

Daily Market Outlook

19 January 2021

FX Market Themes/Strategy

- Very limited overnight leads with the US equities and Treasury markets out for a holiday. Global equities and European yields were a touch firmer. The risk-off spillovers from last Fri still evident in the market, with the **FX Sentiment Index (FXSI)** tipping higher again within the **Risk-On** zone, signalling another day of softening risk sentiment.
- The **broad USD** was mostly firmer on Monday, except against the fellow haven currencies, JPY and CHF. The cyclical bore the brunt of the USD bounce again, but note that they were all off lows near key support levels. Likewise, the EUR bounced off lows at 1.2050 to close effectively unchanged.
- Market participants seemed happy to wait out for Yellen's testimony as the Treasury Secretary-designate (1500 GMT) before taking further positions. Our G-10 playbook has not changed. USD strength should be best reflected in through the EUR, and we prefer not to chase the cyclical lower so long as they hold on to key support levels. Overall, **USD negativity has been dialed back, but we are not outright pro-USD just yet. Watch S&P 500 e-minis as an intraday guide.**
- **USD-Asia:** With the exception of retail sales, the Chinese data dump yesterday was encouraging, with the GDP growth now arguably back at its trend growth at 6.50%. However, this did little for the RMB in the immediate horizon as it is effectively in a USD-driven market now. The USD-CNH found little traction above 6.5000 and is back south of that level. Nevertheless, **the macro outlook in China bodes well for the longer term RMB appreciation story.**
- On the Asian portfolio flows front, we are starting to see portfolio inflows coming back into Asia on net after a relatively slow start to the year. Equity outflow momentum (rolling 20-day basis) from Korea has reversed and is back in positive territory. Same for Malaysia. Uptick in equity inflows also noted in Taiwan and Indonesia.
- **USD-SGD:** The SGD NEER dipped to -0.10% below parity at one stage on Monday, but was taken swiftly higher back above parity. This morning, the SGD NEER is standing at an estimated +0.10% above the perceived parity (1.3306). **This movement reinforces the view that the SGD NEER will not move sustainably below the parity level.** This leaves us looking to enter SGD NEER basket longs at levels near or just below parity. Translated to the USD-SGD, we continue to see limited impetus for the pair to detach higher from the 1.3300 anchor. Expect 1.3280 and 1.3330 to bookend the pair for now.

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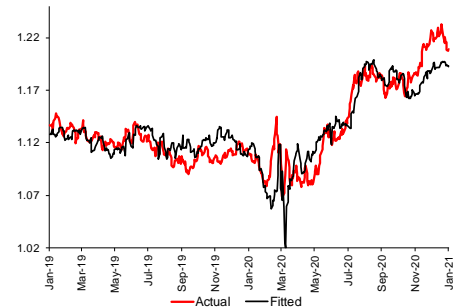
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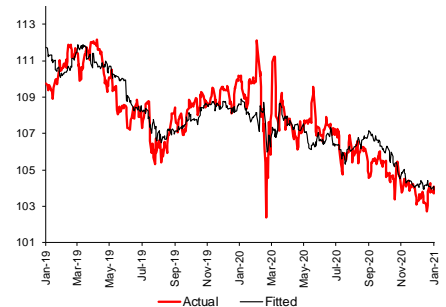
EUR-USD

Potentially based. The EUR-USD trajectory remains very soggy. So long as 1.2100 is not recaptured, the 1.2050/60 support should continue to attract. Expect limited range ahead of the ECB meeting on Thu. Note that long positions on the EUR-USD are starting to re-build.



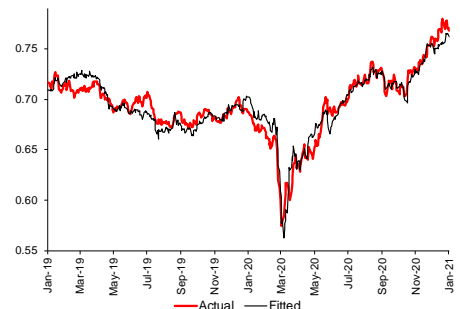
USD-JPY

Heavy bias. The USD-JPY buoyant early Tue as UST yields edged higher at the reopen of the Treasury market. Nevertheless, topside may be limited if firmer equities futures put pressure on the USD. Overall, still locked in between 103.50 and 104.20 for now.



AUD-USD

Within broad range. Remnant risk-off undertones continued to weigh on the AUD-USD on Mon. However, firmer equity futures early Tue provided renewed upward impetus, allowing the pair to surface above the 0.7700 mark. Downside support at 0.7640/50 likely still the main target, but expect the lift-off to gain more traction if equity gains take hold.



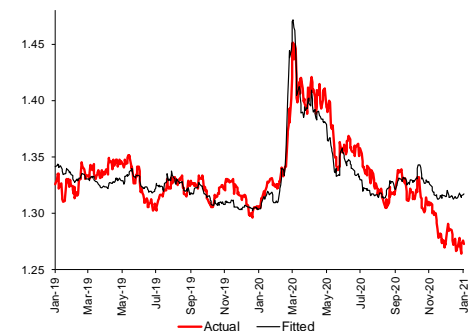
GBP-USD

Range. Sharp bounce off Monday's lows perhaps suggest that the GBP-USD bulls are still refusing to give up. More USD-driven action for now, pending Yellen later today. Broad range bound action between 1.3450 and 1.3720 for now.



USD-CAD

Range. The USD-CAD saw no further traction after touching our immediate target at 1.2800, and the subsequent retreat is sharp. This leaves the pair broadly sideways between 1.2630 and 1.2800 ahead of the BOC decision.



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