

Daily Market Outlook

18 January 2021

Market Themes/Strategy – the week ahead

- Investors focused on data negatives out of the US, where consumer sentiment and retail sales prints entered softer than expected. Global equities were softer overnight, back-end UST yields turning somewhat soggy and sideways (10y UST yield still below 1.10%). Overall, the **FX Sentiment Index (FXSI)** tipped higher within the outright **Risk-On** zone, signalling a slight softening of sentiment at the start of the week.
- The risk-off tilt sent the **broad USD** higher. Market dynamics shifted back to the usual risk-off / strong-USD, with the equities market as the leader. Cyclical and the GBP bore the brunt of the declines against the USD, while the EUR slipped below 1.2100 support. The JPY, together with the CHF, held up against the USD amid the risk-off tilt.
- Based on **CFTC** data, not much evidence of the investment community pulling back on the net implied USD short positions in the week up to 12 Jan. Non-commercial and leveraged accounts continue to add USD short positions against EUR, GBP and AUD. Asset managers, however, pulled back on their implied USD shorts slightly.
- Calendar: Politics should be a focus this week, with the confirmation hearing of Janet Yellen as Treasury Secretary (Tue), then Biden's inauguration (Wed). Elsewhere, watch also for political developments in Italy and the Netherlands. On the central bank front, expect decisions from the BOC (Wed), ECB and BOJ (Thu).
- Expect the EUR to be under pressure in the immediate horizon, especially as political uncertainty seems to have spread from Italy to the Netherlands. The next target at 1.2050, before 1.2000. Against other majors, the USD still within familiar ranges, with the downtrend not yet impinged. Given the bounce in the USD, expectations of USD negativity will need to be curtailed. **However, if the stance is that back-end yields may be capped, and with the market potentially reverting to the equity-led dynamics that dominated prior to the move higher in UST yields, we still hold the slight bias for USD weakness.**

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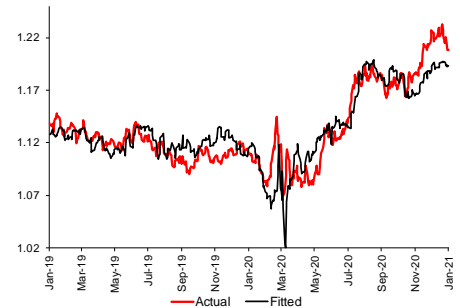
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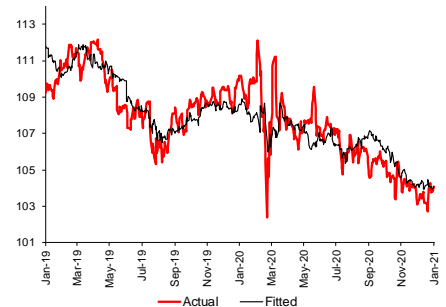
EUR-USD

Heavy. The sharp breach of the 1.2130/50 zone to the downside leaves the EUR-USD bearish on the technical perspective. Markets appear to be re-focusing the EZ's domestic issues for now. 1.2050 may be the next target, before 1.2000. A bounce clear of 1.2200 may be needed to negate the downtrend.



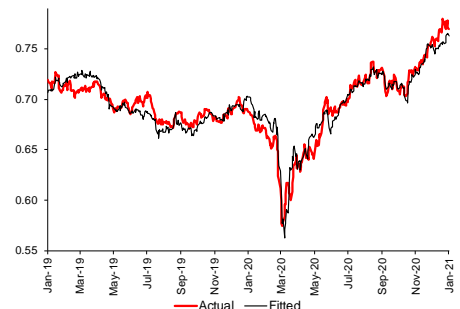
USD-JPY

Heavy bias. The USD-JPY was little changed as both were bought amid a risk-off tilt. This leaves the pair still effectively sideways between 103.50 and 104.20. Breach of either extreme should determine the next leg of directionality for this pair.



AUD-USD

Within broad range. Soured risk sentiment on Friday left the AUD-USD reeling. Yet, the more significant support at 0.7650 was not really tested, and the pair looks to be anchored around 0.7700. Near-term technicals bearish, but expect equities to lead this pair for now. Continue to eye the downside support at 0.7640/50.



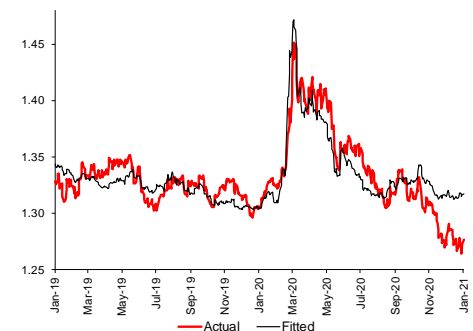
GBP-USD

Range. The 1.3700/20 remains the top that caps the GBP-USD, but the reversals that followed the failures have been relatively mild. A breach of 1.3400/50 needed to regain downside impetus. For now, expect range-bound action between 1.3450 and 1.3700.



USD-CAD

Range. The USD-CAD bounced sharply higher after touching a low near 1.2630. Do not rule out the bounce extending towards 1.2800 for now, with a < 25 bps cut at the BOC not being ruled out and the USD still consolidating higher. Immediate target at 1.2800, then 1.2840. Failure to breach those levels will still leave the pair on a heavy path.



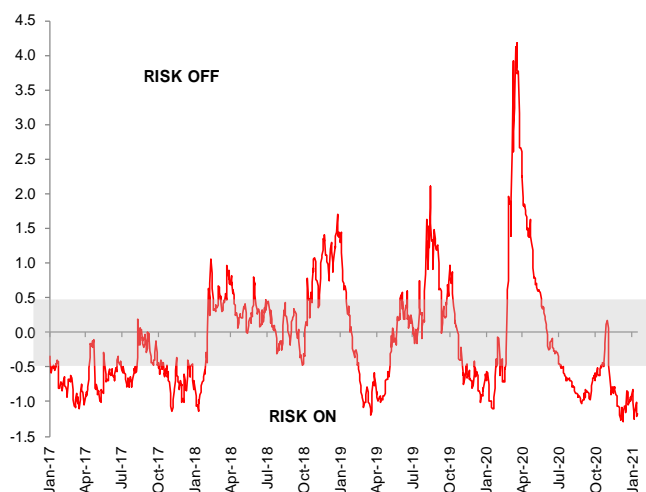
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Asian Markets

- **USD-Asia:** The USD-CNH is buoyant at the start of this week, looking to test the 6.4900/6.5000 resistance. We will not rule out a breach of 6.5000 as the pair tracks the ongoing run in the USD higher. However, most shorts would probably have bailed, leaving significant spikes higher unlikely. The move higher may be a grind.
- This helps to lend implicit buoyancy to the rest of USD-Asia. We keep a close watch on the USD-MYR and USD-THB, pairs that we think may test their recent highs on the back of domestic lockdowns (MYR) and potential growth downgrade (THB). Watch also for BNM decision on Wed.
- **USD-SGD:** The SGD NEER tipped into the negative territory briefly on Fri and early Mon, and stands at the perceived parity (1.3304) for now. We are not expecting the SGD NEER to detach lower from parity at this point, implying that there should be limited SGD-centric upside impetus for the USD-SGD from here. Prefer not to chase the pair higher for now. Aside, Singapore Dec NODX grew 6.8% yoy, much better than the expected -0.7% consensus.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2059	1.2078	1.2082	1.2087	1.2100
GBP-USD	1.3436	1.3500	1.3585	1.3600	1.3710
AUD-USD	0.7529	0.7600	0.7699	0.7700	0.7820
NZD-USD	0.7072	0.7100	0.7131	0.7200	0.7297
USD-CAD	1.2625	1.2700	1.2764	1.2800	1.2862
USD-JPY	102.84	103.00	103.73	103.93	104.00
USD-SGD	1.3168	1.3300	1.3306	1.3340	1.3356
EUR-SGD	1.6057	1.6067	1.6077	1.6100	1.6123
JPY-SGD	1.2734	1.2800	1.2828	1.2834	1.2876
GBP-SGD	1.7922	1.8000	1.8076	1.8100	1.8149
AUD-SGD	1.0026	1.0200	1.0244	1.0300	1.0329
Gold	1808.75	1817.10	1825.20	1840.31	1863.21
Silver	24.35	24.70	24.79	24.80	24.96
WTI Crude	46.33	51.90	51.92	52.00	53.93

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