

Daily Market Outlook

20 January 2020

Market Themes/Strategy – The week ahead

- The broad USD drew support from housing data, continuing its bounce higher against G10 counterparts. The GBP retracement saw little traction above 1.3100, with the GBP taken lower after a miss on retail sales data put more pressure on the BOE.
- This week, **expect the market to be on the lookout for further cues of the global macro stabilization**. In this front, Asia leads the way, with the trade sector joining the list of indicators showing improvement. China's stronger than expected IP and retail sales also set a positive tone.
- Elsewhere, **major central banks may also come back in focus**, starting with BOJ (Tue), BOC (Wed) and ECB (Thu) this week, Fed and BOE next week and RBA in early February. The BOE and RBA may be in play, with rate cut expectations mounting. The rest of the central banks will likely be in stasis. In those cases, focus on their rhetoric on macro outlook and/or fiscal stimulus.
- Overall risk sentiment remains resilient, with the **FX Sentiment Index (FXSI)** starting the week deeper within the **Risk-On** zone. However, there are possible trip-ups this week. As positives run its course, new challenges have arisen – HK turning violent again, spread of the Wuhan pneumonia case, and crude oil supply disruptions in Libya and Iraq, just to name a few.
- On the **CFTC** front, non-commercial and leveraged accounts continue to pare their net implied long USD positions again this week. In particular, note that the short-term players have boosted their implied JPY shorts significantly in the latest week. Asset managers, however, reduced their net implied short USD bias.
- Overall, **USD-centred directional cues remain weak**. The DXY index has not shaken convincingly out its downward bias. Supportive risk sentiment also works against the USD for now. Focus on the idiosyncratic drivers for now. Overall, expect a relatively subdued market intraday.
- On the calendar, apart from the central banks, watch for advance PMIs on Friday

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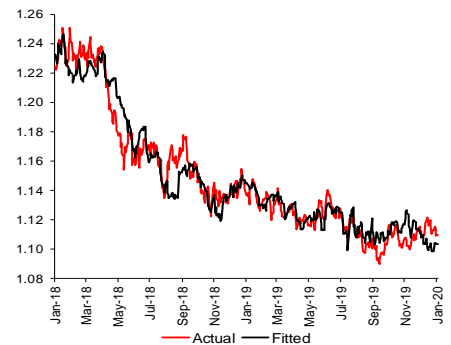
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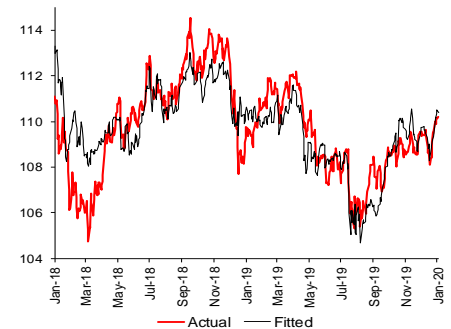
EUR-USD

Turning heavy. Repeated failures to lift higher may force a turn in the short term posture for the EUR-USD. However, as long as 1.1070/80 still holds, we will not be outright bearish on this pair. Expect any bounces to be limited to 1.1100/20 for now.



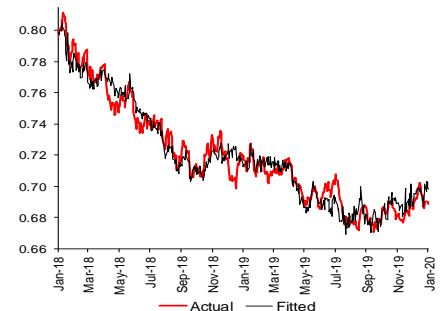
USD-JPY

Breaking out? Continue to look for positives for this pair, with the lows edging higher each time. Near term dips should be limited to 109.90/00 for now. Look for opportunities to take a long position on this pair.



AUD-USD

Supported. The pull-back from USD resilience lacks conviction, with the AUD-USD still staying relatively range bound for now. Going in the RBA meeting early-Feb, expect any shifts in RBA expectations to provide directionality. In the interim, expect a 0.6830 – 0.6930 range.



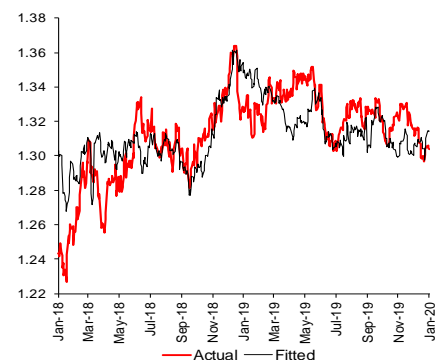
GBP-USD

Heavy within range. The GBP-USD turned after hitting a high of 1.3120, with traction above 1.3100 limited as we expected. Miss in retail sales data puts BOE rate cut expectations squarely in focus, with flash PMIs later this week focusing attention as well. Downside target at 1.2950, before 1.2900.



USD-CAD

Sideways. The USD-CAD continued to range between 1.3030 and 1.3080. This sideways stance may stay ahead of the BOC meeting (Wed) later this week. The policy rate is likely to be unchanged, but watch rhetoric from Poloz to determine directionality.



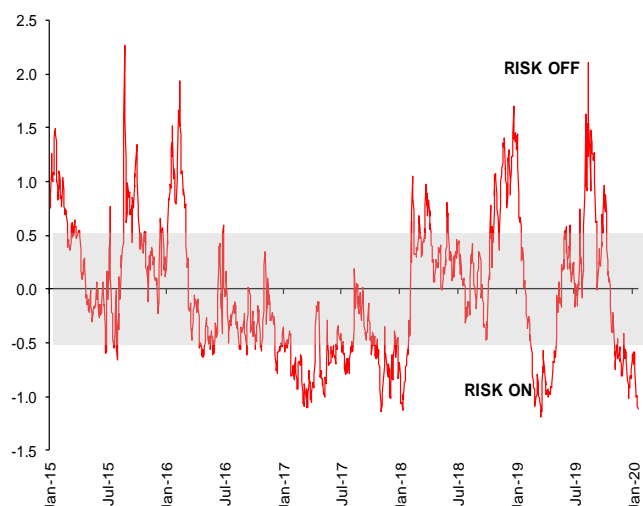
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Asian Markets

- **USD-Asia:** USD-Asia remains broadly on a heavy tone, led by the USD-CNH testing the floor at 6.8600. The flipside of the Asia macro stabilization story is that much of it may have already been priced in in terms of Asian FX. Thus, further downside may be limited to a slow grind near term.
- On the **EPFR** front, we continue to see good implied inflows in Asia (ex JP, CN) on both the bond and equity fronts. On a rolling 4-week basis, both sectors see good inflow momentum. Elsewhere, implied equity inflows into China continued to stay strong in the latest reading.
- On the calendar in Asia, expect policy decisions from **BNM** (Wed, on hold) and **BI** (Thu, 25 bps cut) scheduled. Watch also for export prints from Taiwan (Mon), South Korea (Tue) and Thailand (Wed).
- **USD-SGD:** Even though the USD-SGD showed a slight biddish tone on Friday, the SGD NEER remains quite elevated at +1.76% above its perceived parity (1.3709). Expected USD-SGD downside to be limited by 1.3450/60 for now, with topside sellers coming in at 1.3480/90.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1059	1.1063	1.1095	1.1098	1.1100
GBP-USD	1.2907	1.3000	1.3002	1.3037	1.3100
AUD-USD	0.6828	0.6870	0.6881	0.6886	0.6900
NZD-USD	0.6577	0.6600	0.6617	0.6700	0.6737
USD-CAD	1.2952	1.3000	1.3067	1.3100	1.3130
USD-JPY	109.12	110.00	110.19	110.29	110.59
USD-SGD	1.3430	1.3445	1.3472	1.3500	1.3554
EUR-SGD	1.4935	1.4938	1.4948	1.5000	1.5050
JPY-SGD	1.2200	1.2207	1.2227	1.2300	1.2428
GBP-SGD	1.7458	1.7500	1.7517	1.7600	1.7678
AUD-SGD	0.9214	0.9245	0.9271	0.9300	0.9315
Gold	1495.01	1500.00	1557.70	1593.24	1600.00
Silver	17.39	18.00	18.02	18.10	18.47
WTI Crude	58.99	59.10	59.12	59.20	63.68

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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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