

Daily Market Outlook

25 September 2020

Market Themes/Strategy

- A mixed bag of data releases and headline developments overnight left US equities supported off lows, but EZ/EM equities weaker. Global core yields are little changed, while commodities and gold stabilized somewhat after recent moves lower. Overall, there is some sense of stability across the different asset classes, but the underlying risk-off tone has not been shaken out. The **FX Sentiment Index (FXSI)** continued to move towards the **Risk-Neutral** zone this morning.
- The **broad USD** was mixed within the G-10 space overnight. The **AUD** and **NZD** continued to underperform, but bounced off their respective support levels. The likes of **EUR**, **JPY** and **GBP** are largely in a consolidative posture after recent moves.
- Firmer than expected US new home sales provided the positive from the data front, but that was offset by a stubbornly high US initial jobless claims and weaker than expected German Ifo survey. Meanwhile, the feel-good factor from Pelosi's optimism about resuming US fiscal stimulus talks and Bullard's bullish outlook on the US economy was balanced by negative virus headlines streaming out of Europe.
- **With the underlying risk-off tilt still likely in place, expect the broad USD to stay buoyant into the end of the week.** The blip late Thu may be a small correction in a USD-strength that should still have legs for now. We retain our ongoing negativity on the GBP, while also turning more negative on the EUR on the back of softening macro recovery and a return to increased restrictions.

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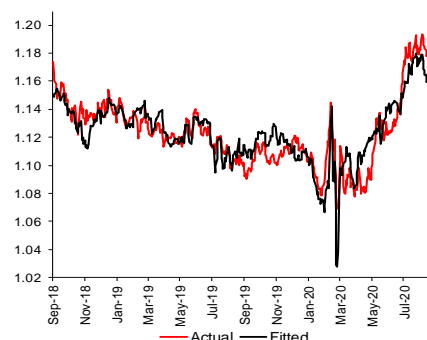
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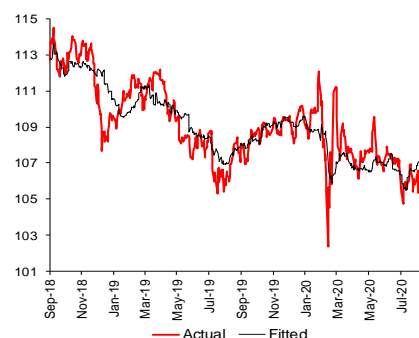
EUR-USD

Biased lower. No change in our stance that the EUR-USD should be biased lower, given that data releases continue to underperform and virus cases pick up. Downside momentum should be accelerated once the 1.1650 handle is breached convincingly. Note that short term implied valuations have already turned south, with spot now 2 SD higher than the implied EUR-USD value.



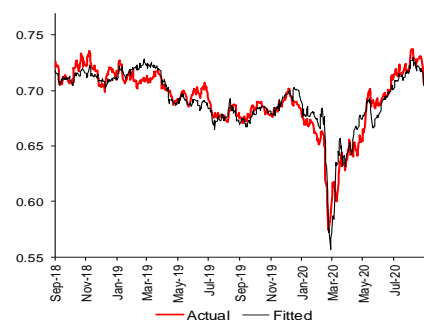
USD-JPY

Topping out. The USD-JPY upward extension appeared to lose steam at the 105.50 resistance for now. Going forward, the USD-JPY may still see upside pressure amid USD strength, but with the political risk surrounding the US elections moving closer, we see a short USD-JPY position as a potential hedge against further risk-off sentiment arising from the elections.



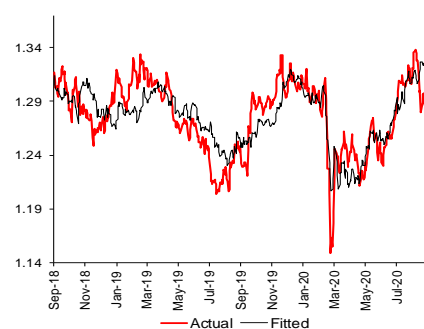
AUD-USD

Heavy. The AUD-USD found support at 0.7016 rebounding higher back to 0.7046 as US equities turned green. However, with global risk sentiment is still heavy, and the more structural issue of an RBA rate cut is still in play, expect the pair to continue trading heavy over the next few sessions. Do not rule out a firmer test of the 0.7000 support in the coming sessions.



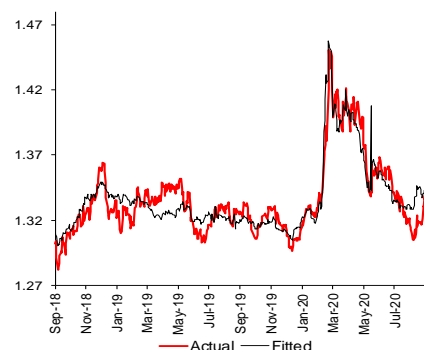
GBP-USD

Staying negative. Overnight rise in US equities and the better than expected consumer confidence data from the UK took some short-term downside pressure off the GBP-USD. However, with risk sentiment still very much negative and Brexit concerns still looming, we should expect to see the pair continuing its downtrend over the short term. First support at the 200-day MA (1.2721), with 1.2550 next in line.



USD-CAD

Buoyant. The USD-CAD found little traction north of the 1.3400 resistance, before retreating back towards the 1.3350 locus. Nevertheless, downside impetus for the pair is limited, especially as the commodity complex remains soggy at this point. Expect the pair to turn consolidative between 1.3300 and 1.3400, with a slight upside bias going forward.



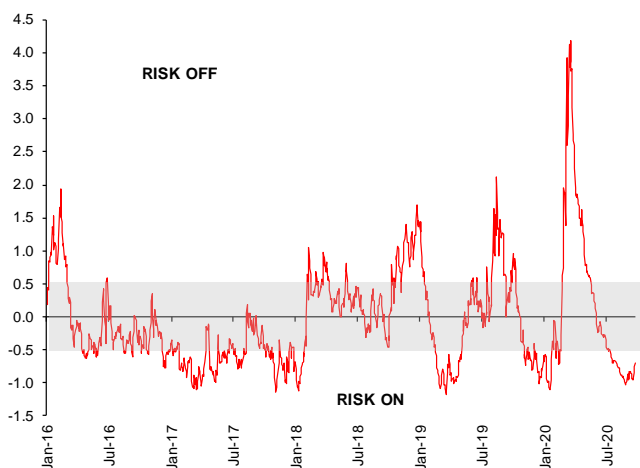
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Asian Markets

- USD-Asia:** USD-CNH seeing renewed downside impetus after the USD rise took a pause and FTSE Russell decided to add CGBs to their index. While the FTSE Russell may not have any real immediate impact as the actual inclusion only takes place in Oct 2021, we expect it to generate sufficient near-term positivity for the RMB. With this morning's USD-CNY fix also in-line with expectations, **we think USD-CNH upside may be capped hereon**. Do not rule out a close below the 200-week MA (6.8115) this week. That should reinforce downside bias early next week. With USD strength taking a slight breather and the RMB firm, there should be a degree of shelter for Asian currencies this session. Expect reduced upside pressure for USD-Asia.
- USD-SGD:** The SGD NEER eased lower towards the weak end of the recent range, now standing just marginally above the perceived parity level (1.3761). Given that the SGD NEER is near parity, the USD-SGD may have limited room higher intraday, unless we see another leg of USD strengthening. Expect the USD-SGD may be capped at 1.3770, with perhaps more downside room towards 1.3700 floor intraday.

FX Sentiment Index



Technical support and resistance level

	S2	S1	Current	R1	R2
EUR-USD	1.1627	1.1656	1.1666	1.1700	1.1786
GBP-USD	1.2700	1.2721	1.2747	1.2800	1.3018
AUD-USD	0.7000	0.7016	0.7053	0.7064	0.7100
NZD-USD	0.6500	0.6545	0.6549	0.6600	0.6640
USD-CAD	1.3255	1.3300	1.3357	1.3398	1.3400
USD-JPY	104.48	105.00	105.50	105.88	106.00
USD-SGD	1.3700	1.3701	1.3747	1.3756	1.3783
EUR-SGD	1.5978	1.6000	1.6038	1.6100	1.6148
JPY-SGD	1.2941	1.3000	1.3030	1.3072	1.3076
GBP-SGD	1.7328	1.7500	1.7524	1.7600	1.7666
AUD-SGD	0.9600	0.9668	0.9697	0.9776	0.9800
Gold	1800.00	1843.00	1858.30	1862.23	1900.00
Silver	21.96	23.10	23.12	23.20	23.51
WTI Crude	39.76	40.40	40.43	40.50	41.08

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Trade Ideas

	Inception		B/S	Currency	Spot/Outright	Target	Stop	Rationale	
TACTICAL									
1	11-Sep-20		S	GBP-USD	1.2826	1.2375	1.3034	Renewed Brexit malaise; BOE may tilt dovish	
2	24-Sep-20		S	EUR-USD	1.1675	1.1395	1.1815	Softening recovery momentum; up-tick in virus cases; EUR longs taking a breather	
STRUCTURAL									
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RECENTLY CLOSED TRADE IDEAS									
	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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