

Daily Market Outlook

11 February 2020

Market Themes/Strategy

- Overall risk sentiment is slightly mixed on Monday. The risk-off tinge probably still dominates, with global core yields softer and gold firmer. However, the US equities have continued to march higher. The **FX Sentiment Index (FXSI)** moved higher within the Risk-Neutral zone, reflecting a slight deterioration of risk sentiment.
- Broad USD is mixed against G10 counterparts. The GBP and AUD bounced higher against the USD after steep declines on Friday. The AUD improved on news of the PBoC providing stimulus. **Nevertheless, expect any AUD bounces to remain short-lived amid the risk-off sentiment.** Meanwhile, political uncertainty in Germany compounded the recent softer-than-expected economic prints, and added to the negatives for the EUR.
- JPY is little changed overnight. **We think the run higher in USD-JPY last week probably exceeded fundamentals.** Note that the 10y UST yield is well-kept at 1.65-1.70%, with any bounces in yields strongly bought into. This should keep a lid on further USD-JPY upside extension, unless there is really a significant breakthrough in the virus situation.
- No Tier 1 data from the US and Eurozone on the calendar today, so the focus will be on the UK data dump featuring industrial and manufacturing production (0930 GMT). Attention will also be on Powell's testimony to the House committee (1500 GMT). Overall, Fed speakers have maintained a consistent message – US economy is in a good place – although most speakers (Daly yesterday for example) appear to prefer a firmer inflation profile.
- Overall, we still back the USD strength and risk-off themes in the immediate horizon, translating to a **sell-on-rallies stance on the EUR-USD and AUD-USD**. GBP-USD is also something we are watching closely, considering to enter longs near current levels if the data-front is less pessimistic than expected.

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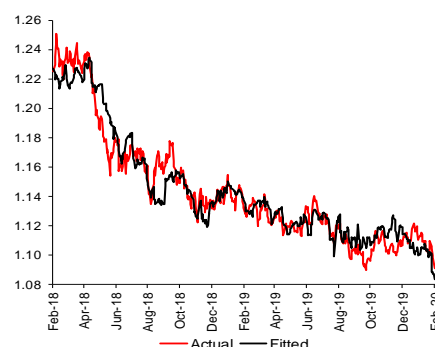
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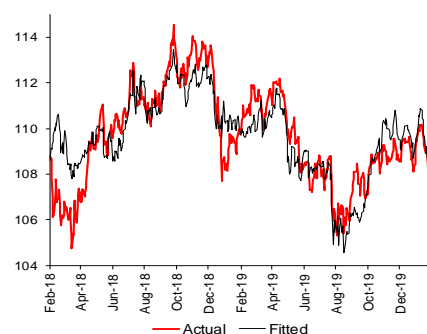
EUR-USD

Heavy. As expected, the EUR-USD is now flexing against the 109.00 handle after political uncertainty further weighed on the common currency. The dive in short term implied valuations continues unabated. Overall, expect downside momentum to persist, with the next southbound target at 108.80.



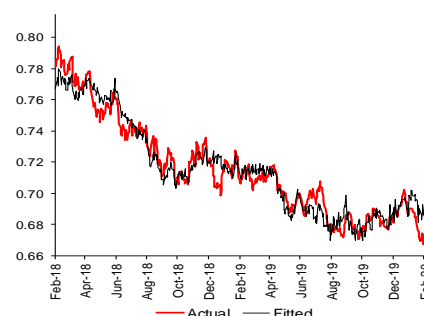
USD-JPY

Topside capped. Soggy UST yields should keep a lid on the USD-JPY around the 110.00/10 zone. Signs of upside momentum looking exhausted, while short term implied valuations also pull the pair lower. is breached. Near term support at 109.45, while 110.00/10 caps. Sell on rallies towards 110.00/10.



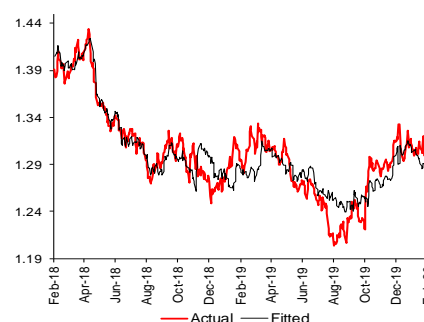
AUD-USD

Southbound. Slight bounce in the AUD-USD after further stimulatory measures from the PBoC. However, if recent history is any indication, the AUD bounce should be quickly sold down. With 0.6720 still intact despite the bounce, we are not convinced that the downside bias is averted. Continue to keep eyes on the 0.6600 level on a multi-session horizon.



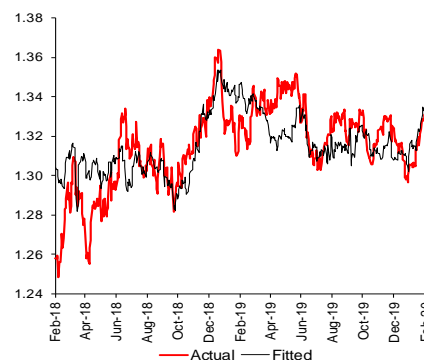
GBP-USD

Range. The GBP-USD surfaced back above the 1.2900 level overnight, giving some hope to GBP-longs. We continue to watch the pair closely, with topside expected at 1.2950, versus a downside support at 1.2800.



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.



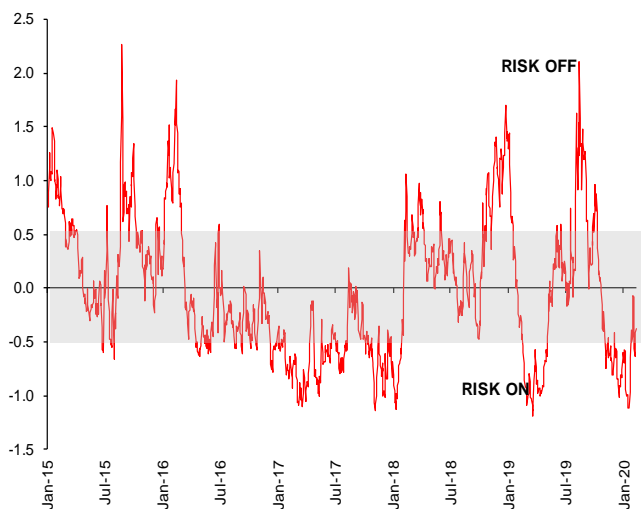
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Asian Markets

- USD-Asia:** The USD-Asia is mixed yesterday, but the lead for today should be slightly positive, with the USD-CNH easing back towards 6.9800 and EM FX firm overnight. Overall, **we see no excessive panic in Asian FX in light of the coronavirus**. 1M, 3M forward points remain well-behaved and there is no sign of a deluge of portfolio outflows from Asia. **While we cannot rule out further declines ahead, there may be reasons to believe that the downside may be limited barring a new adverse development**. For one, we are running into soft caps in the USD-CNH and USD-CNY around 7.0000 (and USD-KRW below 1200) in the near term. Further out, the Asian currencies may also be supported by market expectations (rightly or wrongly) of a swift 2Q growth rebound as per the SARS episode. **For now, we expect USD-Asia as a whole to consolidate in the near term.**
- On the portfolio flows front, discounting the bond inflows into South Korea, equity and bond flows across Asia are at neutral levels. What is conspicuous is the lack of a deeper outflow momentum across Asia. We think this reflects the underlying optimism in Asia for now. On the individual country basis, growing outflow momentum in Malaysian equities may curtail the MYR in the near term.
- USD-SGD:** The SGD NEER moved higher to -0.20% below the perceived parity (1.3856). Upside momentum in the USD-SGD tapered somewhat, but the 1.3900 vicinity will still be key to watch. Expect some near term consolidation, but the upside bias has not been shaken out. -0.50% and -1.00% below parity is currently estimated at 1.3926 and 1.3996.

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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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 | | | | | | | | |
| | --- | | --- | | | | --- | |
| 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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