAD continues to stall around the 1.3300 mark, putting a cap on upside momentum. Expect further vacillations around the 1.3300 for now.



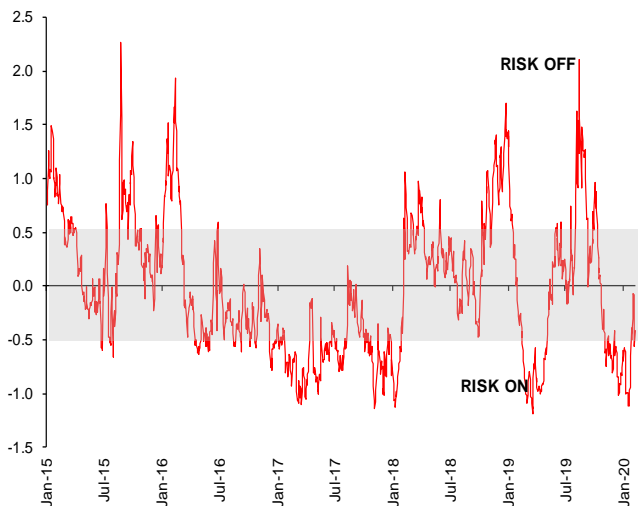
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Asian Markets

- USD-Asia:** Near term USD-Asia directionality will be dictated by the re-opening of China today. Initial market signs look positive, with USD-Asia now retracing early gains. Beyond the usual suspects in North Asia, note that the malaise has spread more widely among the South Asia, in particular the **MYR**. Near term resistance for the USD-MYR stands at 4.1525 for now. Any breach of that level may see further upside extension to 4.1876.
- EPFR** front, implied equity and bond flows tipped into negative territory for Asia (ex. JP, CN). In particular, implied equity flows into China flipped into a sizable outflow situation.
- Data calendar in Asia,** we watch for Indonesia's CA balance (Mon), Philippines trade numbers (Tue), and Malaysia 4Q GDP and Indian CPI (Wed).
- USD-SGD:** The SGD NEER stood at -0.30% below the perceived parity (1.3863). Upside targets for the USD-SGD stands at 1.3933 (-0.50% below parity) and 1.4003 (-1.00% below parity). However, there may be some interim lack of traction above 1.3900. We do not rule out a near term consolidation for now, but the upside bias persists.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0938	1.0942	1.0952	1.1000	1.1096
GBP-USD	1.2881	1.2887	1.2899	1.2900	1.3078
AUD-USD	0.6660	0.6700	0.6701	0.6800	0.6857
NZD-USD	0.6395	0.6400	0.6413	0.6500	0.6503
USD-CAD	1.3200	1.3223	1.3296	1.3300	1.3321
USD-JPY	109.00	109.25	109.83	110.00	110.29
USD-SGD	1.3671	1.3800	1.3893	1.3900	1.3905
EUR-SGD	1.5200	1.5203	1.5216	1.5254	1.5263
JPY-SGD	1.2600	1.2615	1.2650	1.2700	1.2750
GBP-SGD	1.7743	1.7900	1.7920	1.8000	1.8043
AUD-SGD	0.9300	0.9302	0.9309	0.9355	0.9380
Gold	1524.13	1542.09	1568.60	1586.27	1600.00
Silver	17.54	17.60	17.69	17.70	18.21
WTI Crude	45.33	48.00	50.20	56.93	57.58

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	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	S	AUD-USD	0.6872	0.6728	Risk-off sentiment on US-Iran tensions; Heightened RBA rate cut expectations	+2.19

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