

Daily Market Outlook

21 January 2020

Market Themes/Strategy

- Quiet session overnight with the holiday in the US. Major pairs flexed against their respective support/resistance levels (EUR at 1.1080; GBP at 1.3000; JPY at 110.20; AUD at 0.6850) but mostly little changed on the day.
- Risk sentiment is mixed on a cross asset perspective. Declines in EU equities offset gains in the US, gold traded higher and crude retraced as Mideast concerns eased. The worsening Wuhan pneumonia situation remains a wildcard. Overall, the **FX Sentiment Index (FXSI)** showed a slight decline in risk appetite, but remains well-anchored within the **Risk-On** zone.
- On a broader perspective, note that the macro stabilization is mostly narrowly limited to China/Asia (to a lesser extent, Europe), while the US prospects are still thought to be on a flat to lower trajectory. In this context, latest IMF projections marked up Chinese growth in 2020 by 0.2%, while the equivalent for the US and Europe were cut by 0.1%. **If the macro stabilization theme persists, we expect this to translate into a structural negative on the USD.**
- The **Bank of Japan (BOJ)** policy decision is scheduled today, with no change expected. The focus will be the extent of BOJ's easing bias. Note expectations in some quarters for the fiscal-pumped economy to show sufficient signs of life to reduce pressure on the BOJ to ease further.
- Overall, majors remain in a very tentative stance, with resistance/support levels still holding, and keeping the pairs within narrow ranges. Expect the breaking of these levels to be the pre-requisite for stronger directionality in the short term.
- **Trade idea:** Notwithstanding the evolving Wuhan issue, global risk appetite has been resilient, and may stay supported on the back of ongoing macro stabilization. Meanwhile, UST yields may be supported on the downside, with a steepening bias on the curve. In this context, we initiate a tactical long USD-JPY (spot ref: 110.19), with a target at 112.65 and a stop loss at 108.98.

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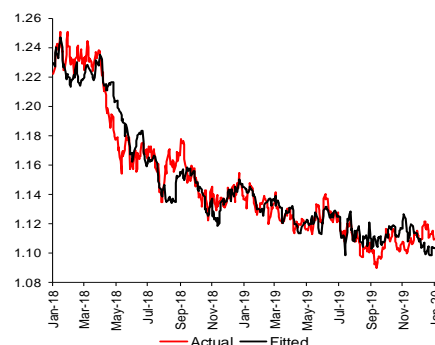
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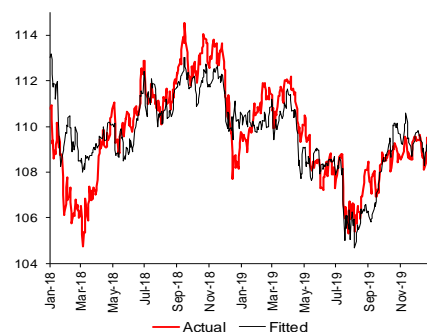
EUR-USD

Turning heavy. The EUR-USD stayed well-capped within the 1.1080 to 1.1110 range overnight, with limited leads on either way. Expect some sideways movement ahead of the German ZEW later today, with recent ranges likely to limit intraday movement.



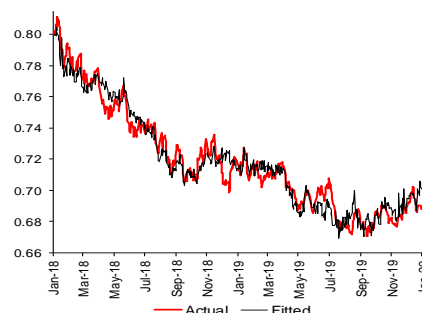
USD-JPY

Breaking out? The USD-JPY held within a narrow 109.90 – 110.20 range, though a heavy tone may be emerging due to the Wuhan situation potentially affecting overall risk appetite. Meanwhile, the BOJ is likely to be a non-event. Watch for recently established ranges to limit price movements for now.



AUD-USD

Potentially heavy. The AUD-USD reverted to a heavy stance, once again testing the 0.6850 level on the downside. While the down-move looks excessive against short term implied valuations, we take heart from the fact that the implied valuations are also topping off and turning south.



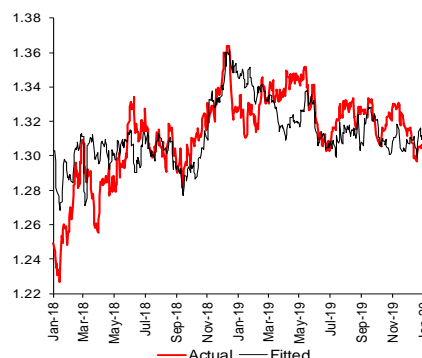
GBP-USD

Heavy within range. The GBP-USD flexed against the 1.3000 mark and should retain a heavy bias. The British Fin Min appeared to be playing the hardline on the EU-UK talks, raising the odds of a hard Brexit. Continue to see downside target at 1.2950, before 1.2900, with unemployment data tomorrow possibly providing the next leg lower.



USD-CAD

Sideways. The USD-CAD remained within a narrow range ahead of the BOC meeting. The dipping short term implied valuations may exert some downside pressure going forward.



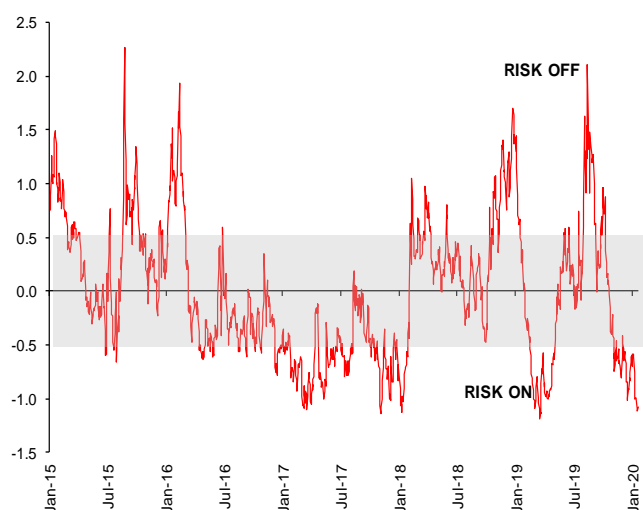
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Asian Markets

- **USD-Asia:** The USD-Asia was mixed yesterday, but the USD-CNH bounced after dipping below 6.8500, on cited corporate demand and profit taking. Nevertheless, the CFETS RMB Index continued to lift higher to 93.31. Overall, we think this supports our view that the USD-CNH may see some consolidation above 6.8500 for now.
- We summarize and substantiate our views on Asian FX in a new fortnightly publication (see [Asian FX Update: Moving beyond the deal](#)). At this juncture, we expect USD-Asia to retain a heavy tone, driven by macro stabilization and improving inflow momentum into the bond and equity fronts. We expect USD-KRW to have stronger support levels on the downside, compared to USD-TWD and USD-CNH. Among the USD-South, we prefer MYR and IDR on improving inflow dynamics.
- Taiwan Dec export orders outperformed (0.9% vs mkt: 0.4%) on Monday, the South Korean Jan 20-day exports showed a marginal contraction. More opportunities to gauge relative macro outcomes in Taiwan and South Korea today, with their respective 4Q 2019 GDP growth data scheduled.
- **USD-SGD:** The USD-SGD opened higher following the bounce in the USD-CNH, but the SGD NEER is effectively static at +1.75% above its perceived parity (1.3719). NEER-implied USD-SGD thresholds were firmer. Overall, 1.3490/00 may cap the bounce, with downside likely limited to 1.3460 intraday.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1059	1.1066	1.1091	1.1100	1.1130
GBP-USD	1.2905	1.2917	1.2999	1.3000	1.3040
AUD-USD	0.6805	0.6820	0.6861	0.6870	0.6884
NZD-USD	0.6565	0.6570	0.6599	0.6600	0.6739
USD-CAD	1.2952	1.3000	1.3057	1.3100	1.3136
USD-JPY	109.00	109.14	109.99	110.00	110.29
USD-SGD	1.3434	1.3445	1.3483	1.3500	1.3543
EUR-SGD	1.4924	1.4927	1.4954	1.5000	1.5049
JPY-SGD	1.2200	1.2207	1.2258	1.2300	1.2423
GBP-SGD	1.7458	1.7500	1.7527	1.7600	1.7678
AUD-SGD	0.9200	0.9240	0.9251	0.9300	0.9313
Gold	1495.18	1500.00	1566.10	1594.40	1600.00
Silver	17.39	18.10	18.11	18.20	18.48
WTI Crude	57.78	58.50	58.59	58.60	58.98

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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	109.98	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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Treasury Research & Strategy

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