

Daily Market Outlook

23 January 2020

Market Themes/Strategy

- The broad USD moved within narrow range against G10 counterparts, with the exception of the GBP and CAD. The GBP extended gains further after the strong employment prints from Tue. CAD slumped on the back of the **Bank of Canada** (BOC) meeting.
- **Central banks in play.** The BOC moved decidedly towards the dovish end of the spectrum, with the term “appropriate” dropped from the latest statement, and Poloz stating that the door to rate cut is open. In this context, the next two meetings in March and April will very much be in play. The BOC had previously resisted rate cuts even as the global central banks eased in the 2H 2019. **We may now see the BOC play catch up in terms of rate cuts while the Fed is on hold.** This may disadvantage the CAD in the longer term.
- **BOE** rate cut expectations are being pared back further, with implied probability for BOE rate cut standing at just better than evens, falling from close to 70% early week. Meanwhile, a stronger than expected set of employment prints early Thursday may push back **RBA** rate cut expectations as well.
- Focus will also be on the **ECB** today (1245 GMT). While no change is expected, investors will be looking out for any change in terms of their broader monetary policy approach, and the implications it may have for the EUR.
- Overall, global asset markets are still in a tentative posture. Equities were mixed, with gains in EM offset by a flat US and softer EU stocks. With the exception of the gilt yields, global core yields were also softer across the board. Some support for risk assets were noted yesterday, but we are still not completely out of the woods just yet. The **FX Sentiment Index (FXSI)** again inched closer to the Risk-Neutral zone, but we are still well within the **Risk-On** zone.
- Into the festive period, a slight risk-off tone still hangs in the air. Prefer the risk-off trades for now, with the USD-JPY, JPY-crosses and the AUD-USD (after the knee-jerk higher after the employment data) expected to be heavy intra-day. USD-CAD may also search higher on the back of BOC dovishness and softer crude. Positives from the risk sentiment front (if any) will probably benefit the AUD more than the CAD for now.

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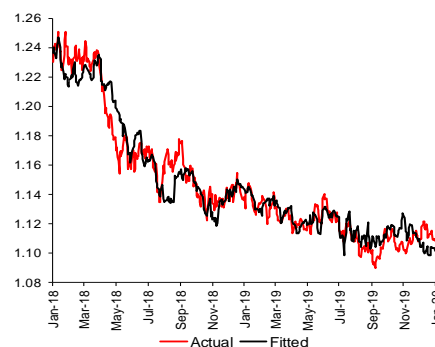
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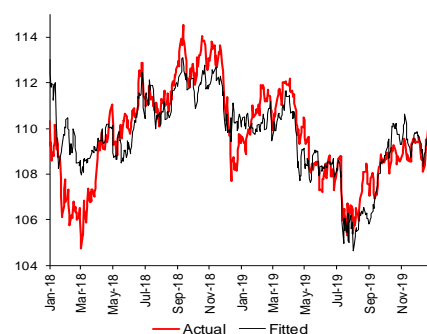
EUR-USD

Heavy. The EUR-USD holds at the 1.1070/80 support, although technicals still point towards more implicit heaviness ahead. A positive, however, is that short term implied valuations have bottomed off. Continue to expect a 1.1070 – 1.1120 range for this pair.



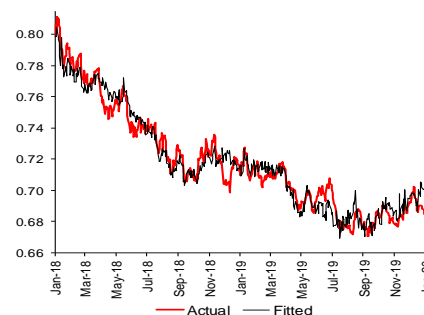
USD-JPY

Upside momentum curtailed. Indications for the USD-JPY are quickly turning south, with both technicals and short term implied valuations leading the way. Overall risk appetite is still worsening in the short term. Expect support at 109.30 if the pair continues to slide.



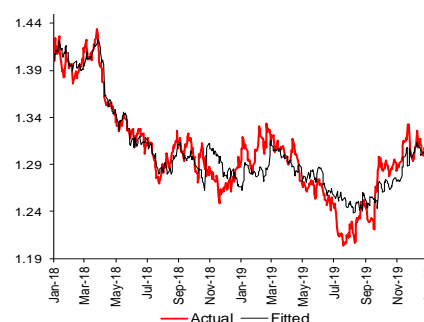
AUD-USD

Southbound. The AUD-USD spiked higher early Thursday, after a series of stronger than expected employment data pushed back RBA rate cut expectations. Nevertheless, with the broad sentiment still negative, we find limited impetus for the pair to extend higher in the near term. 0.6850 is back as the downside target, but topside should be limited to 0.6900.



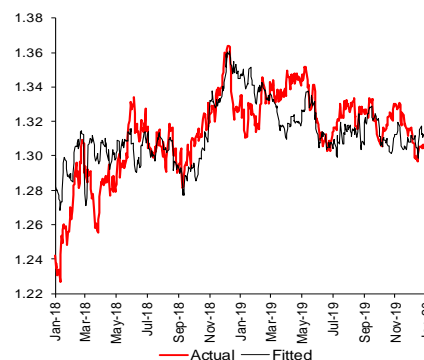
GBP-USD

Range. The GBP-USD continued to extend higher as the market pared back on BOE rate cut expectations. The next data challenge is the advanced PMIs on Friday, and another soft print may turn the GBP-USD trajectory again. In the interim, 1.3200 should cap further northward extensions.



USD-CAD

Supported. The dovish turn by the BOC will probably keep the USD-CAD buoyant going forward. A softer crude complex also keeps the pair supported. Further upside extensions may be capped at 1.3180/00 in the near term, before 1.3235.



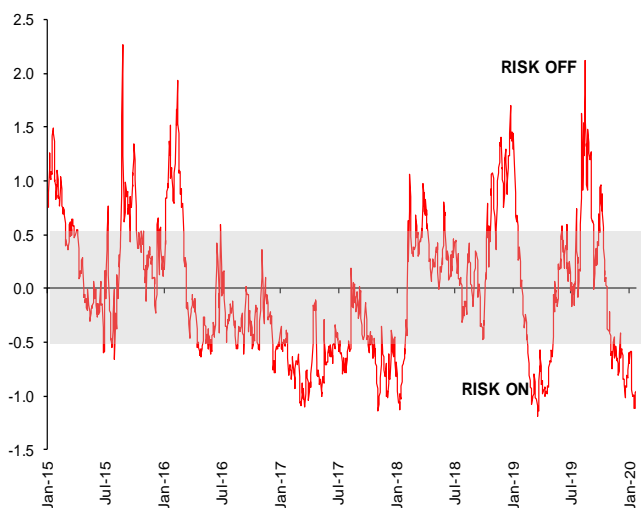
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Asian Markets

- USD-Asia:** With the USD-CNH still buoyant above 6.9000 and overall risk sentiment still guarded, we think any dips in USD-Asia should be shallow. Prefer to be on a buy on dips posture for USD-Asia into the holiday period. Idiosyncratic drivers continue to favour IDR for now.
- BNM** cut its policy rate by 25 bps, against our expectation for a hold. The BNM chose to focus more on domestic weakness this time round, despite acknowledging improvements on the global front. The MYR was rather nonplussed by the cut. Elsewhere, **BI** is expected to put in a 25 bps cut in their policy meeting today.
- USD-SGD:** The USD-SGD was heavy yesterday, and stayed on a slight easing bias early Thursday. Note however, the broader downside momentum that brought the pair to 1.3440/50 appears to be fading. We expect a 1.3475 to 1.3500 range intra-day. The SGD NEER held at +1.72% above its perceived parity (1.3717), with NEER-implied thresholds softer. Singapore Dec CPI scheduled today (0500 GMT).

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1057	1.1066	1.1091	1.1100	1.1103
GBP-USD	1.3052	1.3100	1.3136	1.3200	1.3240
AUD-USD	0.6827	0.6872	0.6877	0.6881	0.6900
NZD-USD	0.6558	0.6573	0.6596	0.6600	0.6740
USD-CAD	1.3139	1.3149	1.3154	1.3200	1.3205
USD-JPY	109.00	109.18	109.67	110.00	110.29
USD-SGD	1.3444	1.3445	1.3484	1.3500	1.3522
EUR-SGD	1.4910	1.4927	1.4956	1.5000	1.5047
JPY-SGD	1.2200	1.2207	1.2296	1.2300	1.2413
GBP-SGD	1.7688	1.7700	1.7713	1.7800	1.7850
AUD-SGD	0.9200	0.9219	0.9273	0.9300	0.9312
Gold	1500.00	1503.06	1556.40	1586.25	1600.00
Silver	17.65	17.70	17.79	17.80	18.30
WTI Crude	55.74	55.90	55.95	56.00	57.70

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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
2	20-Jan-20	B	USD-JPY	110.19	112.65	108.98	Persistent risk-on sentiment; UST yields supported on the downside, curve with steepening bias
STRUCTURAL							
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RECENTLY CLOSED TRADE IDEAS							
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
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