

Daily Market Outlook

31 January 2020

Market Themes/Strategy

- The broad USD is mixed against G10 counterparts overnight. Led by the GBP post-BOE, the European complex outperformed. Meanwhile, cyclicals, especially the AUD, underperform on the China-centric risk off tone. The JPY reversed gains after a risk rally late in the global day to close little changed.
- The **BOE** rate decision is yet another case of the **unreliable boyfriend striking again**. Despite the dovish rhetoric over the past month, the BOE held its policy rate unchanged (voting also unchanged at 7-2). Overall, the BOE chose to focus on the positives, and expect the reduction of uncertainty after the Dec election to lift economic activity. Going forward, with the BOE undergoing a leadership change, it may be placed on the back-burner for now, with a rate cut now unlikely until 2H 2020. **For the GBP, continue to track ongoing economic data prints (starting with Dec PMI next Monday) and progress in the EU-UK trade talks that will determine the economic impact of Brexit.** Until further clarity on these fronts, expect the 1.2900 – 1.3200 range to bookend the GBP moves.
- The WHO declared the Wuhan situation an international emergency, but (somewhat paradoxically) the confident tone and praise for China's handling of the issue assuaged concerns, and led to a recovery in risk. The US equities reversed early losses, while UST yields also bounced off lows. However, the **FX Sentiment Index (FXSI)** still stepped higher within the Risk-Neutral zone, signaling a worsening in risk appetite.
- Overall, we expect the overnight reprieve in risk to be short-lived, and for the market to revert to a risk-off tone over the course of the day. We stick to risk-off plays for now.
- **Trading idea update:** Our 8 Jan short AUD-USD idea hit its profit target at 0.6728 on Thursday, for an implied gain of +2.19%. With the coronavirus issue still ongoing, we look for further opportunities to re-enter a short AUD trade.

Terence Wu

FX Strategist

+65 6530 4367

TerenceWu@ocbc.com

Treasury Research

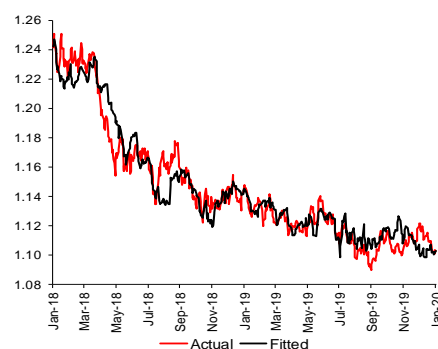
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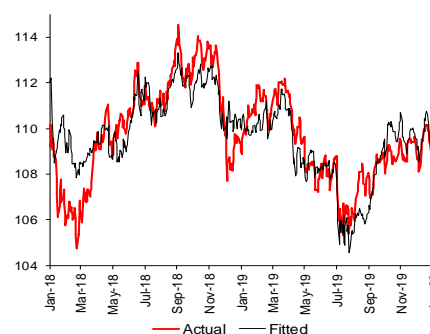
EUR-USD

Heavy. A GBP-led bounce in EUR-USD was well-kept under 1.1040. Repeated failures at 1.1000 may sap the bears for now. Nevertheless, expect this pair to remain in a downside trajectory, as long as it stays below the 1.1070/90 range.



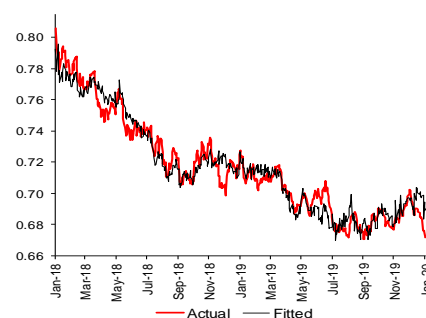
USD-JPY

Headline driven for now. A deeper decline towards 108.60 was rejected in favour of another move towards 109.10. Still biased on the downside for now, pending headline developments.



AUD-USD

Southbound. The AUD-USD probably bears the greatest brunt amid this risk-off episode, with 0.6700 now within an earshot. Any breach of that level will open up further declines to 0.6670. Bounces should be capped at 0.6740 for now.



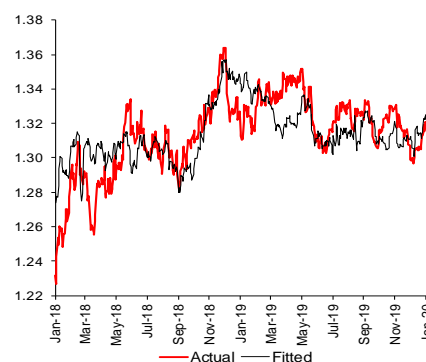
GBP-USD

Range. The BOE decision to hold probably set a firm base for the GBP-USD at 1.2950. In the immediate horizon, the pair may be biased higher, with 1.3100 the first target. Further out, expect the 1.2900 to 1.3200 range to bookend, pending further clarity in terms economic indicators and EU-UK trade talks.



USD-CAD

Supported. A push towards the 200-day MA (1.3227) was rejected overnight, with the pair now at the 1.3200 vicinity. Near term bias still for the pair to edge higher, with the 200-day MA (1.3227), then 1.3280 as targets.



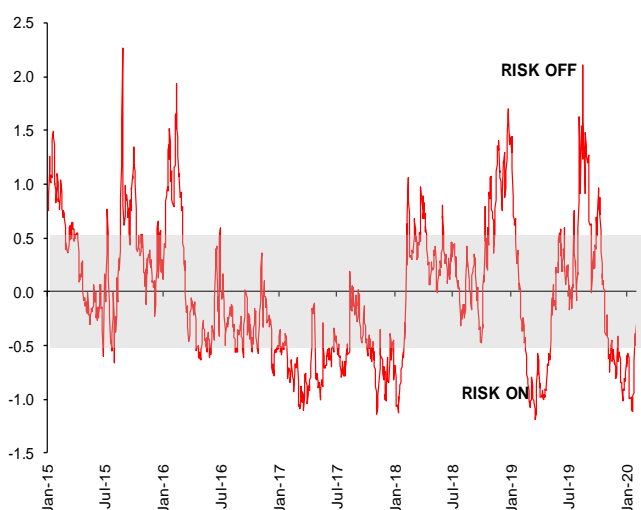
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Asian Markets

- USD-Asia:** USD-CNH breached the 7.0000 mark before retracing back towards the 6.9800. This may keep the USD-CNH bulls at bay for now, but likely not for long. North Asia (plus THB) continues to underperform the South. Overall, we think there is still room for USD-Asia to search higher. In particular, the 1195.00 may implicitly attract for the KRW in the near term.
- Beyond the immediate horizon however, there are signs in support of the KRW. Bond inflow momentum for South Korea remains resilient, even as the equity inflows have wilted. On a structural basis, a firmer than expected Dec industrial production print probably signals that the macro stabilization theme still in place.
- Elsewhere, equity inflow momentum into Malaysia may have lost traction somewhat, while bond inflow momentum in Indonesia is near historically elevated levels that may typically precede a turn. Going forward, **we may see less background support for the MYR and IDR from the flows front**, leaving them with room to drift lower alongside Asian counterparts.
- USD-SGD:** The SGD NEER firmed slightly to +1.16% above its perceived parity (1.3779), with NEER-implied thresholds still inching higher. For the USD-SGD, the 200-day MA (1.3665) should cap for now, with buyers likely emerging around 1.3600/10.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0992	1.1000	1.1012	1.1097	1.1100
GBP-USD	1.2968	1.3000	1.3018	1.3064	1.3100
AUD-USD	0.6735	0.6739	0.6743	0.6800	0.6867
NZD-USD	0.6506	0.6510	0.6516	0.6523	0.6587
USD-CAD	1.3140	1.3200	1.3201	1.3210	1.3217
USD-JPY	108.16	108.45	108.92	109.00	109.22
USD-SGD	1.3600	1.3605	1.3629	1.3640	1.3665
EUR-SGD	1.4895	1.5000	1.5008	1.5036	1.5084
JPY-SGD	1.2406	1.2500	1.2513	1.2549	1.2563
GBP-SGD	1.7680	1.7700	1.7744	1.7800	1.7816
AUD-SGD	0.9155	0.9159	0.9190	0.9200	0.9304
Gold	1509.93	1536.23	1579.50	1584.50	1600.00
Silver	17.47	17.50	17.59	17.60	18.41
WTI Crude	52.13	53.00	53.02	53.10	57.44

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Trade Ideas

	Inception		B/S	Currency	Spot/Outright	Target	Stop	Rationale	
TACTICAL									
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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
2	08-Jan-20	30-Jan-20	B	AUD-USD	0.6872		0.6728	Risk-off sentiment on US-Iran tensions; Heightened RBA rate cut expectations	+2.19

Treasury Research & Strategy

Macro Research

Selena Ling

Head of Research & Strategy

LingSSSelena@ocbc.com

Tommy Xie Dongming

Head of Greater China Research

XieD@ocbc.com

Wellian Wiranto

Malaysia & Indonesia

WellianWiranto@ocbc.com

Terence Wu

FX Strategist

TerenceWu@ocbc.com

Howie Lee

Thailand, Korea & Commodities

HowieLee@ocbc.com

Carie Li

Hong Kong & Macau

carierli@ocbcwh.com

Dick Yu

Hong Kong & Macau

dicksnyu@ocbcwh.com

Credit Research

Andrew Wong

Credit Research Analyst

WongVKAM@ocbc.com

Ezien Hoo

Credit Research Analyst

EzienHoo@ocbc.com

Wong Hong Wei

Credit Research Analyst

WongHongWei@ocbc.com

Seow Zhi Qi

Credit Research Analyst

ZhiQiSeow@ocbc.com

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