

Daily Market Outlook

29 September 2020

Market Themes/Strategy

- US equities continued to firm up on Monday, leading global equities higher. Global core yields are also marginally firmer. Despite the slight risk-on tilt overnight, the **FX Sentiment Index (FXSI)** still edging towards the **Risk-Neutral** zone, leaving us with the perception that market caution hasn't been completely shaken out just yet.
- The **broad USD** dipped as month-end flows weighed and the appetite for risk returned. However, the DXY index still stayed above the 94.00 support. The **GBP** outperformed, as the market imputed optimism ahead of the restart of make-or-break Brexit talks this week. On this front, we focus on the stance of the EU side, who is still willing to continue negotiations, but will not rule out legal actions for now. Both sides will need to make enough progress by Friday to continue talks ahead of the self-imposed Oct 15 deadline.
- The **AUD** saw good gains as well, as RBA rate cut expectations shifted from Oct to Nov. This does not fundamentally alter the perception that the RBA is going towards the dovish end of the spectrum (together with the BOE).
- Some positive headlines are fuelling risk assets over the last two sessions – Pelosi negotiating with Republicans on US fiscal support, EU negotiating with UK despite the Internal Market Bill – but it's all talk for now, with no sign of actual progress yet. **Thus, we think it is premature to turn positive in risk sentiment just yet, especially with the US presidential debate upcoming. Overall, we stick to a USD positive stance for now, despite the dip in the USD overnight.** Note that the major pairs are still contained under their respective support turned resistance levels, with the EUR under 1.1700, and AUD under 0.7100.

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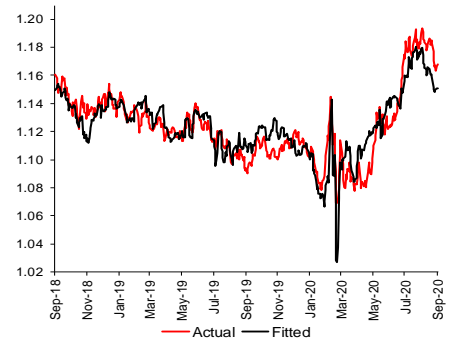
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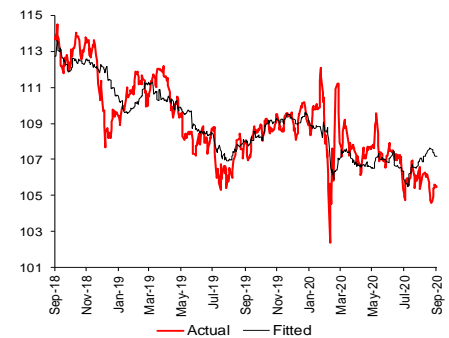
EUR-USD

Heavy tone. Comments from ECB's Lagarde suggest that the ECB stands ready to do more to support the fading recovery in Europe. She also reiterated the impact of a strong EUR on the inflation outlook. Overall, no surprises from Lagarde, leaving the EUR-USD still broadly in a heavy tone. Watch the 1.1700 resistance, while 1.1600 will need to be breached for further downside momentum.



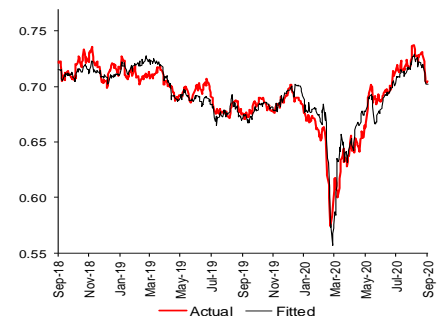
USD-JPY

Topping out. The USD-JPY remained sideways around the 105.50 locus. However, do not rule out more volatility this session, especially with market focus on the presidential debate in the US. First resistance at the 55-day MA (105.93), while 105.00 supports.



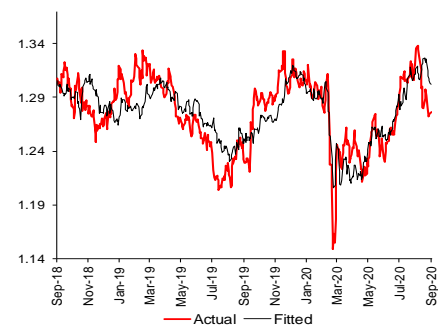
AUD-USD

Heavy. The move lower in the AUD-USD is well-tracked by the falling short-term implied valuations. With RBA rate cut expectations pushed back somewhat, the pair will need fresh catalyst to re-test the 0.7000 support. Nevertheless, so long as the pair remains under the 0.7100/20, we expect the downside bias to persist.



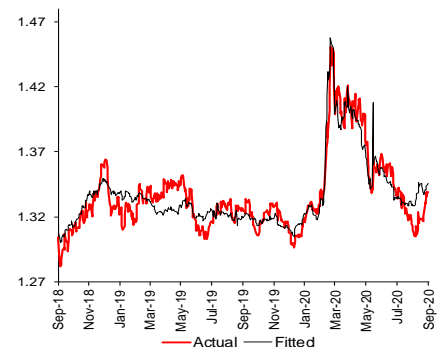
GBP-USD

Headline driven. The GBP-USD spiked higher on market optimism of progress between the EU and UK on the Brexit front. Note however, the spike was pared partially in the NY session. Expect the pair to be jittery and sensitive to headlines this week. Expect the zone between 1.2950 to 1.3000 to be a firm resistance that will need concrete developments to be breached. Expect that zone to limit as the talks are finalised towards Fri. Expect the pair to ease back to 1.2700/50 if there is no progress.



USD-CAD

Supported. The USD-CAD drifted lower, populating a tight range between 1.3350 to 1.3400 as the market awaited better directionality from the broad USD. A slightly firmer crude complex supports the CAD, but marginal impact for now. Continue to expect the pair to be bookended by 1.3300 and 1.3420.



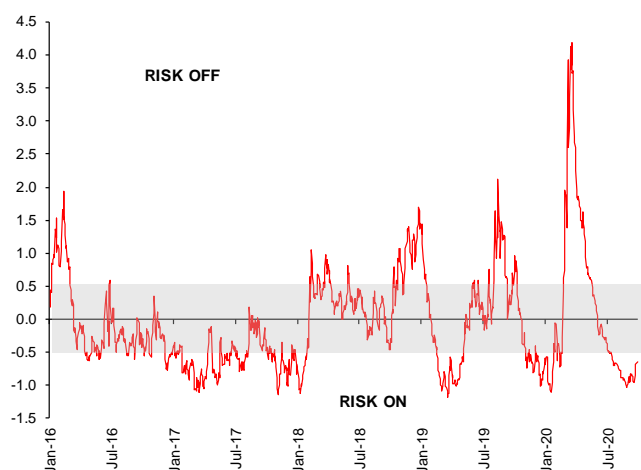
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29 September 2020

Asian Markets

- USD-Asia:** The USD-CNY moved lower in-line with the weaker USD, finding decent support at the 6.8100 area. In the interim, we expect the pair to enter the long holiday period around current levels, although a potential breach of 6.8000 cannot be completely ruled out in the event of further USD weakness. Longer run prospects undoubtedly still favours the RMB. Overall, expect USD-Asia to be consolidative, with a slight downward bias amid the tentative return of positive risk sentiment.
- USD-SGD:** The SGD NEER firmed up to +0.22% above the perceived parity level (1.3751) this morning. With the SGD NEER moving back into the midpoint between the parity to +0.50% above parity range that has been seen since April, there may be more room on either side for the USD-SGD intraday. Expect a range between 1.3680 to 1.3740 for now.

FX Sentiment Index



Technical support and resistance level

	S2	S1	Current	R1	R2
EUR-USD	1.1612	1.1624	1.1671	1.1700	1.1793
GBP-USD	1.2720	1.2800	1.2845	1.2900	1.3024
AUD-USD	0.7006	0.7022	0.7084	0.7100	0.7204
NZD-USD	0.6500	0.6516	0.6563	0.6600	0.6638
USD-CAD	1.3251	1.3300	1.3378	1.3400	1.3418
USD-JPY	104.46	105.00	105.49	105.82	106.00
USD-SGD	1.3696	1.3700	1.3717	1.3777	1.3795
EUR-SGD	1.5960	1.6000	1.6009	1.6100	1.6151
JPY-SGD	1.2944	1.3000	1.3003	1.3078	1.3087
GBP-SGD	1.7328	1.7600	1.7620	1.7667	1.7700
AUD-SGD	0.9664	0.9700	0.9717	0.9800	0.9866
Gold	1843.00	1850.58	1881.00	1900.00	1939.60
Silver	22.38	23.70	23.78	23.80	25.95
WTI Crude	39.57	40.20	40.21	40.30	41.07

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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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