

Daily Market Outlook

8 January 2021

Market Themes/Strategy

- Violence at the US Capitol Hill was quickly brushed aside by the market, which chose to focus more on the potential of faster, larger US stimulus now that the Democrats are also in control of the Senate. Reflation trade in full-swing yet again. US equities again leading global equities higher, 10y UST yields added more than 4 bps. The **FX Sentiment Index (FXSI)** decidedly risk-on at this point, making another dip lower into the outright **Risk-On** zone.
- The **broad USD**, however, did not quite follow the script, staging a bounce overnight. Focus was on the USD-JPY, which pushed towards the 104.00 resistance amid firmer back-end UST yields and a coordinated show of force by the Japanese authorities over the strong JPY. Elsewhere, the antipodeans led the declines against the greenback, while the EUR also retreated towards the 1.2250 handle. Note that the USD bounce has not taken out key levels just yet.
- We listed Fed rhetoric and policy stance turning less dovish earlier than expected as one of the potential turning points for the weak-USD consensus. We may just have seen the first inklings of that through comments by Fed's Bostic and Kaplan. Bostic sounded the possibility of sooner than expected tapering of bond purchases, while Kaplan suggested that policy may be tightened ahead of reaching the 2.0% target.
- Given how stretched the technicals were for some of the G10-USD pairs after the run-up early week. Overnight moves perhaps vindicated our view yesterday to be cautious about chasing USD weakness for now. Nevertheless, note that underlying risk-on sentiment has continued to build, and that the pressure to sell USD on rallies may still be present. **Expect this USD bounce to be short-lived, and should allow us to pick levels to re-enter USD shorts.**

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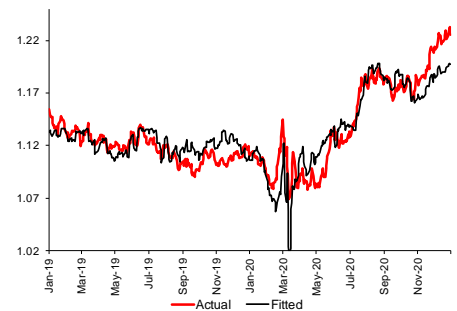
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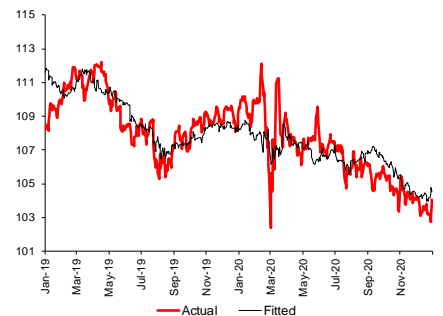
EUR-USD

Buy on dips. The EUR-USD pulled back from highs overnight, hovering around the 1.2250 vicinity this morning. Remain on a buy-on-dips posture for now, although a deeper retracement cannot be precluded. Prefer to view this pull-back as a pause in the uptrend, rather than a turn in overall trajectory, so long as 1.2200/20 remains intact



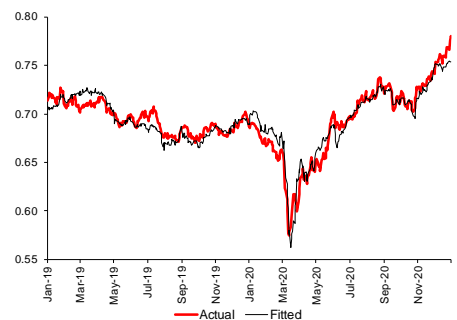
USD-JPY

Heavy. The USD-JPY bounced higher towards the 104.00 resistance on the back of Japanese authorities jawboning and the higher back end UST yields. The bounce should not have impinged the structural downtrend just yet, but we may re-assess that view if 104.75 is breached.



AUD-USD

Buoyant. The uptrend for the AUD-USD may be temporarily stalled for now, but a deeper pullback towards 0.7650 may raise more serious questions. Further out, keep one eye on Sino-US relations under the Biden administration as a potential wildcard.



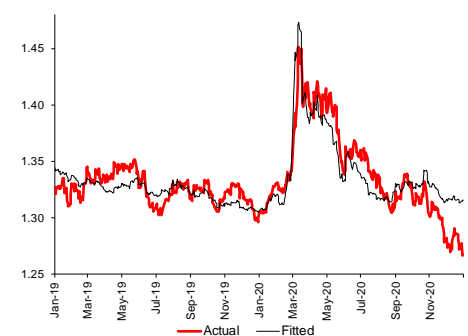
GBP-USD

Reactive to USD bounce? The USD bounce saw the GBP-USD taken lower, but stalling at our very first support at 1.3550. Again, such movements lay bare the lack of follow-through for USD bounces. Watch range between 1.3500 and 1.3630 for now.



USD-CAD

Heavy bias. The USD-CAD was less reactive to USD strength overnight, with the bounce not really testing the 1.2750 resistance. Downside at 1.2650 remains the primary target for now.



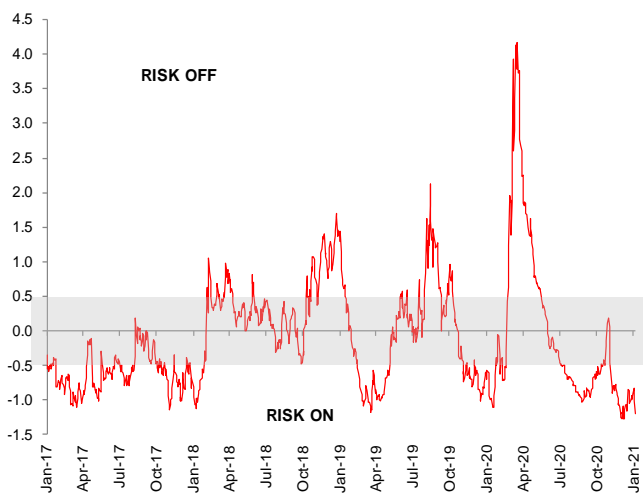
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Asian Markets

- USD-Asia:** The USD-CNH bounced higher amid USD strength overnight, but found no traction above 6.4800. The subsequent pullback towards the 6.4600 perhaps reinforced the view that the pair is likely to consolidate in a fashion not unlike Dec 2020. Expect other USD-Asia pairs to consolidate (potentially higher) as well, after breaching key downside support levels earlier this week. Nevertheless, the underlying heavy trajectory for USD-Asia should resume in time. In that context, we do not rule out further gains for the THB as a surplus currency, and the IDR on the back of potential uptick in bond inflows.
- USD-SGD:** The SGD NEER continued to ease lower, standing at an estimated +0.19% above the perceived parity level (1.3270). The NEER-implied USD-SGD thresholds turned higher on the back of the USD reversal. The USD-SGD bounce was perhaps sharper than we expected, but again, we remain unconvinced that this represents a sustained turned in the USD-SGD trajectory, at least not until 1.3300/20 levels are breached.

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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