

## Daily Market Outlook

22 July 2021

### FX Themes/Strategy

- US/EZ equities were again firmer overnight, while global core yield curves bear-steepened. Easing of FX vols suggest further reprieve from recent risk off sentiment, with the **FX Sentiment Index (FXSI)** inching away from the Risk-Off zone. Note that in the last three occasions post-pandemic where the FXSI was at current levels, it was cue for it to turn south back towards the Risk-On zone.
- The **broad USD** was bid in the Asian and early LDN, before the unwinding of risk-off trades towards the late LDN and NY sessions caused the USD to lose ground. The **cyclicals** outperformed in line with the fading of the risk-off sentiment, with the **JPY** the main underperformer across the G-10 space. The **EUR's** move was notably muted, staying below 1.1800.
- The whole risk-off episode sparked by the Delta variant headlines is driving the near-term volatility in the FX space. Even after two sessions of stabilizing sentiment, it is unlikely to be all rosy again from here. Cutting through the near term noise, the longer term cyclical outlook / relative central bank stance back-drop still favours the USD against the EUR and JPY. Underlying US data outperformance and Fed expectations remain intact. Thus, the multi-session bias is still for a choppy grind higher for the broad USD.
- The USD may see some negative pressure should the Delta variant situation evolve into a sufficiently serious growth concern that compels Fed expectations to materially change. This is not our base case for now. Given the relatively firmer macro base in the US, the other less-dovish central banks should blink first – watch cues from RBNZ and BOC. Moreover, any initial anti-cyclical reaction should still be USD-positive. Overall, USD bulls remain in control for most of the major pairs, with the cyclicals still not out of the woods just yet. Expect the EUR-USD to remain heavy into the ECB policy meeting (1145 GMT).
- **USD-Asia:** The USD-CNH turned lower in-line with the broad USD, with the 6.4600 support cushioning declines. USD-Asia should see some downside from spillover risk-on and USD-weakness. North Asian currencies should be more reactive in that respect.
- **USD-SGD:** The SGD NEER lifted to stand at the parity level (1.3642) this morning, underlying the view that a sustained run at sub-parity levels is unjustified. The USD-SGD will likely be capped at 1.3700, with the 1.3600 to 1.3700 zone forming a multi-session range, pending clarity on the USD direction.

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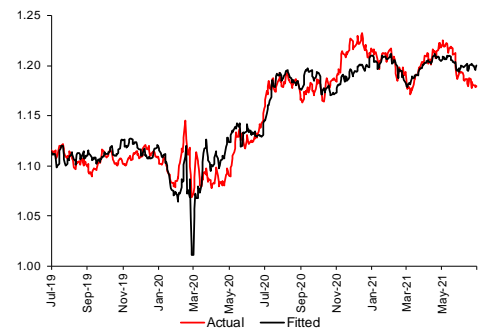
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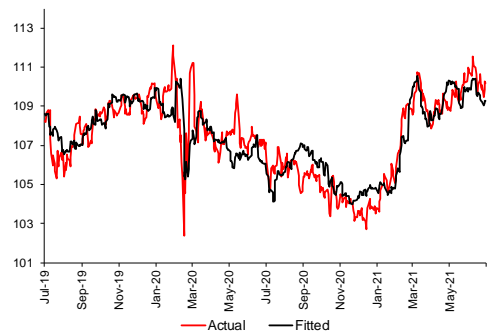
### EUR-USD

**Negative.** The ECB policy meeting (1145 GMT) will be the main risk event today. Expect the EUR-USD to remain comparatively static until clearer signals from the ECB emerge. Market bias seem to be for the ECB to lean towards more stimulus that goes beyond the crisis-era PEPP, but with no concrete policy announcement this meeting. Immediate focus will be on the 1.1750 to 1.1830 range



### USD-JPY

**Searching for bottom.** The USD-JPY lifted higher as haven demand for the JPY eroded over the past two sessions. While the sense is that the worst of the risk off episode is over, it is too early to conclude that the USD-JPY will be reacting higher from here. For now, prefer to wait and see if back-end UST yields can consolidate higher, and if the USD-JPY can build base off 110.00.



### AUD-USD

**Stay bearish.** The AUD-USD bounce off the 0.7300 floor may ease the downside momentum somewhat, but we stay negative so long as it remains below the 0.7400 handle. Expect some consolidation between 0.7300 and 0.7400, pending the next round of USD directionality.

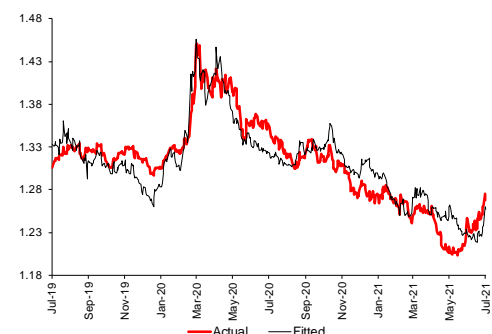


### GBP-USD

**Downside bias.** As with the AUD-USD pair, the bounce off 1.3600 took some heat off GBP bulls for now. Note that short-term implied valuations are attempting to base. For now, the pair will aim to hold on to the 1.3700 locus. Failing which, the 20 June low at 1.3572 remains at risk.

### USD-CAD

**Potentially heavy.** The stabilization and consolidation higher in the crude complex should bode well for the CAD. Scope for the USD-CAD to consolidate lower, and reverse the move higher to 1.2800. Any USD negativity should be best expressed through the CAD for now. Prefer to sell rallies.



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