

## Daily Market Outlook

5 January 2021

### Market Themes/Strategy

- Positive risk sentiment in the Asia session quickly fizzled out from the middle of the LDN session and into the NY session. Investors took bets off the table amid headlines of the UK going back into lockdown, and ahead of the Georgia Senate run-off elections (base case for the Republicans to win at least one of the seats). US equities closed in the red, and back-end UST yields eased south towards the lower end of the recent range. Overall, the **FX Sentiment Index (FXSI)** ticked higher within the **Risk-On** zone.
- Declines in the **broad USD** were led by the RMB early in the Asia session, pushing the DXY index below recent lows. However, the USD was then led higher by the falling US equities, with the rebound led by the declines in the GBP and the cyclicals. The DXY index closed only marginally lower.
- On the **Fed** front, latest comments by Mester (non-voter) and Evans (voter) point to ongoing easy monetary policy. However, an explicit further tilt may not be forthcoming, with Mester calling the current policy stance “well-calibrated” to her outlook. Also of interest is Evans’ comments on higher inflation. He is happy to let inflation run towards 2.5%, although the FOMC would “definitely be talking about how [they’d] adjust [their] policy response” if inflation is headed to 3.0%.
- Market has been quite complacent in terms of overall risk sentiment, but now faces questions about vaccine effectiveness with the new variants, and the rising case counts in EZ and US. Would this be sufficient to spark a new round of risk-off and equity weakness? We may not have seen enough to tilt towards that direction just yet. Thus, **we prefer not to read too much into the USD bounce overnight, and stay the course in terms of near-term USD weakness.** Look for chances may be a chance to pick levels to re-enter longs in the EUR and AUD.

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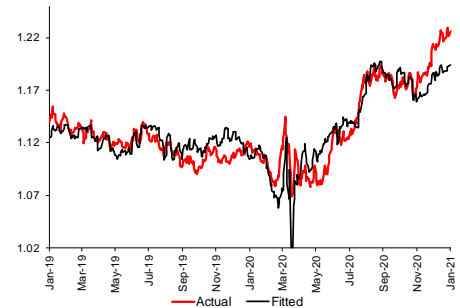
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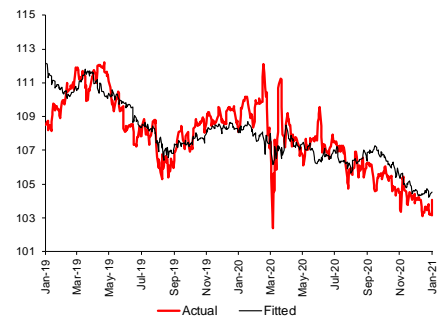
### EUR-USD

**Buy on dips.** Early EUR-USD gains yesterdays were driven by risk-on and RMB gains. Nevertheless, the inability to breach the previous high may have disappointed the bulls. Subsequent movement was also in-line with the decline in US equities. On the macro front, EZ man PMIs were largely softer than expected, though fundamentals have little bearing at the moment. Retain a preference to buy on dips towards 1.2200, targeting 1.2300.



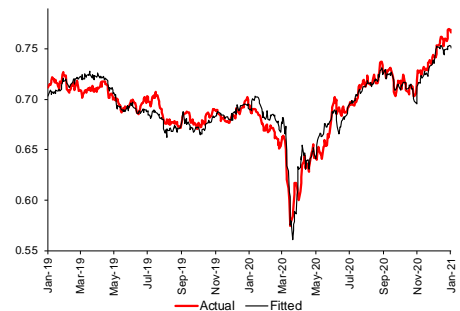
### USD-JPY

**Heavy.** Rising COVID-19 cases sparked haven demand for the USD, lifting the USD-JPY back above the 103.00 handle. Headlines of PM Suga considering another state of emergency in Tokyo area may also limit the pair's downside for now. Overall, retain a heavy posture, with a bias towards 102.50.



### AUD-USD

**Buoyant.** The AUD-USD's decline was arrested at 0.7650, leaving the pair's bullish trajectory intact. Expect the pair to be driven by the RMB directionality and global risk cues for now. Support at 0.7650, against resistance at 0.7750 for now.



### GBP-USD

**Upward trajectory intact for now.** Renewed lockdown in the UK sapped any positives arising from Brexit clarity for now, leaving the GBP the underperformer amid the USD bounce. Nevertheless, bulls still have the upper hand, assuming the virus situation does not spiral out of control. Downside supports at 1.3525 and then 1.3425.



### USD-CAD

**Heavy bias.** The USD-CAD found no traction above 1.2800 amid the USD bounce. A sustained breach of 1.2700 may be delayed for now, leaving the pair between 1.2700 and 1.2800.



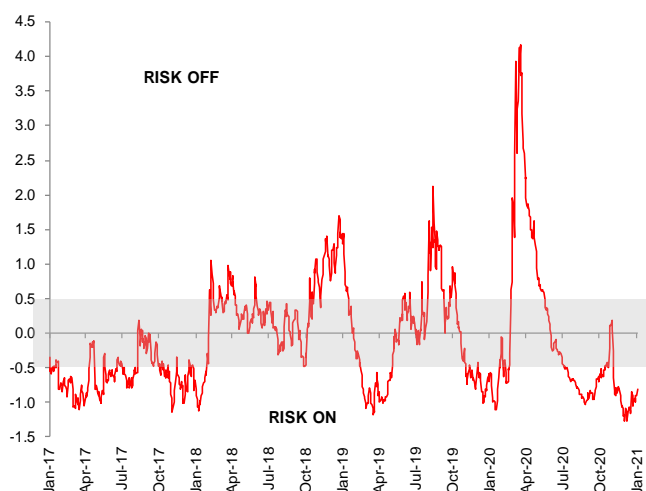
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### Asian Markets

- **USD-Asia:** Onshore USD-CNY caught up with declines in the USD-CNH, closing in the divergence between the two. The floor fell off for the USD-CNH, hitting the main waypoint at 6.4500 mentioned in yesterday's DMO. The move was perhaps quicker than expected, led by a lack of downside support from USD-CNY. Overall, we detect no outsized concern about the strengthening RMB from onshore. Expect the pair to retain a downward trajectory, perhaps after some consolidation.
- Portfolio inflow momentum into South Asia came off in the last weeks of 2020. The exception is India, where equity inflows remained resilient. Inflows in Taiwan (equities) and South Korea (bonds) were stable to supported into the year-end as well.
- **USD-SGD:** The SGD NEER is still standing at an estimated +0.40% above the perceived parity level (1.3255) this morning, with the USD-SGD rebounding back to the 1.3200 handle. In-line with what was raised yesterday, with the SGD NEER elevated, we expect the downside in the USD-SGD may be harder to come by. There are better ways to express USD weakness than the USD-SGD at this point.

### FX Sentiment Index



### Technical support and resistance levels

	S2	S1	Current	R1	R2
<b>EUR-USD</b>	1.2090	1.2200	1.2260	1.2300	1.2310
<b>GBP-USD</b>	1.3333	1.3500	1.3574	1.3600	1.3704
<b>AUD-USD</b>	0.7467	0.7600	0.7686	0.7700	0.7725
<b>NZD-USD</b>	0.7024	0.7100	0.7186	0.7200	0.7218
<b>USD-CAD</b>	1.2675	1.2700	1.2767	1.2800	1.2906
<b>USD-JPY</b>	102.84	103.00	103.14	104.00	104.05
<b>USD-SGD</b>	1.3162	1.3181	1.3192	1.3200	1.3399
<b>EUR-SGD</b>	1.6100	1.6127	1.6174	1.6200	1.6309
<b>JPY-SGD</b>	1.2776	1.2781	1.2790	1.2800	1.2876
<b>GBP-SGD</b>	1.7860	1.7900	1.7907	1.8000	1.8091
<b>AUD-SGD</b>	0.9999	1.0100	1.0139	1.0191	1.0200
<b>Gold</b>	1900.00	1934.96	1941.30	1949.20	2000.00
<b>Silver</b>	24.67	27.20	27.29	27.30	27.66
<b>WTI Crude</b>	45.51	47.70	47.75	47.80	49.41

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