OCBC TREASURY RESEARCH

Daily Market Outlook

6 January 2021

Market Themes/Strategy

Terence Wu
FX Strategist
+65 6530 4367
TerenceWu@ocbc.com

Treasury Research
Tel: 6530-8384

- Some flip-flopping going on over the listing of the three Chinese telecoms on the NYSE, but the market waved off concerns to trade broadly risk on amid data positives. US ISM manufacturing outperformed handsomely, together with German retail sales and unemployment prints. US equities once again led global equities higher, while the 10y UST yield bounced higher. Overall, the **FX Sentiment Index (FXSI)** ticked higher within the **Risk-On** zone.

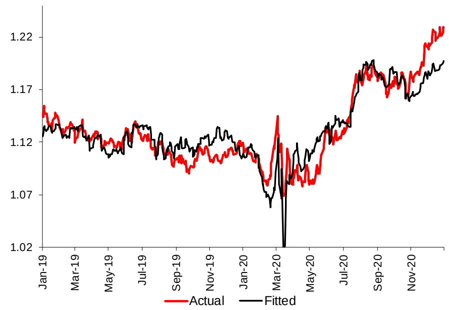
- The **broad USD** saw broad-based declines again in a typical risk-on dynamic. The cyclicals led gains across the G-10, with the AUD and NZD extending beyond their recent highs. USD-JPY also extended lower towards 103.50. The EUR, however, is still capped by the 1.2310 levels.

- In the context of Evans' comments on the different inflation levels discussed yesterday, we expect higher inflation expectations to be a key market focus this year. US inflation expectations are on the rise, with 10y breakevens extending higher faster that the corresponding UST yields. In nominal terms, back-end yield differentials may be extending in favour of the USD, but real yields in the US are still negative. If anything, this gives the sense that Treasury yields are not rising as quickly as the reflationary trades seen in equities and commodities. Correspondingly, impact of rate differentials in the FX market is being overwhelmed.

- Overall, our view to stay the course on USD weakness played out overnight. Risk sentiment continue to be resilient to potential stumbling blocks. Overlay that with the dynamics in the rates market, expect **the USD to remain under pressure for now**. Going forward, not much in the horizon seems capable of tripping up this risk-on / weak-USD consensus for now. One may point to the Georgia outcome, where any surprises may trip up stocks and spark a reversal in the somewhat extended short USD trades.

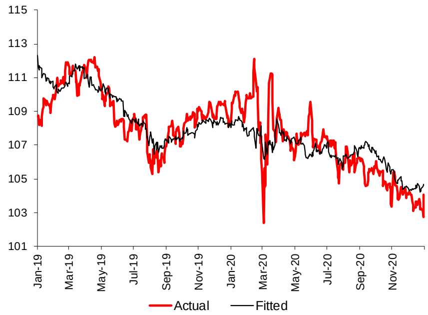
EUR-USD

Buy on dips. Bulls are back in control of the EUR-USD ahead of the Georgia outcome, although the pair remains stuck below the 1.2310 resistance. A breach of that level, however, may just be delayed temporarily. If the pair can sustain near the 1.2280/00 level, we expect it to eventually target 1.2400.



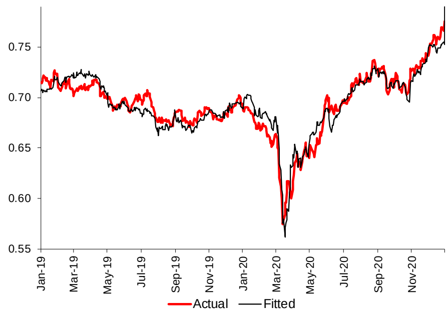
USD-JPY

Heavy. Risk-on sentiment, with the USD being the dominant haven currency, left the USD-JPY reeling yet again. A sustained breach of 103.00 on the downside leaves the path open to 102.50, and eventually the pandemic lows seen in March 2020.



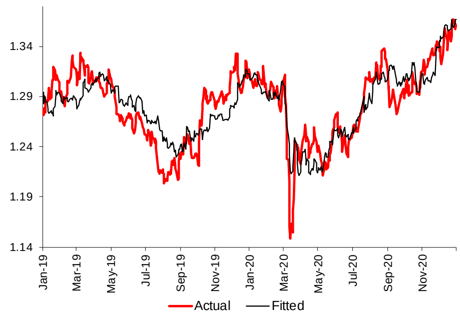
AUD-USD

Buoyant. The AUD-USD extended beyond its recent double-top at 0.7740, leaving the technicals bullish. The Georgia outcome may pose some risk, but the risk-reward appears tilted in favour of further upside extension. Prefer to buy on dips, targeting the 0.7800 to 0.7900 range.



GBP-USD

Upward trajectory intact for now. Broad-based USD weakness overwhelmed domestic concerns for now, leaving the pair higher on Tuesday. Expect the pair to push towards 1.3650/60 for now.



USD-CAD

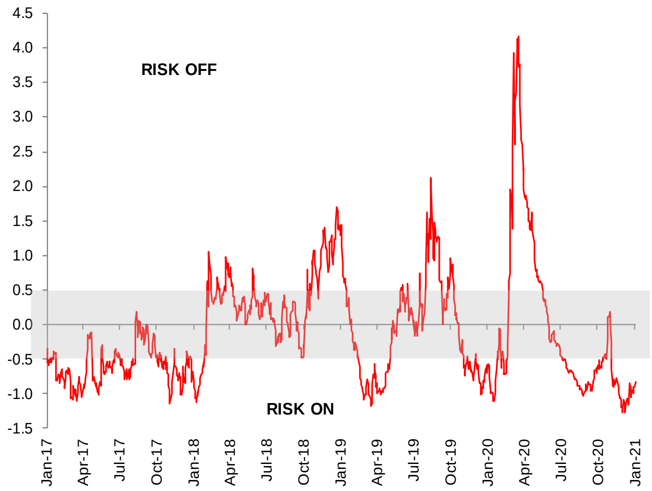
Heavy bias. The USD-CAD breached recent lows, together with moves in the antipodeans. Firmer crude complex should also provide tailwind for the CAD. Retain a heavy bias, with 1.2700 likely to cap any bounces for now.

Asian Markets

- **USD-Asia**: The onshore USD-CNY morning fix on Tue was in line with model expectations, but the fact that it came in much lower than 6.5000 (6.4760 against our expectations of 6.4814) may give onshore corporates/exporters a signal to sell their USD holdings, spurring the downward spike in the USD-RMB pairs on Tue. Nevertheless, attempts to take the USD-CNH closer to 6.4000 may be frustrated in the near term, given that the pace of decline has looked excessive. Note also some regulatory tweaks by the PBOC to broaden the channel for capital outflows, which may be seen as an indirect signalling on the pace of appreciation in the RMB. At this juncture, we prefer to wait for better entry levels for the short USD-CNH trade rather than chasing the pair lower.

- **USD-SGD:** The SGD NEER is again stable at around +0.30% above the perceived parity level (1.3233) this morning. The NEER-implied USD-SGD thresholds remain under pressure, imparting mechanical USD-SGD downside pressure. Expect firmer support for the pair around 1.3150/60, with interim resistance at 1.3220.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2107	1.2200	1.2283	1.2300	1.2320
GBP-USD	1.3346	1.3600	1.3602	1.3700	1.3704
AUD-USD	0.7478	0.7700	0.7744	0.7752	0.7778
NZD-USD	0.7024	0.7200	0.7244	0.7246	0.7262
USD-CAD	1.2646	1.2656	1.2687	1.2700	1.2912
USD-JPY	102.59	102.69	102.81	103.00	104.01
USD-SGD	1.3162	1.3169	1.3196	1.3200	1.3390
EUR-SGD	1.6137	1.6200	1.6209	1.6300	1.6307
JPY-SGD	1.2782	1.2800	1.2835	1.2872	1.2891
GBP-SGD	1.7865	1.7900	1.7950	1.8000	1.8091
AUD-SGD	1.0200	1.0213	1.0219	1.0245	1.0300
Gold	1870.64	1900.00	1950.80	1950.83	1959.00
Silver	24.73	27.50	27.54	27.60	27.85
WTI Crude	46.25	47.25	50.10	50.20	50.50

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

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

Co.Reg.no.:193200032W