

## Daily Market Outlook

21 September 2020

### Market Themes/Strategy – The week ahead

- US consumer sentiment are better than expected on Friday, but that did little to spur US equities. S&P 500 futures continued to trade heavy in Asia early Monday. UST yields were firmer from the belly to the back-end. Overall, market sentiment starts the week on a slight back-foot. The **FX Sentiment Index (FXSI)** remains choppy with no firm direction either way.
- The **broad USD** found a bit of a footing on Friday amid slight risk-negative tone. The **GBP** and **AUD** underperformed the lot. The **USD-JPY** continued grind lower towards the 104.00 handle, while the EUR is tied within a narrow range around the 1.1850 locus.
- **CFTC** data suggests that the appetite for USD shorts are fading somewhat. Net implied short USD positions among both short term non-commercial accounts and longer term asset manager accounts were pared back in the latest week. In particular, EUR longs continued to ease off highs among the non-commercial accounts, while long GBP positions were also cut. However, note a sizable jump in net long AUD positions.
- On the calendar this week, watch for a whole string of **Fed** speakers, with the highlight being Powell's testimony to Congress (Tue). Watch also for **RBNZ** policy decision (Wed) and comments from **BOE's** Bailey (Tue, Thu). Global preliminary PMIs scheduled for Wed.
- The dovish Fed will remain a background negative for the USD. Powell's testimony (Tue) will draw attention, but for now the **Fed is likely done playing their cards, at least till the run-up to Dec FOMC**. We do not expect the Fed to be a near-term driver the USD till then.
- Attention shifts to two areas. **Firstly, the relative pace of macro recovery**. EZ is still doing fine, but pace of recovery is moderating. Meanwhile, US data prints are firm, but the market perceives that the recovery will weaken without further fiscal support. This dynamic may be marginally favour the EUR. **Secondly, geopolitical risks will step up from here**, with Oct a key period for Brexit talks and, US elections in early Nov. Thus, sentiment may hit a risk-off patch into the 4Q, leaving us slightly negative on cyclical currencies and GBP. However, any risk-off stemming from the US elections will not likely be USD-positive.

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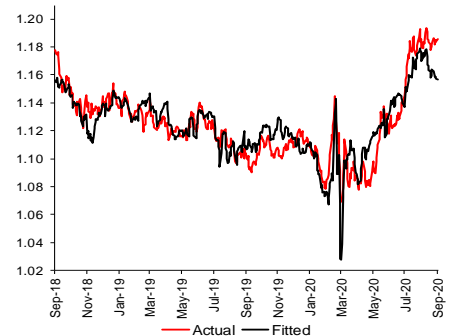
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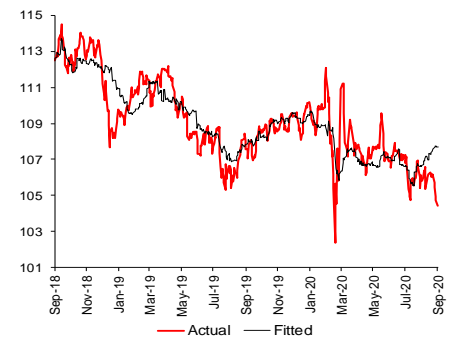
### EUR-USD

**Sideways.** The EUR-USD found itself locked into a narrow range on Friday. Lagarde's comments (1245 GMT) may generate some interest, but there are limited catalysts for a break of the wider 1.1750 to 1.1900 range for now. The immediate focus will be on the 1.1880 resistance and 1.1800 support.



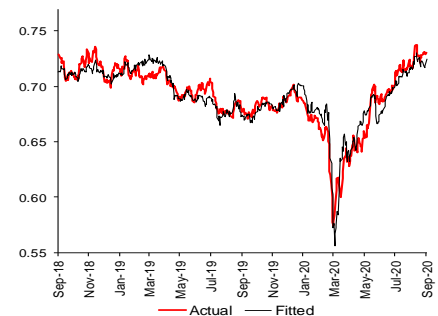
### USD-JPY

**Extend lower.** The USD-JPY's extension lower continues to threaten the 104.00/20 levels, which is key on a technical perspective. Underlying buying pressure may not be strong early week, given that Japan is out on a long weekend, leaving the support vulnerable.



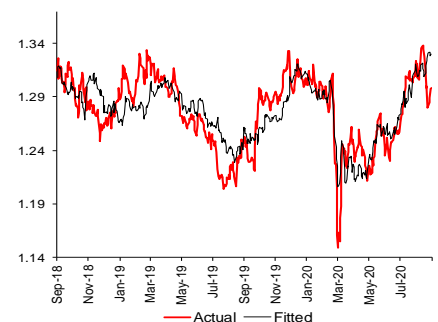
### AUD-USD

**Consolidate.** Inherent optimism Down Under after virus cases in Victoria fell to lows and New Zealand also look to exit from extended restrictions later this week. The AUD-USD remains quite supported within the 0.7250 to 0.7350 range, and should remain so as long as global equities do not see another leg lower.



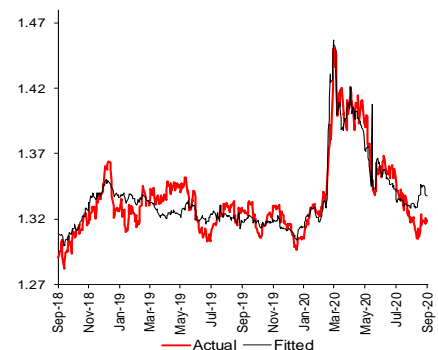
### GBP-USD

**Staying negative.** Informal Brexit negotiations continue to take place between the EU and UK, but the lag of formal progress should limit any positivity from that end. The conflation of a dovish BOE and uncertain Brexit should exert negative pressure on the GBP-USD, although the 1.2870/00 will first need to be breached before further downside momentum can build.



### USD-CAD

**Consolidate.** Little to no traction for the USD-CAD on either side of the 1.3150 to 1.3200 range leaves the pair locked in. Soft retail sales print weighs on the CAD, but front-end yield differentials are widening in the CAD's favour. Overall, different drivers pulling the pair in opposite directions, leaving the pair still consolidative within a broader 1.3120 and 1.3250 range.



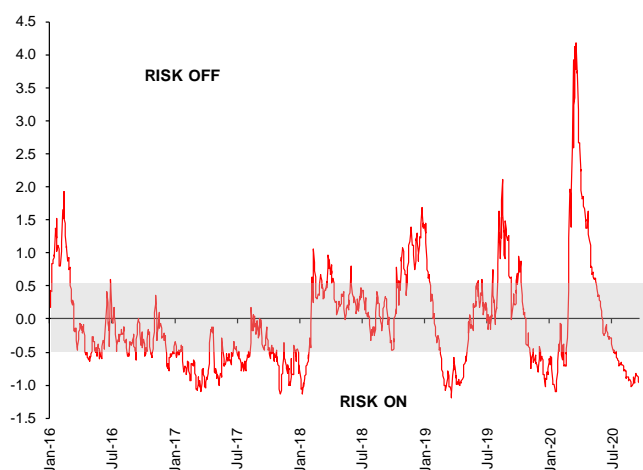
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### Asian Markets

- USD-Asia:** We have been structurally positive on the RMB for some time, the views are summarized in a separate piece (see [FX Viewpoint – RMB: Still room to strengthen](#), 21 Sep 2020). For now, some near term consolidation in the USD-CNH around the 6.7600 locus is not out of order after recent declines, but we still expect the posture to be negative. Focus on the pairs which recently broke lower, especially since the potential for a further extension southwards cannot be ruled out. For now, expect the USD-KRW to target 1150, while the USD-MYR may flex against 4.1000.
- USD-SGD:** The SGD NEER eased off over the course of Friday, having started that day near the +0.50% top end of the recent range. The index is softer this morning at +0.28% above the perceived parity level (1.3620). Having failed to close 1.3600, expect the downside pressure in the USD-SGD to be kept up, and we do not rule out a test of 1.3500 in the upcoming sessions.

### FX Sentiment Index



### Technical support and resistance level

	S2	S1	Current	R1	R2
EUR-USD	1.1773	1.1800	1.1859	1.1900	1.1919
GBP-USD	1.2763	1.2900	1.2951	1.3000	1.3007
AUD-USD	0.7198	0.7300	0.7311	0.7385	0.7400
NZD-USD	0.6640	0.6700	0.6771	0.6798	0.6800
USD-CAD	1.3033	1.3100	1.3181	1.3200	1.3250
USD-JPY	104.00	104.27	104.36	104.51	105.00
USD-SGD	1.3552	1.3554	1.3565	1.3600	1.3715
EUR-SGD	1.6000	1.6060	1.6087	1.6100	1.6136
JPY-SGD	1.2937	1.2995	1.2999	1.3000	1.3028
GBP-SGD	1.7445	1.7500	1.7568	1.7600	1.7671
AUD-SGD	0.9871	0.9900	0.9917	1.0000	1.0036
Gold	1912.40	1933.12	1949.50	1977.53	2000.00
Silver	26.05	27.00	27.03	27.10	28.23
WTI Crude	40.14	41.00	41.03	41.10	41.16

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### Trade Ideas

	Inception		B/S	Currency	Spot/Outright	Target	Stop	Rationale
	<b>TACTICAL</b>							
1	11-Sep-20		S	GBP-USD	1.2826	1.2375	1.3034	Renewed Brexit malaise; BOE may tilt dovish
	<b>STRUCTURAL</b>							
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	<b>RECENTLY CLOSED TRADE IDEAS</b>							
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	15-Jun-20	15-Jul-20	S	AUD-USD	0.6841	0.7018	Risk-off tone after equity rally fizzled out and refocus on virus cases; testy relationship with China	-2.52
2	15-Jun-20	21-Jul-20	S	GBP-USD	1.2520	1.2750	BOE relatively more dovish than expected; EU-UK Brexit talks stalling	-1.78
3	27-Aug-20	01-Sep-20	S	EUR-USD	1.1830	1.1977	Powell may disappoint dovish expectations; long EUR positioning peaking	-1.22

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