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Daily Market Outlook

Disinflation clips EUR

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- ***Disinflation clips EUR**: EUR weakened after softer French and German inflation and easing Eurozone PMIs dampened ECB tightening hopes. While recent ECB rhetoric was hawkish, data point to policy on hold through 2026, leaving EURUSD upside reliant on Fed dovish risks.*
- ***USD**: Geopolitical noise remains high, but FX impact is contained. Tariff uncertainty may briefly weigh on the USD, though US growth tailwinds and limited Fed easing should underpin the USD in late-2026.*
- ***JPY**: Buying USDJPY looks unattractive at current levels, with growing risks of BoJ and MoF action near prior intervention zones. Yet JPY remains vulnerable to higher JGB yields, as fiscal concerns under new political leadership undermine the usual link with rate differentials.*
- ***Asia FX**: Asia FX continued to trade mixed with SGD modestly firmer while PHP and TWD lagged peers as idiosyncratic drivers continue to take precedence in driving currency moves.*

Disinflation clips EUR: The EUR softened after weaker-than-expected inflation data from France and Germany dampened hopes of early ECB tightening. French inflation eased by 0.1ppt to 0.8% YoY in December, while German inflation fell to 1.8% from 2.3%. Final December Eurozone PMIs also confirmed a loss of momentum into year-end. While the composite PMI remained in expansionary territory, it slipped from November levels. Recent hawkish ECB rhetoric suggests the bar for reopening discussions on rate cuts remains high. That said, the data backdrop is broadly consistent with an on-hold ECB through 2026. Our expectation for modest EURUSD upside in 1H26 hinges more on dovish Fed risks than a more hawkish ECB, though improving US growth dynamics could lend support to the USD later in the year.

USD: Geopolitical headlines – particularly concerns over Greenland following US actions in Venezuela – continue to attract media attention. However, market spillovers beyond precious metals remain limited. Focus now turns to the US Supreme Court, which has designated Friday as an opinion day, marking the earliest opportunity for a ruling on President Trump's global tariffs. A potential strike-down of IEEPA-based tariffs could revive fiscal concerns and temporarily pressure the USD. That said, any USD downside should be contained, as the administration has signalled its intent to re-impose tariffs through alternative legislative pathways. We continue to expect only modest USD softness in 1H26, with DXY likely finding support near 96 in 2H26. Improving US growth prospects—driven by AI-related investment, easing tariff headwinds and tax cuts—should limit expectations for further Fed easing beyond the final 25bp cut we see in 1Q26, offering USD support later in the year. Near term, the labour market remains pivotal, with Friday's December US jobs report the key event risk.

JPY: Current levels make USDJPY unattractive to buy, with rising risks of action by the Bank of Japan (BoJ) and Ministry of Finance (MoF) to curb excessive yen weakness. While the precise intervention threshold is unclear, the MoF last stepped into the market around the 159–162 region in July 2024. That said, the JPY outlook remains mixed. The JPY is increasingly vulnerable to higher JGB yields, reflecting renewed fiscal concerns. While narrowing U.S.–Japan rate differentials would typically argue for lower USDJPY, fiscal worries under Japan's new political leadership have distorted this relationship, weakening the link between USDJPY and yield spreads. Bond market unease also reduces the scope for BoJ to turn more hawkish.

USDSGD. Market bets on potential policy shifts. USDSGD continued to trade near recent lows. Pair was last seen at 1.2805, after briefly trading below 1.2790 yesterday. Daily momentum is flat while RSI fell closer to near oversold conditions. Price action has also been respecting the bearish trend channel formed since late-Nov, though the pair is now near the lower bound. Consolidation likely within trend channel. Support at 1.2790 levels (Jan low), 1.2710 (Sep low). Resistance at 1.2880 levels (21 DMA), 1.2930/55 levels (50, 200 DMA, 23.6% fibo retracement of 2025 high to low). We also observed that SGD strength since Nov has been tracking the upticks in STI fairly closely (correlation coefficient significant at above 0.8).

Elsewhere on the S$NEER, our model saw an increase in % deviation from model-implied mid to near 2%. This may also suggest that markets are pricing in expectations of hawkish tilt to MAS policy down the road. This is consistent with the recent upticks seen in Singapore data (core inflation, growth and activity-related). The upcoming MPC is to be held no later than 30 Jan, with the actual date typically announced a week before. Our house view continues to look for policy to stay on hold (i.e. modest appreciation stance) amid a gradually rising but manageable core inflation trajectory and still healthy growth momentum in 2026.

USDPHP. Nearing recent highs. USDPHP continued to inch higher, in reaction to BSP Governor's comments. He signalled that BSP's pro-growth push could conclude with one more cut possibly in February, but BSP is ready to do more should economic growth weaken more than expected. Recall at a briefing earlier this week, the official growth target for 2026 will be reduced to 5-6%, from previous target of 6-7%. Economic Planning Secretary Balisacan also said that "the developments last year are likely to still be felt this year, although in a diminishing effect". He added that "growth in the first quarter or at least in the first half is expected to be still quite not as rosy as we would want it to be". He added that the government expects the PHP to trade within the 58 to 60 level against the US dollar. USDPHP was last seen at 59.20 levels. Daily momentum is mild bullish while RSI rose. Risk remains skewed to the upside. Resistance at 59.20/30 levels (recent high). Break out of previous highs may open room for further upside. Support at 58.80/90 levels (21, 50 DMAs), 58.30 levels (23.6% fibo retracement of 2025 low to high).

USDTWD. Nearing Key Level. USDTWD has continued to trade higher on a combination of regulatory shifts and dividend flow drivers. Reduction in lifer demand to hedge due to changes in FX accounting rules (effective 1 January) has been one of the key drivers of TWD softness while dividend outflows is another. In a briefing yesterday (reported by Bloomberg), Eugene Tsai (head of CBC FX department) said that lifers are cutting FX swap hedging and have become buyers of USD in the spot market. CBC will review applications from lifers seeking to reduce their FX swap positions on a case-by-case basis and he added that depreciation pressure on TWD is limited once orders are spread out. Spot last at 31.52. Daily momentum is flat while the rise in RSI moderated. 2-way risks. Immediate resistance at 31.56 (61.8% fibo retracement of 2025 high to low). Decisive break may fuel traction for the pair to trade higher. Next resistance at 32 levels. Support at 31.40 (21 DMA), 31.23 (50 DMA).

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