

Daily Market Outlook

13 February 2020

Market Themes/Strategy

- Broad USD returned to an uptrend after the blip on Tuesday, with the DXY closing above 99.00. The largest moves are down south in the NZD and AUD. The NZD was boosted by an unexpectedly hawkish RBNZ, and dragged the AUD higher as well. The EUR underperformed on a larger than expected contraction in EZ industrial production.
- Risk sentiment remained supported overnight, with global equities and core yields stepping higher. The **FX Sentiment Index (FXSI)** dipped deeper into the Risk-On zone in response. However, the tone turned sharply after China released a spike of the new cases following a new detection methodology in Hubei. S&P e-minis and UST yields duly dipped lower in response. Expect to start the day on a risk off tone.
- Going forward, we continue to cautiously back the broad USD, especially against the EUR. Meanwhile, the AUD may turn heavy again after the risk-off tone was re-ignited this morning. As a whole, we seek to reduce our overall risk-negative stance by entering a tactical short USD-CAD (see below).
- **Trade idea update:** Our 31 Jan tactical short EUR-USD call hit target at 1.0880 overnight. With the recent EZ data-prints weak (German CPI scheduled 0700 GMT) relative to the US, we expect further downward extension for the EUR, and will be looking for further opportunities to re-enter shorts at better levels.
- **Trade idea:** Despite the ongoing COVID-19 situation, there are no signs that risk sentiment is falling off the cliff. Economic prints in Canada has been firm overall, and the crude complex looks to turn the corner. Overall, we attempt to move closer to a net risk neutral stance with a tactical short USD-CAD. From the spot ref of 1.3284, we target 1.3073 and place a stop at 1.3387.

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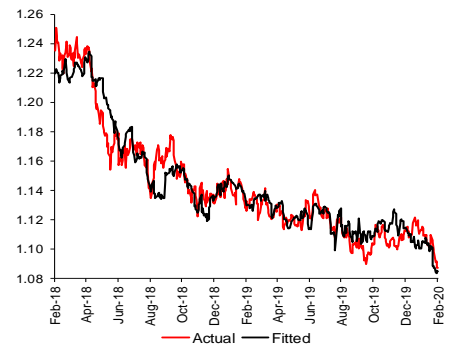
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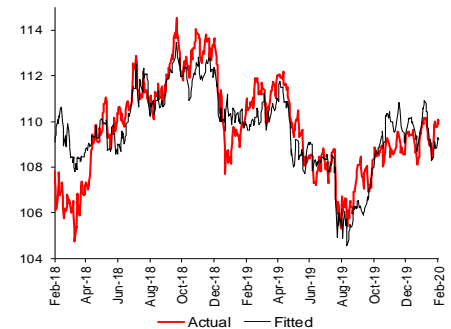
EUR-USD

Heavy. The EUR-USD slumped on the back of weak EZ industrial production overnight. Upcoming German inflation prints (0700 GMT) may add further data pain on the pair. A lack of strong downside support levels from here till 1.0500 suggests a much deeper correction ahead. Near term bounces may be limited to 1.0900.



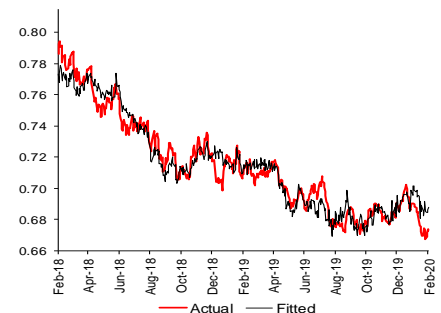
USD-JPY

Topside capped. The 110.10 was tested overnight, but the early morning risk-off tone pulled the pair back under the 110.00 handle. Overall, expect the pair to stay supported, with UST yields edging higher. If 110.00/10 is breached, expect the next target at 110.30. Downside support at 109.50/60 for now.



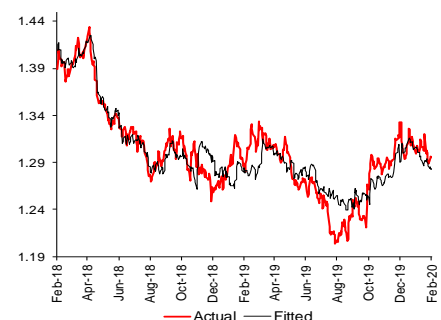
AUD-USD

Southbound. Rebound in commodity prices and Aussie govt yields further support the AUD-USD. Nevertheless, the bounce still well-kept under the 0.6780 range, leaving the downside bias still intact. Topside resistance at 0.6780, while 0.6700 supports.



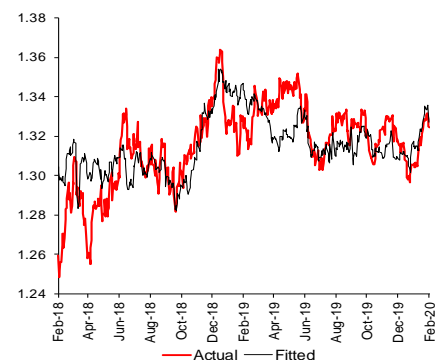
GBP-USD

Bottomed for now. The GBP-USD may have bottomed for now after sustaining above the 1.2900 mark. Ongoing consolidation near current levels should set the stage for another push into the middle of the 1.2900 to 1.3300 range. Continue to see resistances at 1.3000 and 1.3066, and support at 1.2900.



USD-CAD

Ease south. Short term implied valuations have turned south, pulling the USD-CAD spot lower in tow. Expect the pair to soften after losing upside momentum near the 1.3300 vicinity. First southbound target from here is at 1.3200, with initial bounces likely limited to 1.3270/80.



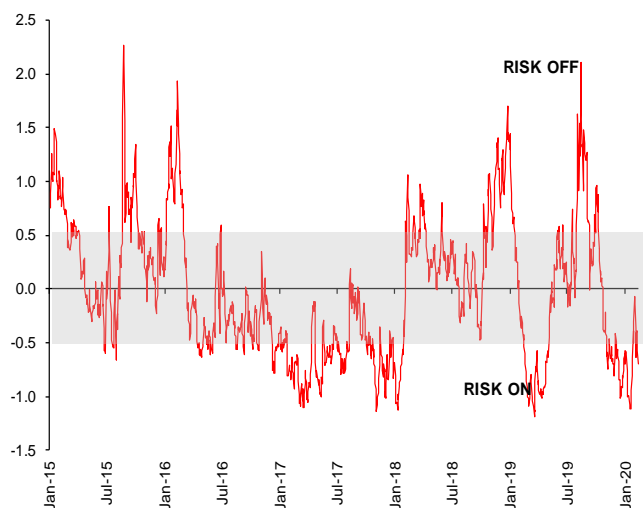
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Asian Markets

- **USD-Asia:** Overnight cues for the Asian currencies were mixed, with EM FX softer against USD, but EM equities still coming in higher. However, the morning risk-off may dominate, and lead USD-Asia higher intraday. Despite the risk positive sentiment over the past three sessions, the downside for the USD-CNH is limited by 6.9600 and USD-KRW by 1175.00. Expect these levels to be a temporary bottom for now.
- On the Asian portfolio flows front, aggregate equity inflows into Asia is picking up, supported primarily by Indian equity inflows. Notable uptick in bond inflows into India as well. Taiwan and Thailand are at broadly neutral levels in terms of overall flow dynamics. Moderating outflow momentum seen in Philippines, but deepening outflow momentum in Indonesia and Malaysia.
- **USD-SGD:** The SGD NEER is firmer this morning around -0.18% below the perceived parity (1.3846). Implied USD-SGD thresholds are higher in-line with the broad USD gains. Intraday, expect the 1.3846 to limit downside moves for now, with topside likely capped by 1.3880/90.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0865	1.0870	1.0873	1.0900	1.1083
GBP-USD	1.2872	1.2900	1.2958	1.3000	1.3071
AUD-USD	0.6660	0.6700	0.6728	0.6800	0.6849
NZD-USD	0.6378	0.6400	0.6452	0.6500	0.6501
USD-CAD	1.3200	1.3220	1.3244	1.3300	1.3329
USD-JPY	109.00	109.32	109.97	110.00	110.29
USD-SGD	1.3674	1.3800	1.3874	1.3900	1.3923
EUR-SGD	1.5000	1.5052	1.5085	1.5100	1.5200
JPY-SGD	1.2424	1.2600	1.2617	1.2619	1.2650
GBP-SGD	1.7752	1.7900	1.7978	1.8000	1.8102
AUD-SGD	0.9300	0.9301	0.9334	0.9369	0.9377
Gold	1530.69	1548.60	1570.20	1585.77	1600.00
Silver	17.35	17.50	17.55	17.58	17.60
WTI Crude	49.31	51.40	51.44	51.50	56.73

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Trade Ideas

	Inception		B/S	Currency	Spot/Outright	Target	Stop	Rationale
TACTICAL								
1	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
2	12-Feb-20		S	USD-CAD	1.3284	1.3073	1.3387	Risk sentiment not falling off cliff; CA macro prints firm; potential turn in crude
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
3	31-Jan-20	12-Feb-20	S	EUR-USD	1.1027	1.0880	Risk-off sentiment on US-Iran tensions; Heightened RBA rate cut expectations	+1.43

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