

Daily Market Outlook

10 January 2020

Market Themes/Strategy – All's well that ends well?

- The broad USD continues to firm up against the G10 counterparts, while the JPY continued to underperform as tensions between US and Iran cool down further. Meanwhile, the GBP is weighed down by dovish comments from BOE's Carney. Note, however, that despite the recent USD gains, the DXY index remains within a clear downtrend starting from October 2019, and may see more resistance near the 97.60/70 levels.
- The overall market tone is still very much risk-on, with gold consolidating lower, and crude back to mid-December levels. UST yields are also back to levels before the initial US strike. Global equities recovered, as S&P 500 marched to yet another record high. The **FX Sentiment Index (FXSI)** took a steep plunge deeper into the **Risk-On** zone. The mood seems to be all's well that ends well for now.
- The Fed continues to telegraph an "on-hold" message, but note a consistent chorus of Fed speakers preferring to let inflation run north of the 2% target. We think this translates to an easing bias at the Fed that may be USD negative on a structural basis.
- On the GBP front, directionality to be more determined by the broad USD itself, and interspersed with drivers from EU-UK trade headlines, data releases and BOE comments. **For now, expect data releases and BOE should lean towards being soft and accommodative (Carney yesterday being case in point), and thus negative on the GBP.** However, with the USD itself also on a downtrend, GBP-USD downside may be limited to the 1.3000 base. Wildcard is the trade talks – a clear break down may be sufficient to take the GBP-USD south of 1.3000 on a sustained basis.
- With the DXY index near the top end of the downtrend channel, the pace of the USD upside extension may slow to a grind, if not reverse. Prefer to focus on idiosyncratic negatives on the AUD for now.

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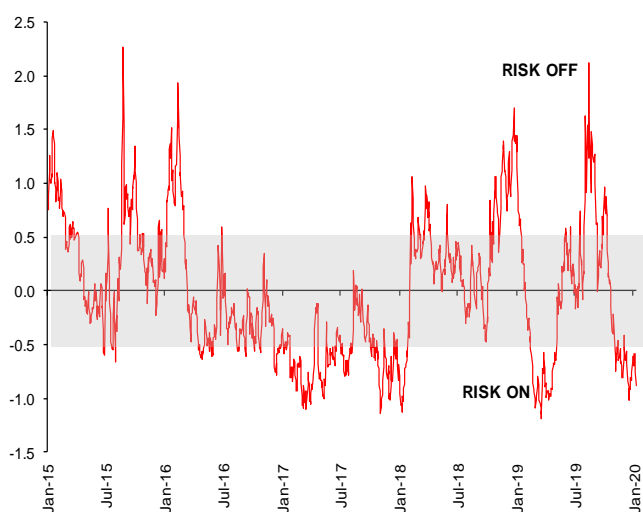
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Asian Markets

- USD-Asia:** The lower USD-CNH sets up a strong lead to guide USD-Asia south. We continue to expect USD-CNH to be heavy as we head towards the signing of the Phase 1 deal, anchoring USD-Asia even as the USD strengthens within the G10 space. Overall, expect Asian currencies to revert to a firming bias, with the likes of INR and PHP looking most likely to benefit due to the lower crude complex.
- USD-SGD:** The USD-SGD found very limited traction south of 1.3500, even as the USD-CNH leaned heavy. We think the elevated SGD NEER basket yesterday contributed to the lack downside impetus. For now, the basket stands lower at +1.66% above its perceived parity (1.3739), with NEER-implied USD-SGD thresholds lower on the day.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1091	1.1100	1.1105	1.1140	1.1200
GBP-USD	1.3000	1.3016	1.3064	1.3100	1.3299
AUD-USD	0.6800	0.6811	0.6859	0.6867	0.6893
NZD-USD	0.6554	0.6600	0.6608	0.6700	0.6745
USD-CAD	1.2952	1.3000	1.3063	1.3100	1.3173
USD-JPY	108.80	109.00	109.53	109.73	110.00
USD-SGD	1.3450	1.3500	1.3513	1.3575	1.3587
EUR-SGD	1.4997	1.5000	1.5006	1.5056	1.5100
JPY-SGD	1.2313	1.2327	1.2337	1.2400	1.2455
GBP-SGD	1.7501	1.7600	1.7653	1.7668	1.7700
AUD-SGD	0.9233	0.9245	0.9268	0.9300	0.9322
Gold	1488.66	1500.00	1549.40	1584.61	1600.00
Silver	17.30	17.80	17.90	17.90	18.64
WTI Crude	58.38	59.15	59.38	59.40	63.25

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Trade Ideas

Inception	B/S	Currency	Spot/Outright	Target	Stop	Rationale	
TACTICAL							
1	08-Jan-20	S	AUD-USD	0.6872	0.6728	0.6949	Risk-off sentiment on US-Iran tensions; Heightened RBA rate cut expectations
STRUCTURAL							
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RECENTLY CLOSED TRADE IDEAS							
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
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