

## Daily Market Outlook

28 September 2020

### Market Themes/Strategy – The week ahead

- US equities turned firm on Friday, with the tech stocks leading a rebound. Global core yields were softer at the end of the week, while the commodity complex and gold are in a consolidative mode. Overall, the **FX Sentiment Index (FXSI)** continued to edge higher towards the **Risk-Neutral** zone at the start of this week, suggesting that the risk-negative tilt is still in play.
- The **broad USD** continued its recovery higher, but gains were pared as risk recovered in the NY session. The **EUR** underperformed within the G-10 space amid market spotlight on the resurgence of virus cases. The **JPY** held above the 105.50 handle, leaving downside expectations likely exhausted for now. The **AUD** bounced off the 0.7000 floor, but should nevertheless remain heavy as long as 0.7100 is not breached. **NZD** and **GBP** were most resilient to USD strength.
- On the **CFTC** front, for the week up to 22 Sep, short term, non-commercial accounts actually added to their net implied USD short positions on the week-on-week basis. EUR and JPY longs were accumulated again, but note that this was before the USD breaking higher last week. Long term asset managers added marginally to their net implied short USD positions as well.
- Politics will likely to dominate this week, with the first televised debate between Trump and Biden on Tue, and the formal Brexit talks to resuming with the EU side expecting some firm commitments from UK. On the data front, watch the final 2Q GDP (Wed), PCE inflation (Thu) and NFP (Fri) in the US, as well as global PMIs (Thu). Whole slew of central bank speakers, headed by ECB's Lagarde today (1345 GMT).
- First televised debate for the Nov US presidential elections, and its aftermath, should sway the market this week. For now, the respective policy platforms and their fundamental impact on the USD is still at the back seat. Rather, **it is the short term uncertainties associated with a very close campaign and potentially a contested outcome that focuses attention.** Note that a contested outcome is not yet our base case scenario.
- **We turned positive on the USD last week, and we will stay the course this week.** With the S&P 500 off lows but not out the woods, and gold still heavy, the correlation dynamics likely still favour the USD (not to mention the ongoing consolidation in risk). Nevertheless, expect a choppy week ahead, not least because of headlines from the US elections potentially undermining the USD. **Overall, we stay negative on the EUR-USD and the cable, as their underlying negatives are effectively unchanged. We look to potentially go negative the USD-JPY as a hedge, especially if the odds of a contested US election outcome continues to firm up.**

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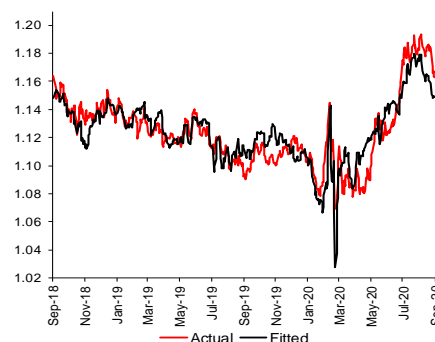
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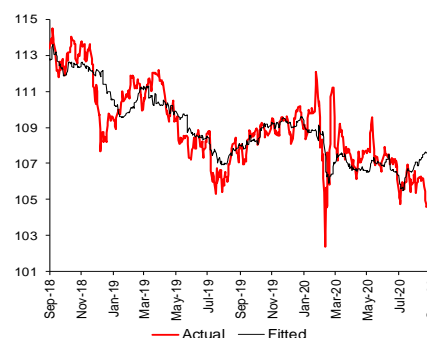
### EUR-USD

**Biased lower.** With the 1.1650 support breached, expect the 1.1600 area to attract in the near term. Expect downside momentum to continue, especially if the key ECB speakers like Lagarde and Lane continue to talk about EUR strength. Expect the weak short term implied valuations to apply an implicit pull lower as well.



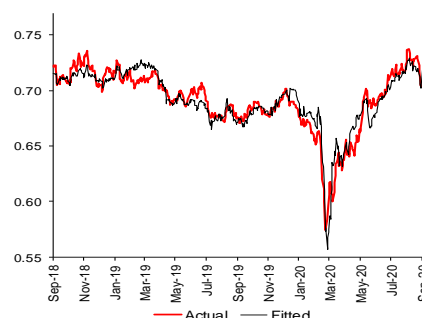
### USD-JPY

**Topping out.** The USD-JPY fell back below 105.50 early Mon after closing the past week above, perhaps underlining the toppish posture for that pair. Broad sideways posture remain in place for now, although the bias is still on the downside pending US election uncertainties.



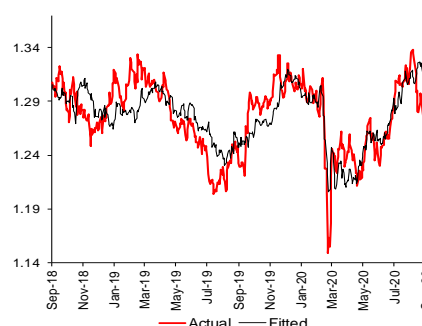
### AUD-USD

**Heavy.** The AUD-USD tested the 0.70 support level and saw its biggest weekly loss in 6 months on the back of worse than expected economic data. With global risk sentiment still negative and expectations of an RBA rate cut this year still looming, expect the bearish trend of the AUD to continue and the 0.70 support to be tested again.



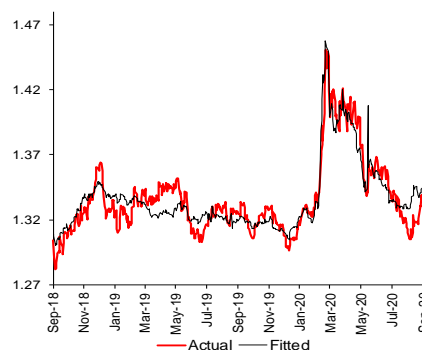
### GBP-USD

**Staying negative.** The GBP stayed in a consolidative mode as markets await the outcome from Tuesday's Brexit talks. With global sentiment still very much in the risk-off zone and virus cases continuing to rise, we should expect the pair continuing its downward slide if no progress is seen in Tuesday's talk. Support is now at 1.270 with 1.2665 next in line if breached.



### USD-CAD

**Buoyant.** The USD-CAD again topped out at 1.3420 for a second consecutive session, perhaps highlighting a near term top for now. Nevertheless, the posture remains pointed northwards, and we expect any dips to find first support at 1.3300.



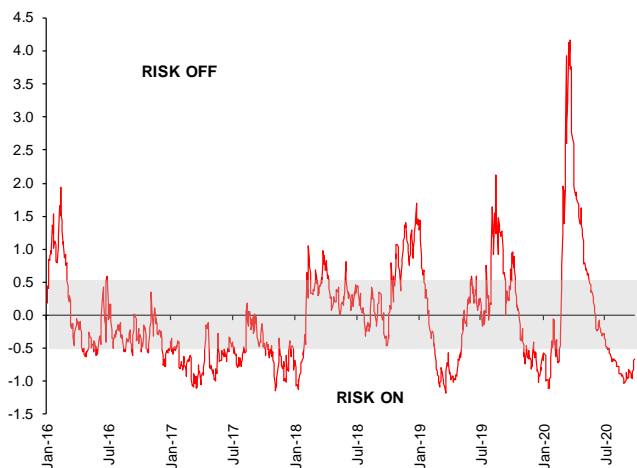
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### Asian Markets

- USD-Asia:** USD-CNH closed marginally softer after a choppy session. The pair failed to seriously test the 200-week MA, but also did not see traction towards the 6.8500 resistance. Overall, expect consolidation in the RMB complex, with the USD-CNY expected to head into the long holiday between 6.8100 and 6.8400.
- Based on EPFR data,** implied equity outflows from Asia (ex JP, CN) persisted in the latest week, although the pace has eased off somewhat. However, implied bond outflows picked up slightly.
- USD-SGD:** The SGD NEER right stands at the perceived parity level (1.3764) this morning, after easing to levels just below the parity on Friday. Keeping a close watch as to whether the SGD NEER moves sustainably to the bottom half of the tolerance band, although that is not our base case for now. Expect limited upside traction for the USD-SGD intraday, unless there is another run of broad USD strength.

### FX Sentiment Index



### Technical support and resistance level

	S2	S1	Current	R1	R2
EUR-USD	1.1612	1.1627	1.1634	1.1700	1.1789
GBP-USD	1.2700	1.2720	1.2768	1.2800	1.3020
AUD-USD	0.7006	0.7034	0.7059	0.7100	0.7204
NZD-USD	0.6500	0.6529	0.6561	0.6600	0.6640
USD-CAD	1.3252	1.3300	1.3380	1.3400	1.3418
USD-JPY	104.46	105.00	105.38	105.84	106.00
USD-SGD	1.3699	1.3700	1.3755	1.3777	1.3795
EUR-SGD	1.5965	1.6000	1.6003	1.6100	1.6150
JPY-SGD	1.2943	1.3000	1.3053	1.3076	1.3091
GBP-SGD	1.7328	1.7500	1.7563	1.7600	1.7666
AUD-SGD	0.9675	0.9700	0.9710	0.9800	0.9869
Gold	1843.00	1851.18	1856.10	1900.00	1937.99
Silver	22.95	23.00	23.02	23.10	25.80
WTI Crude	38.50	39.50	40.10	41.07	43.19

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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	
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	
<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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