

Daily Market Outlook

29 January 2020

Market Themes/Strategy

- **Shifts in risk sentiment to dictate.** Haven currencies and USD were bid early in the global day as the risk-off tone still dominated. The late London and NY sessions saw the mood lifted as market focus shift to US earnings and firm consumer confidence survey. Overall, the broad USD closed little changed against the EUR and the antipodeans (although the CAD outperformed). The JPY underperformed on the back of the slight toning down of risk aversion.
- US equities led global counterparts higher. Global core yield curves also consolidated higher, with the exception of the Australian govie yields. The **FX Sentiment Index (FXSI)** dipped towards Risk-On, while staying within the Risk-Neutral zone, highlighting an improvement in overall risk sentiment.
- At this juncture, there appears to still be sectors of the market who is trying to stay optimistic and be on a search for opportunities to buy.
- We prefer not to over-interpret the reprieve overnight. **Expect overall risk appetite to still be jittery, and beholden to headline developments.** Note that there is still very limited positive news coming out on the Wuhan front (save for a medical breakthrough by Australian scientists). In that context, we stick to risk-off plays until surer signs of improvement can be detected. In particular, we stay negative on **AUD-USD** as yield differential arguments add to the risk-off climate.
- On the **calendar**, focus will be on the FOMC decision (1900 GMT), with investors watching for the committee's biases on the 2% inflation target, and further clarity on the balance sheet expansion.

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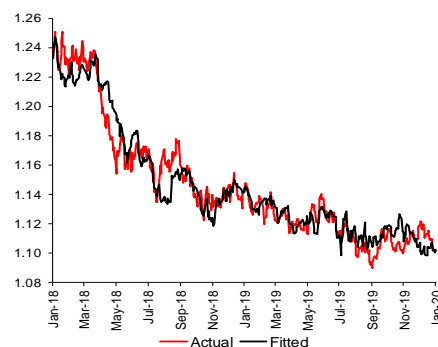
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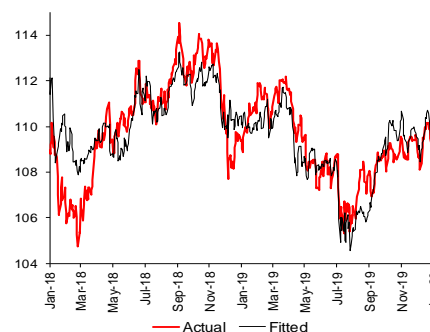
EUR-USD

Heavy. A dip to 1.1000 was quickly reversed as Wuhan concerns eased off. Expect some consolidation ahead of the FOMC later today, but with the short term implied valuations still edging south, we expect the pair to still exhibit a slight heavy bias. Expect 1.1000 and 1.1040 to bookend the pair for now.



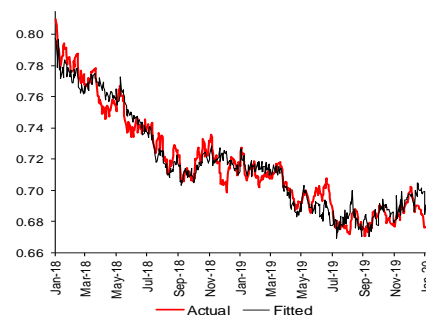
USD-JPY

Headline driven for now. Any bounce north of 110.20 found little traction. Expect the pair to vacillate on either side of the 55-day MA (109.16), pending headlines. Downside limited to 108.75. On a structural basis, note that the BOJ continued to sound risks of the economy losing traction and for more fiscal support.



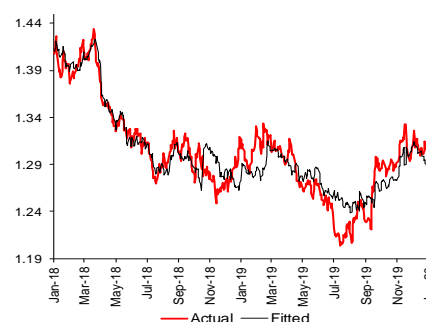
AUD-USD

Southbound. Firmer than expected CPI prints early Wednesday imparted some support, but the technical picture remains heavy. With the short term implied valuation also deepening its move down south, we think there is still room for the pair to search lower. 0.6737 may still attract for now, with topside likely capped at 0.6780.



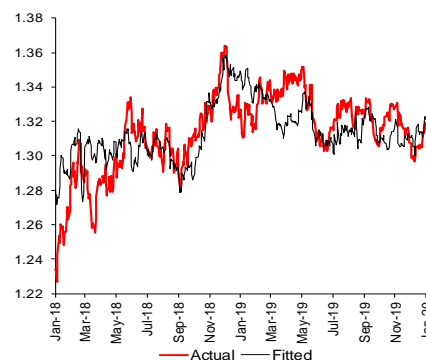
GBP-USD

Heavy within range. A BOE rate cut later this week (Thu) is priced at even odds (Thu), suggesting some volatility ahead pending the decision. In the interim, expect the pair to stay heavy on the back of softening short term implied valuations and resilient USD.



USD-CAD

Supported. The USD-CAD reversed as the bounce in US equities overnight put a floor on overall risk sentiment. Nevertheless, the dip was arrested at the 55-day MA (1.3151) first support level. Therefore, we think the supported posture is not overturned at this point. Reset immediate upside target to 1.3178 for now, before the 200-day MA (1.3232).



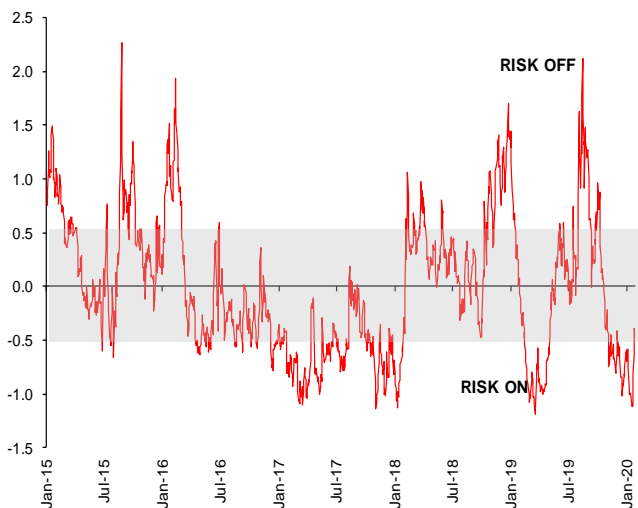
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Asian Markets

- USD-Asia:** The USD-CNH was well-kept by 6.9900 and has consolidated lower towards the 6.9600 handle. A rebound in risk appetite and positive lead for Asian equities should put in a firm platform for Asian currencies on an intraday basis. For now, we may see some temporary respite for the USD-Asia pairs. Nevertheless, further upside, especially for USD-North, cannot be ruled out just yet. Prefer to gain exposure to that through 1M USD-KRW calls.
- In terms of Asian portfolio flows,** there is still lack of post-Wuhan period data in North Asia due to the LNY holidays. However, the bond inflows into Indonesia continue unabated as of the start of this week. Resilience also seen in terms of inflow into Malaysian equities
- USD-SGD:** The SGD NEER steadied at +1.42% above parity (1.3765), with the NEER-implied thresholds easing higher. Expect the 1.3550 to 1.3600 range to bookend the USD-SGD for now.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0998	1.1000	1.1016	1.1098	1.1100
GBP-USD	1.2970	1.3000	1.3016	1.3062	1.3100
AUD-USD	0.6737	0.6752	0.6767	0.6800	0.6868
NZD-USD	0.6511	0.6521	0.6532	0.6535	0.6585
USD-CAD	1.3100	1.3141	1.3164	1.3193	1.3200
USD-JPY	108.47	109.00	109.20	109.21	110.00
USD-SGD	1.3548	1.3572	1.3574	1.3598	1.3600
EUR-SGD	1.4893	1.4900	1.4953	1.5000	1.5037
JPY-SGD	1.2400	1.2406	1.2430	1.2500	1.2523
GBP-SGD	1.7486	1.7600	1.7668	1.7696	1.7700
AUD-SGD	0.9151	0.9159	0.9185	0.9200	0.9305
Gold	1507.59	1530.20	1564.40	1584.28	1600.00
Silver	17.40	17.42	17.43	17.50	17.50
WTI Crude	52.28	54.00	54.02	54.10	57.49

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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 (%)
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

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