

## Daily Market Outlook

15 January 2020

### Market Themes/Strategy

- The FX space is in a consolidative, range-bound mode overnight, despite initial information on the Sino-US trade front flowing through, and softer than expected US CPI (2.3% yoy vs. mkt: 2.4% yoy). Most major pairs backed off their respective support or resistance levels (EUR off 1.1105; GBP off 1.2950; JPY not much headway above 110.00).
- Initial reactions to the Sino-US Phase 1 details have been muted, but a slight disappointment can be detected when further tariff rollbacks were pushed to after the US elections, and tied to a still-unclear Phase 2 talks. The question is whether this is sufficient to shake-out the underlying risk-on tone. For now, the **FX Sentiment Index (FXSI)** is still holding deep inside the **Risk-On** zone, but we will not rule out a turn higher in the FXSI going forward.
- Elsewhere, UST yields led the global core yields lower on the day on the soft CPI print. **Back-end rate differential advantage for the broad USD continues to be shaved off.** Our measure of 10y rate differentials between the USD and rest of the majors is back at levels last seen in Oct 2017, prior to the run higher in the DXY index. **Long term correlation between rate differentials and the DXY is also seen to be building.** Expect this to translate to structural negative on the USD.
- On the calendar, watch for UK CPI (0930 GMT), Eurozone industrial production (1000 GMT) and US PPI (1330 GMT) prints. BOE's Saunders (0840 GMT) is scheduled before Fed speakers Harker and Kaplan (both voters, 1600 GMT and 1700 GMT).
- With the DXY index still locked within the 97.30 to 97.60, we lack directionality from the broad USD in the near term. Running through a range of idiosyncratic drivers, we still prefer GBP-USD downside for now.

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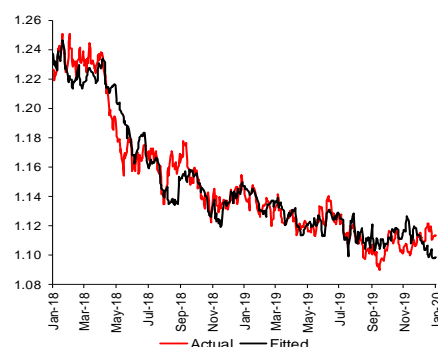
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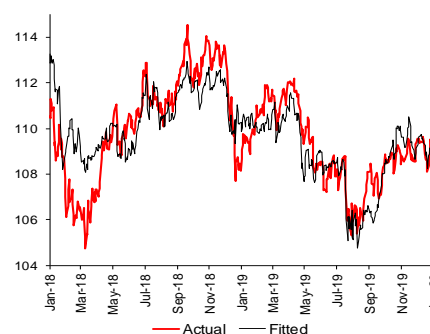
### EUR-USD

**Range.** Despite a supported posture in the EUR-USD, we turn slightly cautious on the pair on the persistently southbound short term implied valuations. As it stands, the pair is beyond the confidence interval bands of the implied valuation. Nevertheless, if the 1.1080/00 is not meaningfully breached, the pair should retain a supported posture.



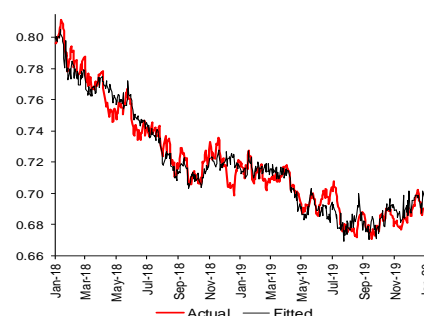
### USD-JPY

**Breaking out?** Some consolidation seen around the 110.00 mark for now. Notably, even with some disappointment on the Sino-US front, the dip in the pair is relatively well-supported. Directionality may be clearer if the pair breaches 110.20 or 109.80.



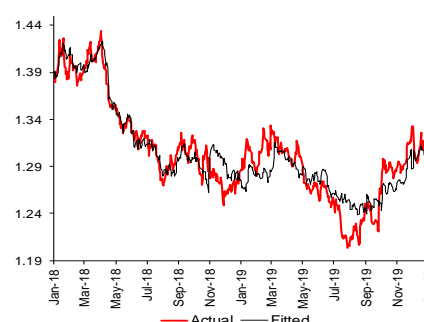
### AUD-USD

**Supported.** With the Sino-US Phase 1 deal not engendering further positivity for now, market attention may refocus on domestic issues (RBA expectations, bushfires) for the AUD-USD. This sets against short term implied valuations that are still positive. Expect immediate resistance at 0.6920 and base at 0.6880 for now.



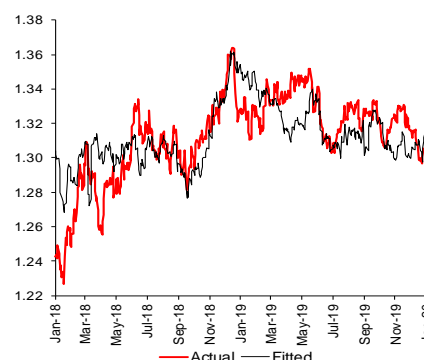
### GBP-USD

**Heavy within range.** The GBP-USD may see further downside pressure, with the EU-UK trade deal stalling over fishing rights. However, BOE rate cut expectations may already be fully priced in at current levels. In this context, comments from BOE's Saunders and UK CPI print may present some headline risks intraday.



### USD-CAD

**Supported.** Expect ongoing consolidation and sideways movement for the pair at this juncture, although the technical setup probably shows a slight upside bias. Expect a topside target of 1.3080/00 for now.



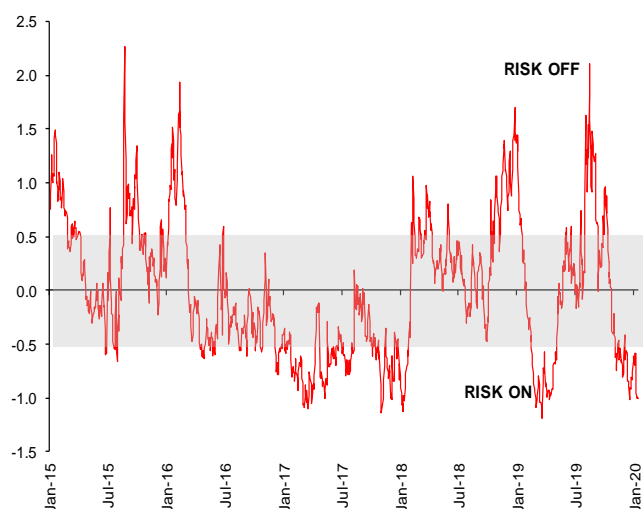
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### Asian Markets

- **USD-Asia:** The slight disappointment over the details of the Sino-US Phase 1 (no further tariff rollback until after the US elections) is reflected in the higher USD-Asia this morning. In the near term, a consolidation for the USD-CNH within the 6.8700-6.9100 range cannot be ruled out as the positive driver from Sino-US progress gets exhausted. Overall, USD-Asia may see some retracement higher for now.
- **Going forward, further RMB appreciation will be predicated on continued improvement in the macro outlook.** In this context, the stronger than expected China Dec trade data (first yoy expansion since July 2019) yesterday provided yet another sign of stabilization. Trade is one of the main hold-outs in terms of the improvement of macro indicators in Asia thus far. For further indication, watch trade prints scheduled for Indonesia (0400 GMT) and India later today.
- Elsewhere, the latest attempt by the BOT to curtail THB strength is mostly jawboning, without new initiatives in terms of policy changes. We think this will have limited impact on broader USD-THB trajectory.
- **USD-SGD:** The USD-SGD lifted higher alongside the USD-CNH early Wednesday, but stayed well-capped around 1.3485. While the USD-Asia pairs have reversed lower somewhat, the downside for the USD-SGD may be curtailed by the elevated SGD NEER, which stands at +1.77% above its perceived parity (1.3712). NEER-implied thresholds turned higher on the day.

### FX Sentiment Index



### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1094	1.1100	1.1129	1.1138	1.1200
GBP-USD	1.2905	1.3000	1.3022	1.3024	1.3100
AUD-USD	0.6821	0.6850	0.6900	0.7026	0.7032
NZD-USD	0.6571	0.6600	0.6610	0.6700	0.6739
USD-CAD	1.2952	1.3000	1.3068	1.3100	1.3166
USD-JPY	109.00	109.06	109.94	110.00	110.21
USD-SGD	1.3434	1.3445	1.3475	1.3500	1.3567
EUR-SGD	1.4962	1.4964	1.4996	1.5000	1.5051
JPY-SGD	1.2213	1.2243	1.2256	1.2300	1.2441
GBP-SGD	1.7458	1.7500	1.7547	1.7600	1.7669
AUD-SGD	0.9239	0.9245	0.9297	0.9300	0.9319
Gold	1491.26	1500.00	1547.10	1591.96	1600.00
Silver	17.30	17.70	17.78	17.80	18.62
WTI Crude	58.38	59.15	58.11	58.20	58.88

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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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