

Daily Market Outlook

Breakout On Hold

- **Breakout On Hold:** *The USD still enjoys support from elevated yields, energy prices and a hawkish Fed bias. But with bond market volatility easing and US inflation pressures looking less demand-driven, the ingredients for a decisive breakout remain incomplete.*
- **USDCNH continues to trade near recent lows.** *RMB appreciation bias intact, but we retain caution for the risk of technical consolidation in the near term, especially if the fixing strength pauses momentarily.*
- **KRW slipped** *despite officials' preference for currency strength. Equity flows remain key while easing US Treasury yields and oil prices could offer relief.*

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Breakout On Hold: To break higher or not? That remains the key question for the USD. The DXY has rallied more than 3% over the past five weeks as markets priced a more hawkish Fed path and rising US Treasury yields amplified concerns about European sovereign debt.

Three themes continue to dominate the USD outlook: rates, energy and AI. The USD initially softened overnight as US equities came under pressure from concerns about chipmakers and the broader AI investment story. However, losses were short-lived. Attention quickly shifted back to rising energy costs, particularly natural gas and refined products, helping to stabilise the USD.

Our base case remains that the USD should stay well supported. However, we do not yet see the conditions for a sustained breakout from its recent range. Treasury market conditions have become noticeably calmer, with some of the technical factors that amplified the earlier surge in yields appearing to fade. That could reduce an important source of support for further USD gains.

Today's CPI report is therefore critical. If the data confirm that underlying inflation pressures remain contained, markets may further scale back expectations for additional Fed tightening, limiting the USD's upside. While inflation remains above the Fed's 2% target and justifies a restrictive policy stance, the need for aggressive tightening is less compelling if inflation is being driven primarily by supply-side factors such as energy costs and AI-related investment rather than overheating demand.

That view gained support from comments by New York Fed President John Williams, who reiterated that one additional rate hike this year may be appropriate but currently sees little need for further tightening in 2027. Williams argued that underlying disinflationary forces remain intact and expects inflation to move closer to target over time, even as energy prices and AI-related investment create near-term price pressures.

We continue to expect only one additional Fed hike by mid-2027, compared with market pricing that still implies roughly three hikes. Unless inflation surprises materially to the upside, that gap leaves limited room for further hawkish repricing and argues against a decisive USD breakout in the near term.

USDCNH. Watching the fix. USDCNH continued to trade near recent lows, helped by the strong fix while overnight pullback in USD, US Treasury yields partially offered some near-term relief. PBoC set the fix at 6.7298 (another fresh multi-year low) vs. 6.7313 (Mon), keeping the measured appreciation momentum intact. More broadly, we maintain a modest RMB appreciation bias, but in the near term we retain caution for the risk of technical consolidation, especially if the fixing strength pauses momentarily. USDCNH last at 6.6935 levels. Daily momentum and RSI are not indicating a bias at this point. Price pattern saw a double bottom formation, potentially hinting at an interim bottom until further price action proves otherwise. Support at 6.6900/10 levels (interim double bottom). Decisive break may pave the way for downside to re-exert towards 6.67 levels. Resistance at 6.7050 (21 DMA), 6.7180 (50 DMA).

USDKRW. Double-Bottom? KRW weakened on Tuesday as continued selling in Korean equities weighed on sentiment. Foreign investors sold KRW4.5tn of local equities, extending net selling to six consecutive sessions amid renewed concerns over AI valuations and semiconductor competition. The weakness came despite hawkish domestic policy signals, with President Lee flagging the likelihood of further rate hikes, while BOK Governor Shin reiterated his restrictive policy stance and suggested that further KRW appreciation would be desirable. The divergence reinforces the point that equity flows remain an important near-term driver of KRW. While persistent foreign selling may limit immediate gains, some easing in USD, US Treasury yields and oil prices could provide relief. We would not rule out another leg lower in USDKRW towards 1,320/30 should equity outflows moderate and risk sentiment stabilise. We will also be keeping a close watch on US CPI tonight as any surprise can influence the broader USD trade.

USDKRW last at 1342 levels. Daily momentum is not indicating a bias for now while RSI rose. Potential double bottom in the interim with support around 1331/34 levels (recent lows). Nevertheless, it is worth cautioning that a decisive break below may pave the way for the pair to test 1320 support next. Resistance at 1350, 1356 (21 DMA).

Technical Levels Table

	EURUSD	USDJPY	GBPUSD	USDCHF	AUDUSD	NZDUSD	USDCAD	XAUUSD	USDSGD	USDPHP	USDINR
Resistance 3	1.1288	160.00	1.3348	0.8397	0.7048	0.5680	1.4395	4276	1.2840	63.01	95.80
Resistance 2	1.1237	159.14	1.3294	0.8363	0.7011	0.5642	1.4315	4223	1.2821	62.91	95.50
Resistance 1	1.1218	158.74	1.3274	0.8344	0.6997	0.5627	1.4265	4192	1.2810	62.85	95.39
Spot	1.1199	158.37	1.3255	0.8329	0.6983	0.5612	1.4221	4156	1.2798	62.80	95.28
Support 1	1.1167	157.88	1.3220	0.8310	0.6960	0.5589	1.4185	4138	1.2791	62.75	95.10
Support 2	1.1135	157.42	1.3186	0.8295	0.6937	0.5566	1.4155	4116	1.2783	62.70	94.91
Support 3	1.1084	156.56	1.3132	0.8261	0.6900	0.5528	1.4075	4063	1.2764	62.60	94.61
Bollinger Band											
Bollinger Upper	1.1523	159.09	1.3374	0.8383	0.7128	0.5738	1.4351	4387	1.2821	62.92	96.82
Bollinger Lower	1.1099	156.47	1.3151	0.8206	0.6888	0.5554	1.3994	4041	1.2748	62.50	95.27

Source: Bloomberg, OCBC Group Research. Potential resistance and support levels are identified based on pivot points

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