OCBC TREASURY RESEARCH

Daily Market Outlook

17 February 2020

Market Themes/Strategy – The week ahead

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- The broad USD is in consolidative mode on Friday, with major pairs largely kept within their recent ranges. Soft US retail sales and industrial production perhaps added a slight negative drag on the broad USD, but the DXY index closed the week above 99.00, retaining a positive setup going forward.

- The **FX Sentiment Index (FXSI)** opens this week steady within the Risk-On zone. But the market sentiment remains somewhat cautious. The UST space is the best place to see that, with the 10y yield still stuck below 1.65%, the 2y-10y curve showing a flattening bias and the 3m -10y curve barely positive. On the flipside, the equity markets have held up reasonably better. Overall, **expect the risk-on / risk-off theme to be losing traction on the FX space for now.**

- **Instead, focus more on EUR weakness**. German and Eurozone 4Q GDP prints mixed to softer on Friday, confirming a lack of growth impetus in Europe. The low hanging fruits for the macro stabilization theme in Europe are over. It is no longer enough for data to just to meet or marginally outperform expectations, but to consistently strengthen. That is where Europe is failing. Other issues – EUR's role as funding currency, political issues in Germany – compound EUR negativity. With option market still moving against the EUR – front-end risk reversals favouring further EUR weakness, demand for EUR wings also increasing – do not rule out further implicit heaviness for the EUR this week.

- The investment community, as seen through the **CFTC** data, have also continued to move against the EUR. Non-commercial accounts moved deeper into an implied long USD position, with much of the gain seen against the EUR. Leveraged accounts and asset managers are largely unchanged in terms of their implied USD positions.

- The **calendar** is relatively light on EZ and US data, save for German ZEW (Tue) and Feb preliminary PMIs (Fri). We will however, also keep an eye on AU jobs and wages data (Thu). A heavy schedule of central bank releases though, with minutes of the latest **RBA**, **FOMC** and **ECB** meetings on tap (Tue through Thu), and a heavy line-up of appearances interspersed throughout the week.

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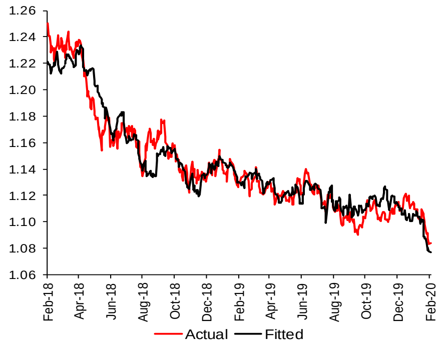
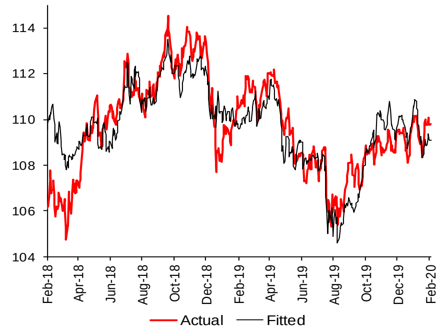
EUR-USD

Heavy. The EUR-USD should continue to exhibit implicit heaviness this week, with data releases potentially giving the pair another jolt lower. 1.0800 is still the target on a multi-session horizon, while bounces may be capped by the 108.70/80 zone. Prefer to sell on rallies for now.



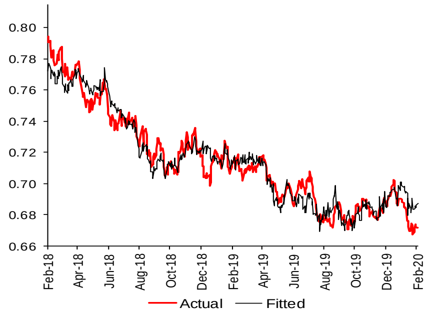
USD-JPY

Topside capped. With short-term implied valuations also flat-lining, continue to expect the USD-JPY to thread water near 110.00. The range should still be limited by 109.60 and 1.1020.



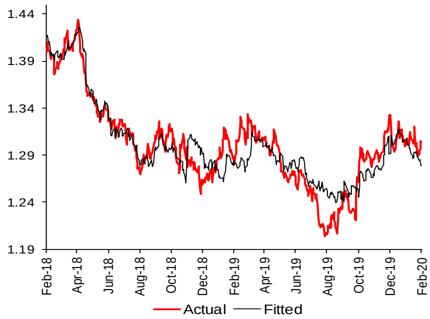
AUD-USD

Consolidate. With risk dynamics not imparting significant traction, expect investors to focus instead on the release of RBA minutes (Tue) and jobs data (Thu). Any inkling of weakness, especially on the jobs front, may reignite RBA rate cut expectations, and push the AUD another leg lower.



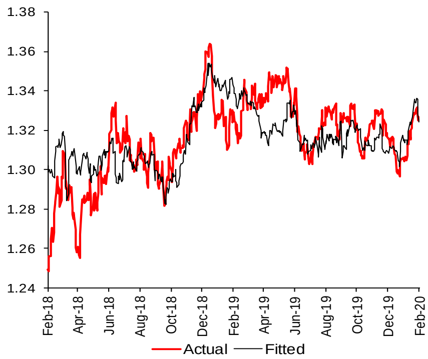
GBP-USD

Supported. Expect the GBP-USD to remains supported on the downside for now, targeting the 1.3100/50 zone. The 55-day MA (1.3072) will be the first target, while dips should be limited to 1.3000. However, the pair is moving towards the top end of the confidence interval of the short term implied valuations, and we may turn cautious of the implied valuations continue to march south.



USD-CAD

Ease south. We continue to expect the USD-CAD to edge south, although ongoing USD strength has impended downside momentum. If 1.3240 can be breached, the next target will be the 200-day MA (1.3218). Topside resistance at 1.3270/80.



Asian Markets

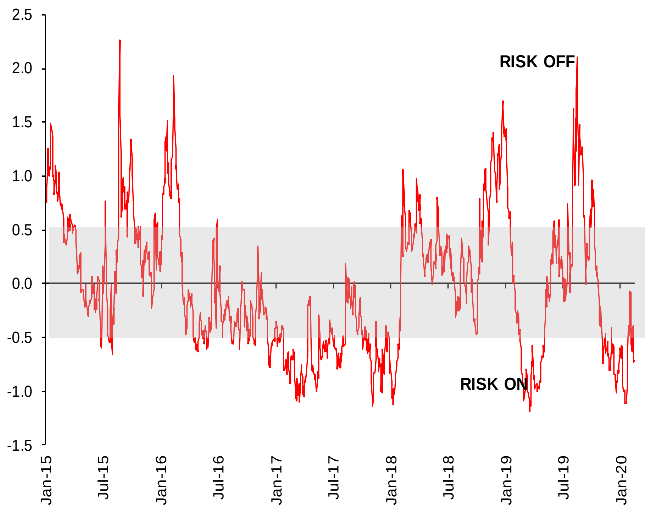
- **USD-Asia**: USD-Asia stayed mixed on Friday, with the USD-CNH also sideways within a narrow range. As long as risk dynamics take the back seat, expect USD-Asia may continue to range, with individual currencies potentially running on their respective domestic cues.

- Data from the **EPFR** front mirrors actual portfolio flows, reflecting no signs of excessive outflows from the Asian space. This further supports our view that there is no panic in Asian currencies. Latest readings suggest a tentative return of implied bond and equity flows into Asia (ex. JP, CN). Implied equity inflows into China also bounced higher smartly in the latest week.

- **USD-SGD:** The SGD NEER softened to around -0.42% below the perceived parity (1.3845). Expect the USD-SGD to remain range-bound around the 1.3900 locus ahead of the Budget statement.

- In terms of data, the 4Q GDP print is revised higher to 1.00% yoy (from 0.80% yoy), and Jan NODX contracted by less than expected. However, investors may instead focus on the significant growth downgrade for 2020 from 0.50 – 2.50% yoy to -0.50% - 1.50% yoy. **While fiscal policy is expected to do the heavy lifting this year, the needle is probably also moving towards more monetary easing in April. We do not rule out the possibility of the MAS reverting to a zero appreciation path for the SGD NEER, and regard a re-centering lower as the lower-probability event.**

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0814	1.0821	1.0840	1.0900	1.1074
GBP-USD	1.2879	1.3000	1.3048	1.3069	1.3100
AUD-USD	0.6660	0.6700	0.6725	0.6800	0.6845
NZD-USD	0.6378	0.6400	0.6439	0.6480	0.6500
USD-CAD	1.3200	1.3218	1.3241	1.3300	1.3329
USD-JPY	109.00	109.37	109.83	110.00	110.29
USD-SGD	1.3677	1.3900	1.3902	1.3927	1.4000
EUR-SGD	1.5000	1.5053	1.5069	1.5100	1.5198
JPY-SGD	1.2600	1.2621	1.2658	1.2700	1.2730
GBP-SGD	1.7766	1.8100	1.8139	1.8175	1.8194
AUD-SGD	0.9300	0.9304	0.9349	0.9367	0.9375
Gold	1532.88	1550.74	1582.70	1587.34	1600.00
Silver	17.61	17.80	17.81	17.90	18.12
WTI Crude	49.31	52.00	52.04	52.10	56.63

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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