

Daily Market Outlook

17 January 2020

Market Themes/Strategy

- A series of in-line to stronger than expected US retail sales and labour data provided support for the broad USD overnight. US Treasuries also sold off the on US data, while other core yield curves continue to step lower – resulting in stronger rate differential support for the USD. Overall, the greenback turned higher against the majors after the data release, with the exception of the GBP.
- At this juncture, the GBP retracement higher continues apace, even as the implied probability of Jan BOE rate cut remains elevated at around 60%. On the side, investors appear to take heart from the firmer than expected housing market, and place hopes on the post-election optimism to support the broader economy. Elsewhere, the ECB minutes suggest some initial positives in the Eurozone economy, noting “initial signs of stabilization in the growth slowdown” and “solid upward movement in underlying inflation”.
- Strong US bank earnings and equity markets provide more good news for overall risk sentiment. The **FX Sentiment Index (FXSI)** dipped lower within the **Risk-On** zone. Risk sentiment has stayed stable and risk-on throughout this week, in spite of initial concerns of the Phase 1 deal.
- Overall, **we prefer to avoid reading too much to the USD bounce overnight**. The DXY index remains well capped and on a downtrend. We retain a slight bias for a weaker USD in the near term, and prefer to express that through a higher EUR-USD. It is tempting to be negative on the GBP from a fundamental basis, but the retracement higher may still have legs – rather wait it out for now, pending further data cues later today.
- The calendar today will be headlined by UK retail sales (0930 GMT), Eurozone CPI (1000 GMT) and US UMich sentiment index (1500 GMT). Fed’s Harker also on tap (1400 GMT).

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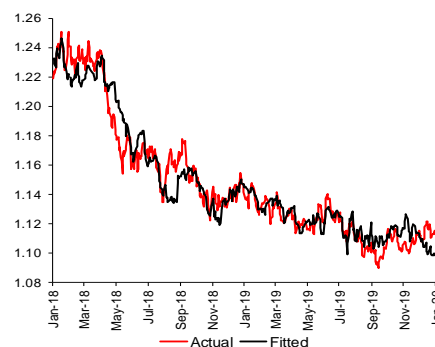
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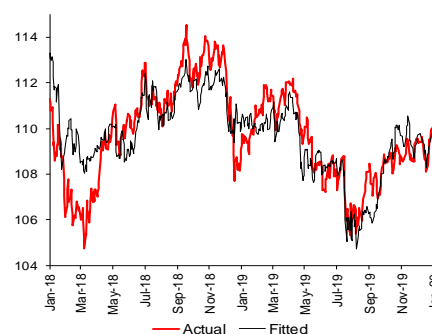
EUR-USD

Biased higher. The move higher in EUR-USD retraced near 1.1180 as market attention shifted to firmer than expect US data releases. Nevertheless, we retain a slight upside bias for this pair, preferring to buy on any dip towards 1.1120, targeting 1.1190/00.



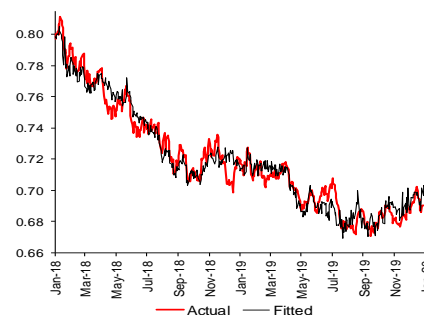
USD-JPY

Breaking out? The setup is moving in favour of further upside extension, although the lack of traction above 110.20 is still holding the pair back somewhat. Risk-on sentiment and short term implied valuations continue to support. Any breakout clean of 110.20 will first target 110.80.



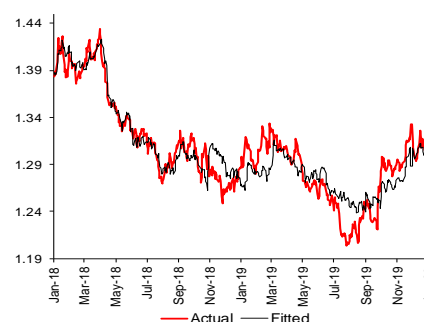
AUD-USD

Supported. The sharp retracement on the USD bounce pulled the AUD-USD back into the 0.6880-0.6920. Nevertheless, stronger than expected Chinese data should provide support on an intra-day basis.



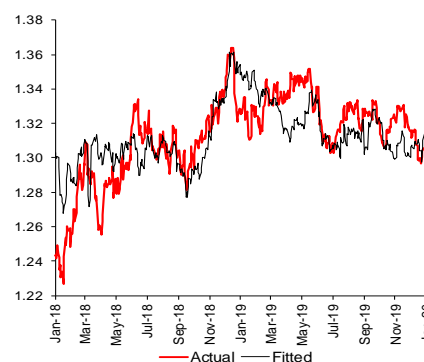
GBP-USD

Heavy within range. Ongoing short-covering continues to push the GBP-USD higher, and countering the USD move overnight. Expect the retracement to find limited traction beyond 1.3100 for now, although a clean break of that level may reverse the heavy posture.



USD-CAD

Sideways. The USD-CAD plied a narrow range between 1.3030 and 1.3060 overnight. Post Sino-US trade, attention shifts towards the BOC meeting next week. Expectations of a dovish tilt by the BOC have eased, and this should keep the pair capped in the interim.



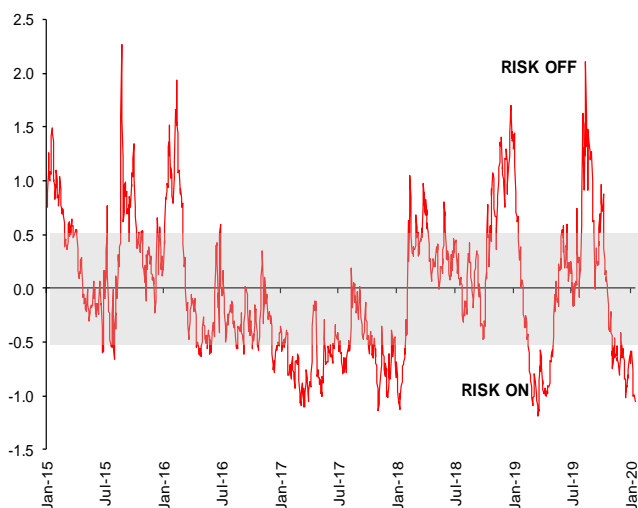
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Asian Markets

- USD-Asia:** The USD bounce overnight spilled over to the Asia open today, with USD-Asia pairs mostly higher. However, the USD-CNH remains in a heavy stance, especially with the latest industrial production and retail data in-line to stronger than expected. On the whole, expect more resilience for IDR and MYR on the back of inflow dynamics for now.
- The Bank of Korea (BOK)** held policy rates unchanged, as expected. Going forward, we expect BOK meetings to be knife-edge decisions, with a still-weak macro outlook set against record low policy rates. We look for the Sino-US truce to perhaps provide enough improvement to the trade sector to ward off further cuts in the near term.
- USD-SGD:** The SGD NEER consolidated lower to +1.75% above its perceived parity (1.3706). As expected with the elevated SGD NEER, we saw the USD-SGD bounce off lows at 1.3450 with overnight USD strength. Nevertheless, the heavy USD-Asia posture should still govern and impart downside pressure on the USD-SGD. Expect the USD-SGD to ply the 1.3450 to 1.3475 range for now. Meanwhile, Singapore Dec NODX printed 2.4% yoy, against expectations of a slight contraction.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1100	1.1136	1.1138	1.1200	1.1224
GBP-USD	1.3000	1.3035	1.3070	1.3100	1.3249
AUD-USD	0.6870	0.6887	0.6896	0.6900	0.7025
NZD-USD	0.6583	0.6600	0.6641	0.6700	0.6736
USD-CAD	1.2952	1.3000	1.3045	1.3100	1.3160
USD-JPY	109.09	110.00	110.20	110.29	110.49
USD-SGD	1.3428	1.3445	1.3467	1.3500	1.3562
EUR-SGD	1.4959	1.4962	1.4999	1.5000	1.5052
JPY-SGD	1.2200	1.2210	1.2220	1.2300	1.2432
GBP-SGD	1.7500	1.7550	1.7600	1.7679	1.7835
AUD-SGD	0.9227	0.9245	0.9287	0.9300	0.9316
Gold	1493.58	1500.00	1553.30	1592.94	1600.00
Silver	17.31	17.90	17.99	18.00	18.54
WTI Crude	58.38	59.15	58.44	58.50	58.94

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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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