

Daily Market Outlook

20 January 2021

FX Market Themes/Strategy

- Yellen's testimony was largely as market expected. US equities held on to gains post-Yellen, and back-end US Treasuries recovered losses early in Asia, with the 10y yield little changed. The market seems to be slowly getting back to the risk-on mode, led by equities. The **FX Sentiment Index (FXSI)** dipped for the first time in 4 sessions, suggesting an improvement in sentiment.
- Almost on cue to the risk-on shift, the **broad USD** and **JPY** underperformed against in the G-10 space. The European complex outperformed the lot, with the **EUR** lifting through the 1.2100 resistance. Some concern on the **cyclicals** though, which failed to rally more strongly amid risk-on.
- From a market perspective, Yellen's "act big" call should re-focus expectations back to larger stimulus, thereby supporting market sentiment ahead. The comments on the USD were in-line with expectations, and extracted limited market reaction. This is not the strong-USD policy that Treasury Secretaries of past at least nominally adhere to. **We think Yellen is at best indifferent to a weakening USD, and that in itself may be insufficient to turn the USD tide.**
- Overall, Yellen is not a USD-positive on net. The FX space still faces a lot of shifting sands, with different themes still jostling for dominance. Our view for now is primarily influenced by the back-end UST yields turning soggy. If this persists, the yield differential pull on the USD should fade. Equities also seems to be coming back as the main driver for FX. Coupled with the market re-focusing on fiscal stimulus, the **underlying risk-on / weak-USD dynamic may re-assert dominance.** This leaves us still net-negative on the USD. A potential shift in our view of the EUR, as it looked like it has found a base at 1.2050/60.
- **USD-Asia:** The USD-CNH may turn heavy again with the DXY index's dip, with 6.4900 likely to cap in the interim. The Asia session today will be headlined by the BNM decision (0700 GMT). The broadened MCO restrictions probably intensified the need for an OPR cut later today.
- **USD-SGD:** The SGD NEER rose to +0.15% above the perceived parity (1.3300) this morning. On the USD-SGD, do not rule out a detachment on the downside from the 1.3300 handle, especially with the SGD NEER nearer the soft end of the recent range, and the USD potentially reverting back to a downtrend.

Terence Wu
FX Strategist
+65 6530 4367
TerenceWu@ocbc.com

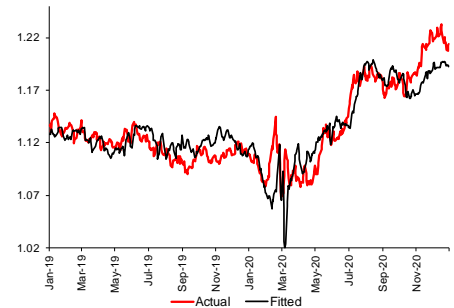
Treasury Research
Tel: 6530-8384

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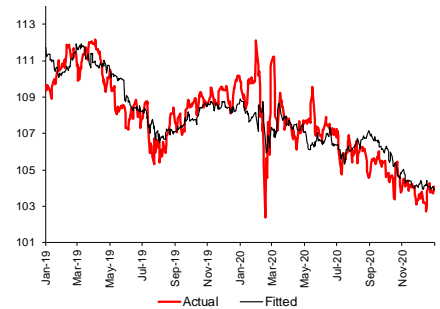
EUR-USD

Potentially based. The EUR-USD pushed through the 1.2100 with conviction as domestic positives – stronger than expected German ZEW survey results and the Italian government looking likely to survive – added a kicker to the USD’s soft tone. Immediate downside may be partly negated for now, but more confidence for the longs will come with a close above 1.2150/60.



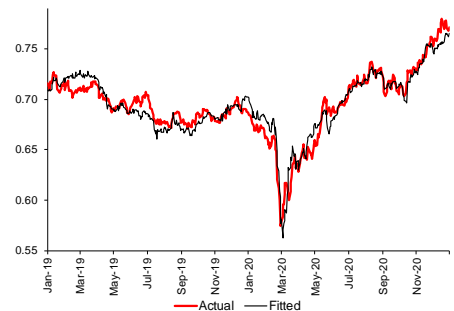
USD-JPY

Sideways to heavy. The USD-JPY lifted higher again amid the risk-on sentiment, but failed to hold above the 104.00 resistance. The lack of upside impetus on the UST yields likely added to the topside caps on this pair. Likely to persist with range-bound 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.



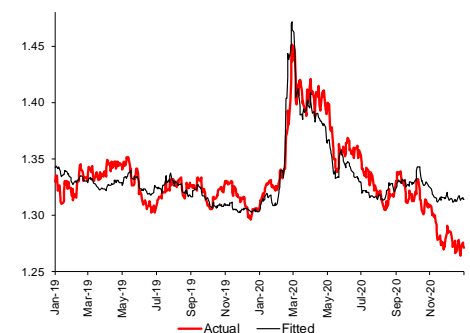
GBP-USD

Buoyant within range. An optimistic read of the economic outlook from the BOE’s Haldane provided support for GBP-USD, in addition to the broad USD cues. The market also seemed encouraged by the steady vaccination progress in the UK, relative to the more disjointed effort in Europe. This leaves the pair nearing the 1.3700/20 resistance again, and we will not rule out another test of that top.



USD-CAD

Range. The USD-CAD tracked the broad USD lower, while the firm commodity complex also adds negative pressure. Eyes on the BOC decision later today (1500 GMT), the consensus being unchanged but with some outside expectation for a “micro-cut” of less than 25 bps. Interim support at 1.2700/10 for now.



Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com
Howie Lee
*Thailand, Korea &
Commodities*
HowieLee@ocbc.com
Tommy Xie Dongming
Head of Greater China
Research
XieD@ocbc.com
Carie Li
Hong Kong & Macau
carierli@ocbcwh.com
Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com
Terence Wu
FX Strategist
TerenceWu@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com
Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com
Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com
Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com

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