OCBC TREASURY RESEARCH

Daily Market Outlook

24 January 2020

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Market Themes/Strategy

- The escalation of the Wuhan situation sapped overall risk sentiment; keeping the broad USD mostly stronger within the G10 space. Typical risk-off moves seen, with the JPY outperforming and the AUD paring the spike higher after strong employment data. The EUR weakened after Eurozone govie yields were softer across the board post-ECB.

- Risk sentiment took a turn for the worst, after the death toll rose and China locked down two more cities. Most asset classes were essentially trading risk-off. Slight optimism from the US equities, though, where early losses were consistently pared throughout the day. Unsurprisingly, the **FX Sentiment Index (FXSI)** moved higher towards the Risk-Neutral zone.

- The **ECB** kept its policy rate unchanged, as expected. The growth/inflation prognosis was actually positive, with downside risks "somewhat less pronounced" and underlying inflation seeing a "moderate increase". However, the focus was on the monetary policy review. No concrete information just yet, but market chatter pointed to the inflation target potentially being raised to 2%, compared to "just under" 2%. This would be taken as a dovish tilt from the ECB. **In this context, expect the Eurozone govie yields and EUR to be depressed going forward.**

- Going forward, central banks are still expected to be the headline drivers next week. With the Fed (Wed) likely unchanged, the main focus will be on the BOE (Thu).

- **We continue to follow the risk-off playbook**, with the Wuhan situation still appearing to be in the escalation phase. Expect further implicit heaviness in the USD-JPY and AUD-USD. Apart from risk dynamics, there may be scope for the EUR to search lower in the near term as the market contemplates the ECB policy review.

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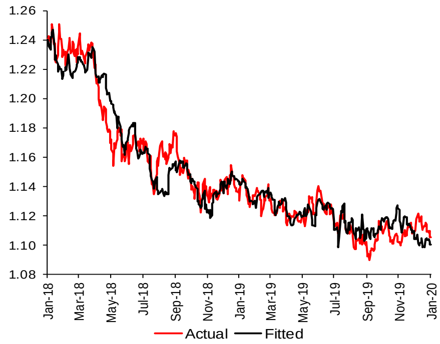
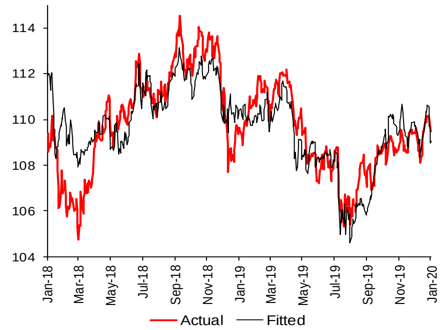
EUR-USD

Heavy. The EUR-USD dislocated lower on the back of ECB's policy review. Market expectation is for the policy review to result in a further dovish tilt at the ECB. Going forward, expect some implicit heaviness, even as implied valuations are still supportive. Expect 1.1070/80 to turn into a near-term resistance, with downside floor at 1.1020.



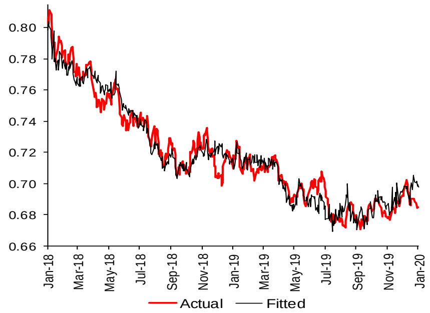
USD-JPY

Headline driven for now. Risk-off sentiment will continue to weigh on the USD-JPY, with technicals and short term implied valuations supportive of the down-move. Expect firmer resistance at 109.30, while any bounce may not see traction above 110.00 for now.



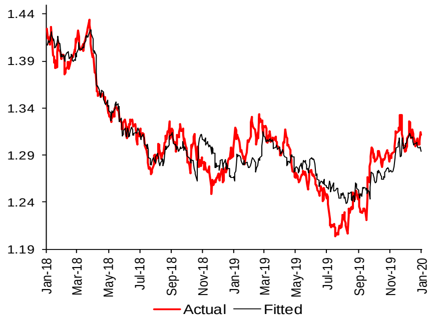
AUD-USD

Southbound. Stronger than expected employment data provided a brief relief from the downward trajectory, but negative risk sentiment won the day eventually. With 0.6850 breached, expect 0.6800 to attract, with any bounces limited to yesterday's high at 0.6879.



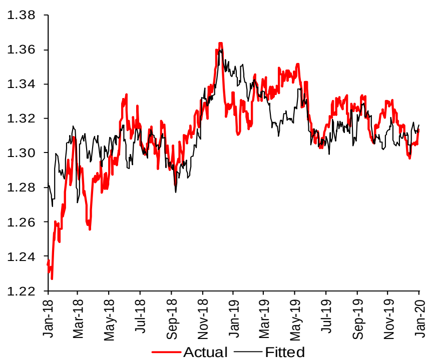
GBP-USD

Range. The toing and froing of BOE rate cut expectations should continue to limit the GBP-USD time-path into the 1.2950 to 1.3200 range. Continue to focus on data releases for now, up till the BOE decision next week.



USD-CAD

Supported. The USD-CAD retraced in part the spike higher post-BOC. Overall, short term implied valuations remain supported, and technicals are moving in favour of a higher USD-CAD. As such, we retain a bias for the pair to lift higher, with the 1.3180/00 as an immediate target.



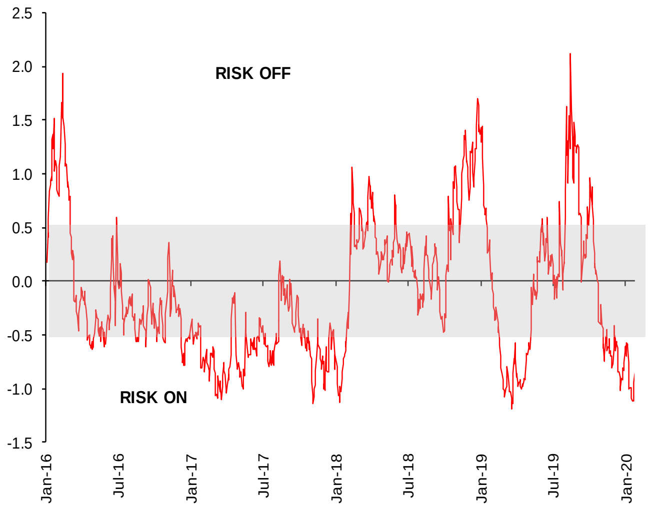
Asian Markets

- **USD-Asia:** The broad USD is more successful against the Asians. The RMB complex lead the losses, with the USD-CNH touching 6.9400 at one stage. **For now, the macro stabilization theme is set aside, with the Wuhan situation front and centre.** Overall, expect the USD-Asia to retain a buoyant stance, with USD-North outperforming USD-South. Nevertheless, we note that macro stabilization is still ongoing on the background, with the Asian economic prints mostly firmer than expected this week.

- The **BI** remained unchanged in its policy meeting yesterday, against our expectations. They struck a rather confident tone in the statement, but continued to issue reassurances about staying accommodative in the press conference. **Going forward, we think that the BI may be in a wait-and-see mode and look to hold for the next 1-2 meetings** if there are no negative turns in the global cues. However, **we don't rule out BI revisiting rate cuts in 2Q 2020**.

- **USD-SGD:** The SGD NEER eased lower to +1.68% above its perceived parity (1.3733), with NEER-implied thresholds continuing its uptrend. Overall, with the parity level drifting higher, there may be no choice but for the USD-SGD to follow suit. Having breached the 1.3500 yesterday, continue to expect the USD-SGD to be easing higher into the end of the week. Expect a 1.3490 to 1.3520 range intra-day.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1036	1.1037	1.1053	1.1100	1.1102
GBP-USD	1.3056	1.3100	1.3117	1.3200	1.3241
AUD-USD	0.6800	0.6827	0.6842	0.6872	0.6879
NZD-USD	0.6577	0.6600	0.6614	0.6700	0.6734
USD-CAD	1.2952	1.3100	1.3128	1.3140	1.3146
USD-JPY	109.00	109.19	109.46	110.00	110.29
USD-SGD	1.3445	1.3500	1.3506	1.3522	1.3550
EUR-SGD	1.4900	1.4922	1.4929	1.5000	1.5044
JPY-SGD	1.2207	1.2300	1.2339	1.2400	1.2411
GBP-SGD	1.7692	1.7700	1.7716	1.7800	1.7856
AUD-SGD	0.9200	0.9219	0.9241	0.9300	0.9311
Gold	1500.96	1511.09	1561.50	1585.36	1600.00
Silver	17.66	17.70	17.78	17.80	18.30
WTI Crude	55.02	55.50	55.58	55.60	57.66

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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	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
	RECENTLY CLOSED TRADE IDEAS							
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