Daily Market Outlook

25 January 2024

GLOBAL MARKETS RESEARCH

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).

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- **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$NEER and MAS core inflation. i.e. to say if core inflation does ease materially, then there is no need to for the S$NEER policy to be so tight.

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