

Daily Market Outlook

7 January 2021

Market Themes/Strategy

- Whole range of events overnight jostling for market attention – Democrats pulling off a Blue Sweep, protests in the Capitol Hill, delisting of the Chinese telecoms companies (and potentially tech giants too) by the NYSE – all set the tone for a choppy session for global markets. Nevertheless, US equities managed to hold gains, while the 10y yields eased off highs north of 1.05%. Despite the significant noise buffeting the market, sentiment remains resilient, with the **FX Sentiment Index (FXSI)** ticking lower within the **Risk-On** zone, highlighting a more sanguine risk overall.
- The **broad USD** was mixed overnight. The heavy selling expected amid a Blue Sweep did not materialize, suggesting that much of that expectations have already been baked in. However, bounces in the USD were also quickly sold into. Overall, the antipodeans and EUR continued to push higher. The JPY, however, underperformed on the back of higher 10y UST yields. Do not rule out some consolidation between 102.50 and 103.50 for the USD-JPY.
- Focus on two things and their impact of global risk environment: (1) any escalation of the situation in the Capitol Hill, and more importantly, (2) Sino-US tensions amid the subplots of the delisting of the Chinese telecoms from the NYSE and the crackdown in Hong Kong just as Biden was supposed to assume his position – a very uncanny timing.
- USD weakness has continued to be extend, with risk being that the likes of AUD and NZD, even the EUR, is now looking overbought. Some caution should be had in chasing these pairs higher for now. Aside, questions may also be raised as to how other central banks may react to the fast weakening USD. The PBOC has already showed some bit of discomfort. Eyes will be on whether the ECB will also sign on to that, especially if the EUR-USD approaches 1.2500 ahead of the ECB meeting on 21 Jan.

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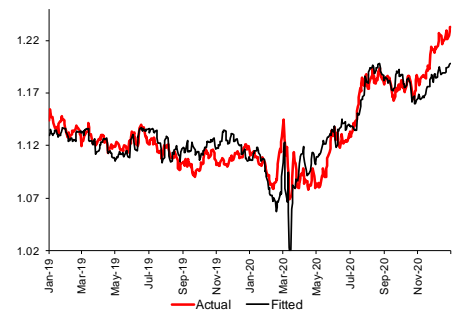
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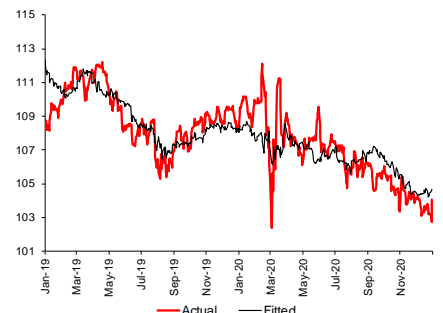
EUR-USD

Buy on dips. A mixed showing across EZ on the services PMI front did little to curtail the uptrend in the EUR-USD. The pair made another step towards our interim target at 1.2400, breaching the previous resistance at 1.2310 to reach a new top at 1.2350. With the USD trend still firm, risk-reward favours further upside for this pair at the moment. Support enters at 1.2250. .



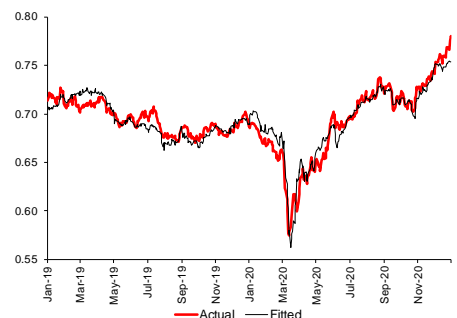
USD-JPY

Heavy. Firmer back-end UST yields following the Blue Sweep may hold back USD-JPY downside for now, with decent buying seen around 103.00. Nevertheless, it may be a temporary setback, with the structural downtrend still looking intact. On net, this pair may consolidate between 102.50 to 103.50 as the market digests the firmer UST yields.



AUD-USD

Buoyant. The upward momentum for the AUD-USD remains unabated, although signs of it running overbought are building. The ability to sustain around the 0.7800 handle will set up the pair nicely for a further push towards 0.7860. Note however, that the pair is starting to run ahead of its short term implied valuations. Nevertheless, retain preference to buy on dips for now, targeting the 0.7800 to 0.7900 range. Support at 0.7760 looks firm for now.



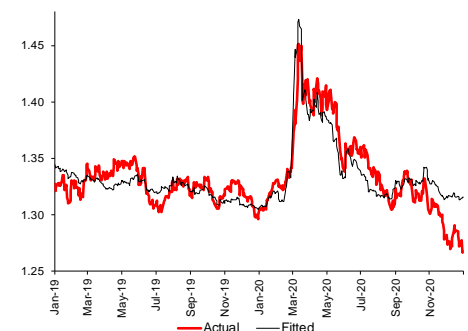
GBP-USD

Reactive to USD bounce? The GBP-USD is potentially the weakest link amid the G10-USD pairs in terms of expressing USD weakness, no thanks to its own domestic issues. The pair retraced sharply after touching our interim target at 1.3650/60, and we expect downside here to be forthcoming on any USD recovery. Expect 1.3700 to cap, against first support at 1.3550.



USD-CAD

Heavy bias. The CAD lagged fellow cyclicals overnight, as the USD-CAD remains supported at the 1.2650 level. Nevertheless, with the crude complex likely supported for now, the bias remains for downside in this pair.



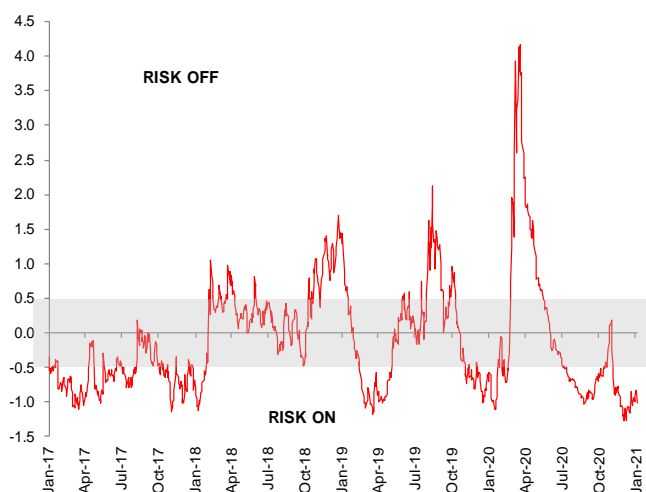
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Asian Markets

- **USD-Asia:** Aside from some discomfort from the PBOC, the spreading issue of the delisting of Chinese companies from the US equity bourses may also call RMB appreciation to question for now. In this context, do not rule out some consolidative action for the USD-CNH between 6.4300 and 6.4600 in the coming sessions.
- **USD-SGD:** The SGD NEER is edging lower off the +0.5% above parity top end of the recent range, stands this morning at an estimated +0.35% above the perceived parity level (1.3222). The NEER-implied USD-SGD thresholds continue to fade, but with the USD-CNH downside likely curtailed for now, expect the USD-SGD to also enter a consolidative posture. Expect some range trading between 1.3150 and 1.3210 in the next few sessions.

FX Sentiment Index



Technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|------------------|---------|---------|---------|---------|---------|
| EUR-USD | 1.2108 | 1.2300 | 1.2324 | 1.2342 | 1.2349 |
| GBP-USD | 1.3359 | 1.3500 | 1.3585 | 1.3600 | 1.3704 |
| AUD-USD | 0.7468 | 0.7700 | 0.7793 | 0.7794 | 0.7800 |
| NZD-USD | 0.7200 | 0.7284 | 0.7288 | 0.7300 | 0.7315 |
| USD-CAD | 1.2630 | 1.2635 | 1.2676 | 1.2700 | 1.2916 |
| USD-JPY | 102.76 | 103.00 | 103.21 | 103.98 | 104.00 |
| USD-SGD | 1.3156 | 1.3157 | 1.3191 | 1.3200 | 1.3380 |
| EUR-SGD | 1.6140 | 1.6200 | 1.6257 | 1.6300 | 1.6312 |
| JPY-SGD | 1.2758 | 1.2770 | 1.2782 | 1.2800 | 1.2865 |
| GBP-SGD | 1.7870 | 1.7900 | 1.7922 | 1.8000 | 1.8091 |
| AUD-SGD | 1.0200 | 1.0261 | 1.0280 | 1.0300 | 1.0350 |
| Gold | 1870.11 | 1900.00 | 1918.30 | 1947.05 | 1962.50 |
| Silver | 24.77 | 27.10 | 27.11 | 27.20 | 28.08 |
| WTI Crude | 50.64 | 50.80 | 50.89 | 50.90 | 51.04 |

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