

ECB to Push Back on Market Bets

- **DXY. Consolidation but Slightly Wider Range.** USD traded whippy but well within range again overnight. Dip in DXY below 102.80 was brief as much-better-than-expected preliminary PMIs in US helped DXY to recoup some of its earlier losses. Key data/event risk – 4Q GDP, core PCE (today), Dec core PCE print (Fri) and FoMC next Thu should see USD trade in a holding pattern for now though increasingly, the daily swings are becoming wider and oscillator indicators are starting to show tentative signs of bearish divergence. But in the meantime, the key question is how much more will markets unwind or even add to their rate cut bets as markets look for clarity on timing of first cut and quantum of potential cuts. Elsewhere the China 50bps RRR cut alongside other support measures may keep sentiments supported in the interim. DXY was last at 103.30 levels. Bullish momentum on daily chart intact but RSI turned lower from near overbought conditions. Risks skewed to the downside in the interim. Support at 103.10 (38.2% fibo, 50 DMA), 102.6 (neckline of inverted h&s) and 102.20 (21 DMA, 23.6% fibo). Resistance here at 103.50 (200 DMA), 103.8 (50% fibo retracement of Nov high to Dec low) and 104.60 (61.8% fibo).
- **EURUSD. ECB in Focus.** Policy decision is due at 9.15pm (SG time) while Lagarde's press conference is at 9.45pm (SG time). Markets have partially unwound some of their aggressive rate cut bets for ECB. For the year, about 140bps cut is priced (vs. -164bps of cut expected at the start of the year). Recent ECB minutes has also revealed that officials expressed concerns that financial conditions are at risk of being loosened excessively given the sharp market repricing and that may derail the disinflationary process. ECB officials have been quite divided on their views with regards to timing of first cut. For instance, Centeno is looking for earlier cut; Villeroy, Nagel refused to openly commit to a timeline while Simkus, Lagarde spoke about lowering rate around summer. While ECB is expected to keep policy settings status quo, we will be keeping an eye on how Lagarde may pull together the somewhat divided Governing Council to agree more on summer timeline with regards to a cut. A more forceful ECB pushback against the market bets can provide some support for EUR. Pair was last seen at 1.0880 levels. Mild bearish momentum on daily chart intact while RSI was flat. Consolidation likely in the interim. Support at 1.0850 (200 DMA), 1.08 (50% fibo) and 1.0770 (100 DMA). Resistance at 1.0875 (38.2% fibo retracement of Oct low to Jan high), 1.0920/45 levels (21, 50 DMA).

Christopher Wong

FX Strategist

ChristopherWong@ocbc.com**Global Markets Research**

Tel: 6530 8384

- **USDJPY. *Short Bias.*** USDJPY fell, in line with our call for the pair to trade lower as BoJ has basically paved the way for a policy move soon. Pair was last at 147.65 levels. Bullish momentum on daily chart shows signs of fading while RSI turned lower from near overbought conditions. Bias to add to shorts on rally. Support at 147.50 (100 DMA), 146.10 (50% fibo retracement of Nov high to Dec low). Resistance at 148.50/70 levels before 149.20 (76.4% fibo). While BoJ kept policy settings unchanged as widely expected, it was Governor Ueda's comments at the press conference that sparked off some volatility. The implicit message we can draw on is that BOJ is paving way for a move though it stopped short of committing to an exact timeline. He highlighted that policy change at meeting can happen with or without quarterly outlook. This implies that every meeting from now on can be *live*. BoJ's outlook report is typically published at the MPCs in Jan, Apr, Jul and Oct. The next BoJ MPC in Mar is one without the quarterly outlook. Governor Ueda also commented that many businesses have decided on wages early this time and does not need all SMEs to hike wages significantly for a policy change. This shows that the BoJ now has knowledge of corporates committing earlier than the usual shunto negotiation timeline with regards to wage increase. Potentially, an earlier move in Mar should not be ruled out though it appears that some on the street are leaning towards Jun move. We still maintain view of a BoJ move before mid-2024. Retain bias to sell USDJPY on potential Fed-BoJ policy divergence.
- **USDCNH. *Consolidation.*** China announced RRR cut of 50bps, wef. 5 Feb. Markets have been expecting this RRR cut for a while so the announcement is not a surprise, but the magnitude of the cut probably is. The cut is expected to release about RMB1tn of liquidity into the financial system. PBoC also indicated that rates on relending funds to banks that lend to agricultural sector and small firms will be lowered. There was also mention of allowing bank loans pledged by developers' commercial properties to be used to repay other loans and bonds. All of these support measures came after media reported the day before that China is considering to mobilise RMB2tn to buy onshore equity onshore through HK exchange link. Potentially, policymakers can further ride on the momentum by announcing some form of support measures for the economy targeting consumption. These, alongside the 1tn liquidity injection (RRR cut) and potential support (2tn) for equity market can help rebuild credibility and shore up investor confidence. Chinese internet counters listed in US jumped nearly 8% over 2 days as of yesterday's NY close. There is still a fair amount of market scepticism over how sufficient the measures are but if the plan to rescue China shares does materialise sooner rather than later, alongside other support measures, then risk proxies, including AUD, KRW can benefit while CNH could see greater relative stability. USDCNH fell further for the fifth consecutive day. Last at 7.1640 levels. Mild bullish momentum on daily chart faded but decline in RSI moderated. Consolidation likely. Support at 7.14, 7.11 levels. Resistance at 7.1700 levels (50

DMA), 7.1900/50 (38.2% fibo, 200 DMA) and 7.2280 (50% fibo retracement of 2023 high to 2024 low).

- **USDSGD. *Waiting for US Core PCE and MAS MPC.*** USDSGD traded sideways as markets await catalyst. Pair was last seen at 1.34 levels. Bullish momentum on daily chart intact while decline in RSI moderated. Consolidation likely. Support at 1.3390 (38.2% fibo retracement of Oct high to Dec low), 1.3360 (50 DMA) and 1.33 levels (23.6% fibo). Resistance at 1.3460 (200 DMA, 50% fibo), 1.35 (100 DMA). Policy decision will be out on 29 Jan (8am). We expect MAS to maintain policy status quo as prevailing appreciating path of the S\$NEER policy band remains appropriate given that inflation risks remain. Near term, the Red Sea situation can disrupt global trade and can pose upside risks to global inflation as shipping rates, insurance premium jump. Knock-on implications for inflation will depend on how long the disruption persists and whether other shocks (relating to oil or food prices) occur. This is a risk that we may have to closely monitor. Looking back at past cycles of disinflation in Singapore, MAS did not rush into easing after inflation peaked at previous cycles. Instead, the MAS maintained its appreciating policy stance on hold for a while. That said, we are also mindful of policymakers' cautious tone on growth outlook. We won't rule out MAS easing policy at some point this year if external sources of inflation are deemed to be more benign and core inflation in Singapore continues to ease materially. The S\$NEER continues to trade in the strong side of its band and may still continue to press on as MAS's policy stance is still on an appreciation stance. However, should core inflation ease further into 2024 as projected by MAS, then the S\$ strength we've seen for large part of this year can potentially taper off against some of its major trade partners. Historically there is a positive correlation between the change in S\$NEER and MAS core inflation. i.e. to say if core inflation does ease materially, then there is no need for the S\$NEER policy to be so tight.



Macro Research

Selena Ling

Head of Strategy & Research

LingSSSelena@ocbc.com

Herbert Wong

Hong Kong & Macau Economist

HerbertWong@ocbc.com

Jonathan Ng

ASEAN Economist

JonathanNg4@ocbc.com

Tommy Xie Dongming

Head of Greater China Research

XieD@ocbc.com

Lavanya Venkateswaran

Senior ASEAN Economist

LavanyaVenkateswaran@ocbc.com

Ong Shu Yi

ESG Analyst

ShuyiOng1@ocbc.com

Keung Ching (Cindy)

Hong Kong & Macau Economist

Cindyckeung@ocbc.com

Ahmad A Enver

ASEAN Economist

Ahmad.Enver@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA

Rates Strategist

FrancesCheung@ocbc.com

Christopher Wong

FX Strategist

ChristopherWong@ocbc.com

Credit Research

Andrew Wong

Credit Research Analyst

WongVKAM@ocbc.com

Ezien Hoo, CFA

Credit Research Analyst

EzienHoo@ocbc.com

Wong Hong Wei, CFA

Credit Research Analyst

WongHongWei@ocbc.com

Chin Meng Tee, CFA

Credit Research Analyst

MengTeeChin@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.: 193200032W