GLOBAL MARKETS RESEARCH

FX Weekly

27 November 2023

Inflation Watch

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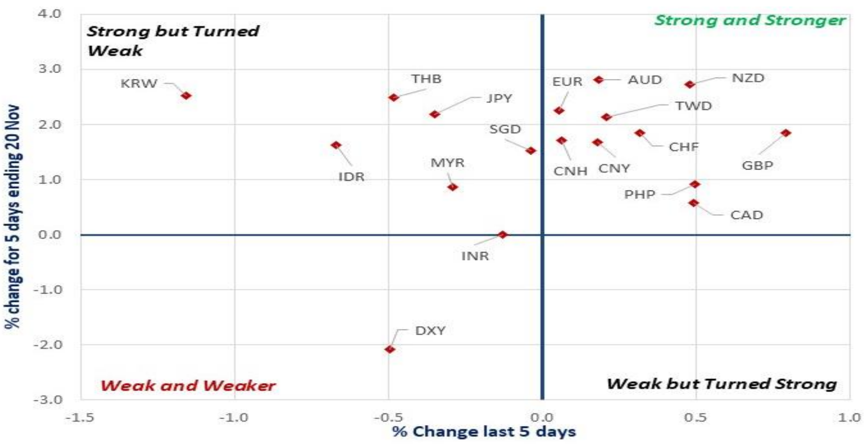
US Core PCE; EU CPI Estimate in Focus on Thu. Disinflation trend is well underway for US and the Euro-area. Recall when US CPI report was released 2 weeks ago, the downside surprise pared back market expectation for Dec hike, increase rate cut trajectory for 2024 and even brought forward the timing of Fed cut. Not surprisingly, USD fell. This puts focus on upcoming core PCE report. Consensus expects core PCE to come in at 3.5% y/y for Oct (vs. 3.7% in Sep). If a similar downside trend plays out, then another round of dovish re-pricing could play out and USD could come under pressure. For Euro-area, headline CPI has come off sharply to 2.9% in Oct, from 4.3% in Sep. Consensus is looking for CPI estimate to come in at 2.7% for Nov. Markets expects first ECB cut to come in around Jun-2024. A softer print could bring forward the timeline and weigh on EUR. However, ECBspeaks have been saying that rate cut discussion are premature at this point. In a way if Euro-area CPI comes in higher than expected, EUR may extend gains. For the week, AU and Indonesia also release CPI reports, on Wed and Fri, respectively.

OPEC+ Meeting Delayed to 30 Nov. Disagreement over production quotas for 2024 resulted in a pushback in the meeting. In particular, the output target for Angola, Congo and Nigeria were earlier cut in Jun but members agreed then to revisit the targets again later this year in the hope of being revised higher. Lately, Nigeria has managed to increase output to ~1.42mbpd (vs. 1.38mbpd) but Angola and Congo are still producing below their 2024 targets. It remains uncertain if quotas for the African nations will be revised or if Saudi Arabia will extend its voluntary cut into 2024 to balance a potential oil surplus. Oil prices may stay choppy in the near term. Technically we see resistance at $82/bbl, $84/bbl. Support around $76.6/bbl before $72/bbl for brent.

BoK, RBNZ Likely to Retain Hawkish Hold. NZ CPI (2Q at 5.5%) remains well above RBNZ's 1 – 3% target range but inflation expectation has eased. We expect RBNZ to keep policy rate on hold at 5.5% but maintain the optionality for further rate increase should inflation pressures fail to abate. For Korea, we expect BoK to maintain hawkish hold policy stance as MPC strike a balance between downside risks to growth and CPI re-acceleration risks. MPC had previously said that it may consider a rate hike if inflation strays away from projected path and price expectations become entrenched.

FX Turning or Trending – USD Stays Backfooted; High-Beta FX Retraced



Source: Bloomberg, OCBC Research

Bloomberg FX Forecast Ranking (3Q 2023)

By Region:
No. 7 for G10 Major FX

(2Q 2023)

By Currency:
No. 1 for PHP
No.2 for IDR, VND, TWD, CAD

By Region:
No. 4 for Asia FX
No.7 for G10 Major FX

AxJ Positioning Bias (Reuters Poll) and EPFR Flows

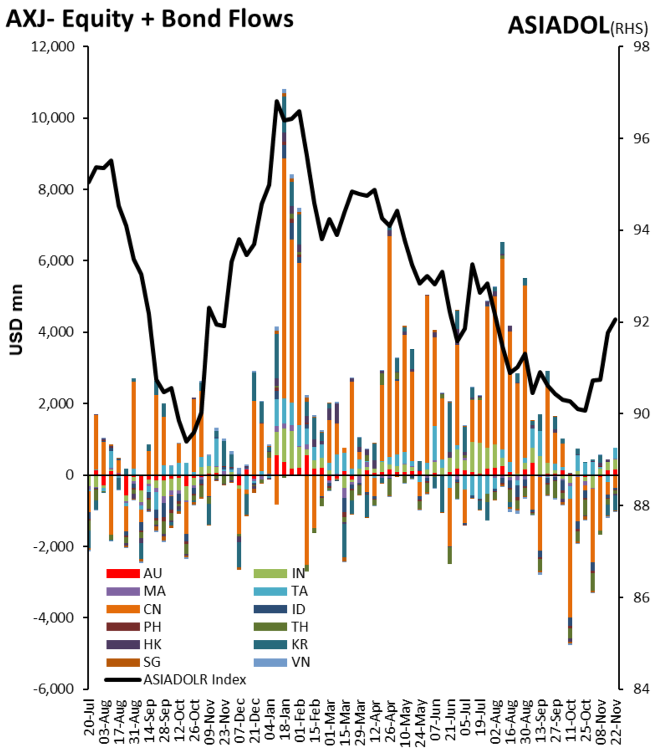
Based on Reuters survey on Asia FX positioning, bearish bets on most AxJ FX were sharply pared back after softer than expected US CPI. Bearish bets on KRW, TWD and IDR saw the largest decrease. Amongst AXJs, bearish bets on THB, PHP and SGD were leas while bearish bets on MYR remain the highest overall.

On EPFR flows, global bond market reported net inflows of $6.6bn last week, an increase from prior week's inflow of $2.7bn. Developed Market saw inflows of $6.5bn while Emerging Market saw modest inflow of $0.1bn. On DM equity flows, Developed Asia saw outflows accelerated to $1.87bn last week, from prior week's outflow of $0.45bn.

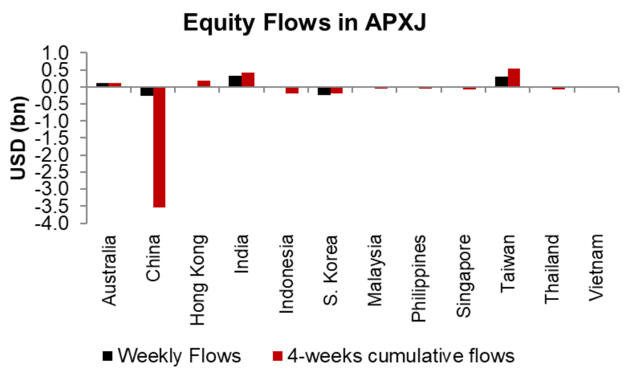
	27-Jul-23	10-Aug-23	24-Aug-23	07-Sep-23	21-Sep-23	05-Oct-23	19-Oct-23	02-Nov-23	16-Nov-23	Trend
USD/CNY	0.77	0.74	1.42	1.28	1.29	1.17	1.02	1.32	0.77	
USD/KRW	0.19	0.68	0.79	1.01	0.94	1.25	1.16	1.18	0.49	
USD/SGD	-0.22	0.28	0.34	0.3	0.61	0.81	0.84	0.74	0.38	
USD/IDR	-0.14	0.6	0.77	0.65	0.84	1	1.06	1.44	0.77	
USD/TWD	1.17	1.12	1	0.95	0.98	1.25	1.06	1.31	0.63	
USD/INR	-0.06	0.62	0.84	0.79	1	0.92	1.21	1.35	0.82	
USD/MYR	1.15	0.98	1.18	0.86	1.03	1.08	0.78	1.33	1.14	
USD/PHP	0.14	0.75	0.92	0.55	0.64	0.75	0.89	0.96	0.38	
USD/THB	0.15	0.49	0.5	0.57	0.83	1.03	0.67	0.85	0.28	

Note: Asian FX poll is conducted by Reuters, on bi-weekly basis on what analysts and fund managers believe the current market positioning are. Poll uses estimates of net short or long on a scale of -3 to +3. A score of +3 indicates significant long USD against the AxJ FX. Arrow direction indicates change in positioning from last date.
Source: Reuters [latest avail: 16 Nov 2023], OCBC Research

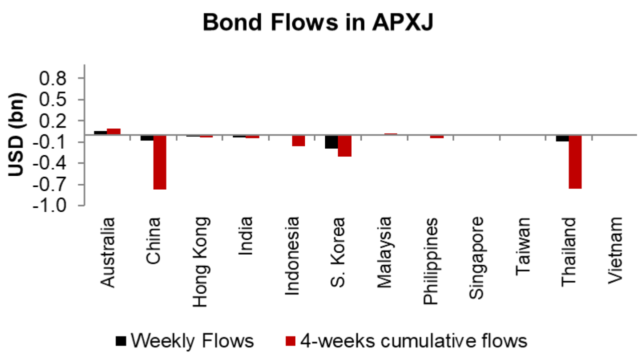
EPFR Equity Flows to AxJ vs ASIADOL



AxJ Equity Flows – Week vs 4w Cumulative



AxJ Bond Flows - Week vs 4w Cumulative

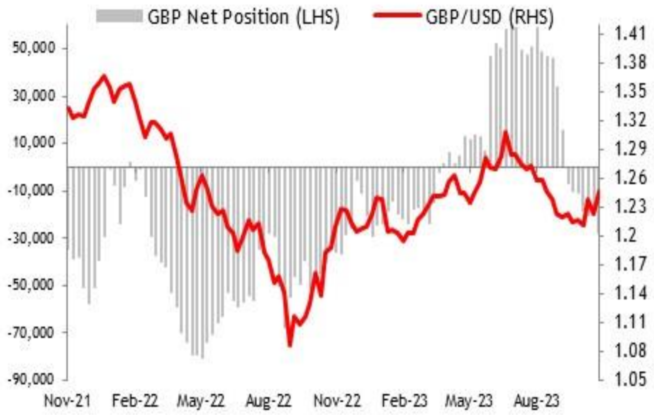


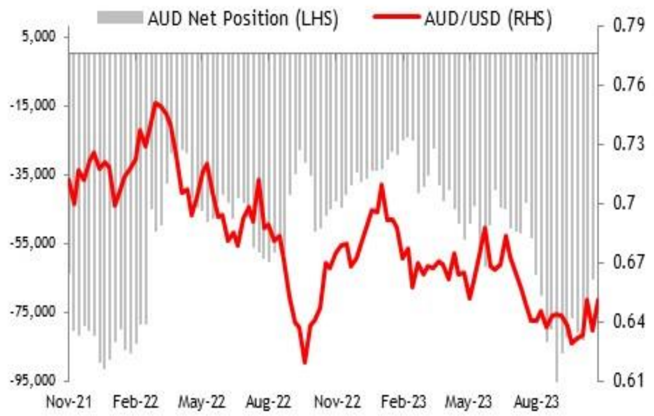
Note: Latest data available as of 22nd Nov 2023 (weekly frequency); ASIADOL index refers to Bloomberg Asia dollar index
Source: EPFR, Bloomberg, OCBC Research

Non-Commercial CME CFTC Net Positioning (in number of contracts) vs. Respective FX/USD

- *Positioning data as of 14 Nov; Latest CFTC report issued on 17 Nov 2023; data points of the past 2Y on weekly frequency*

Long DXY position increased slightly before US CPI data while DXY fell. Divergence typically does not last.
EUR longs extended amid sharp rise in EUR.
JPY shorts rose but JPY rebounded from near recent low (vs. USD).
Short position in AUD, NZD extended but AUD, NZD rebounded sharply.





Notes: The FX positioning data for this report is part of the Commitments of Traders (COT report published by the US Commodity Futures Trading Commission (CFTC) on every Friday (330pm ET) for data up to the Tue in the same week. Hence our FX Weekly publication will show a 1-week lag. In our report, we focus on non-commercial traders' position which is typically seen as a proxy for leveraged, speculative positioning. They can provide directional cues, used as a rough gauge to measure how stretched a position may be and provide some guide for point of inflection.
Source: US CFTC, OCBC Research ***(No update due to US Thanksgiving day holidays)***

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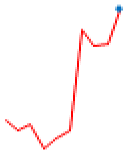
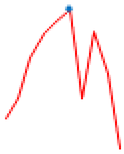
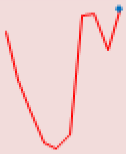
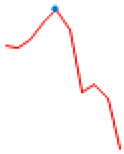
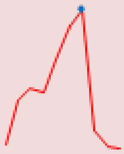
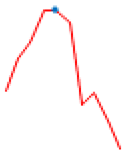
FX	Key Data and Events for the Week	14D Trend	Support/Resistance
Dollar	**Mon**: Dallas Fed mfg (Nov); New home sales (Oct); **Tue:** Conference board consumer sentiment, Richmond Fed mfg (Nov); House price purchase index (3Q); **Wed:** GDP (3Q); Fed's Beige Book; **Thu: Core PCE**, personal income/ spending (Oct); Chicago PMI (Oct); **Fri**: ISM mfg (Nov); construction spending, pending homes (Nov); Fed's Powell speaks		**S: 102.50; R: 105.00**
EURUSD	**Mon:** ECB's Lagarde speaks in EU parliament; **Tue:** - Nil – **Wed:** Consumer confidence (Nov F); **Thu: CPI estimate (Nov);** unemployment rate (Oct); Lagarde speaks; **Fri:** Mfg PMI (Nov); Lagarde speaks		**S: 1.0800; R: 1.1020**
GBPUSD	**Mon:** CBI retailing reported sales (Nov); **Tue:** BRC shop price index (Nov); **Wed:** - Nil – **Thu:** Lloyd business barometer (Nov); **Fri:** Mfg PMI (Nov)		**S: 1.2460; R: 1.2720**
USDJPY	**Mon:** - Nil – **Tue:** PPI services, machine tool orders (Oct) **Wed:** - Nil – **Thu:** - Nil – **Fri:** Retail sales, IP, jobless rate (Oct); Capex (3Q); Mfg PMI (Nov)		**S: 146.80; R: 150.70**
AUDUSD	**Mon:** - Nil – **Tue:** Retail sales (Oct); **Wed:** Construction work done (3Q); CPI (Oct); **Thu**: Private capex (3Q); Building approvals (Oct); **Fri:** PMI Mfg (Nov)		**S: 0.6420; R: 0.6650**
USDCNH	**Mon**: Industrial profits (Oct); **Tue:** - Nil – **Wed:** - Nil – **Thu:** NBS PMIs – mfg & non-mfg (Nov); **Fri:** Caixin PMI Mfg (Nov)		**S: 7.0800; R: 7.2100**
USDKRW	**Mon**: - Nil – **Tue:** Consumer confidence (Nov); **Wed:** Business survey – mfg & non-mfg (Dec); **Thu:** Industrial production (Oct); **BoK Policy Meeting**; **Fri:** Trade, PMI Mfg (Nov)		**S: 1280.00; R: 1310.00**
USDSGD	**Mon:** - Nil – **Tue:** - Nil – **Wed:** - Nil – **Thu:** Deposit and balances of residents outside Singapore (Oct); **Fri:** - Nil –		**S: 1.3310; R: 1.3470**
USDMYR	**Mon:** - Nil – **Tue:** - Nil – **Wed:** - Nil – **Thu:** - Nil – **Fri:** PMI Mfg (Nov)		**S: 4 6200; R: 4.6900**
USDIDR	**Mon:** - Nil – **Tue:** - Nil – **Wed:** - Nil – **Thu:** - Nil – **Fri:** PMI Mfg, CPI (Nov)		**S: 15,300; R: 15,600**

Source: Bloomberg, OCBC Research

Key Themes and Trades

Bias to Sell Rallies; Watch Core PCE. DXY consolidated for most of last week before closing slightly softer into the week's close. Softer manufacturing PMI last Fri was likely the trigger. Focus this week on core PCE (Thu). Markets are likely to keep a look out for a continuation of the disinflation trend. Recall when US CPI report was released 2 weeks ago, the downside surprise pared back market expectation for Dec hike, raised expectations for rate cut for 2024 and even brought forward the timing of Fed cut. Not surprisingly, USD fell. Consensus expects core PCE to come in at 3.5% y/y for Oct (vs. 3.7% in Sep). If a similar downside trend plays out, then another round of dovish re-pricing could play out and USD could come under pressure.

DXY was last at 103.40 levels. Bearish momentum on daily chart intact while RSI is near oversold conditions. On weekly chart, weekly momentum is turning mild bearish while RSI fell. Support at 103.10/40 levels (last week's low, 50% fibo retracement of Jul low to Oct high), if broken could open room for further downside towards 102.50 (61.8% fibo). Resistance at 104.20 (100 DMA), 104.40 (38.2% fibo).

FoMC minutes released last week affirmed a dovish tilt and did not deviate from the shifting narrative. Policymakers agree to "proceed carefully" on future interest rate moves and base any tightening on progress towards their inflation goal. Recall this was the last FoMC where the Fed paused but maintained optionality for additional tightening. More importantly, it was at this meeting where Powell downplayed the September dot-plot, brushed away concerns over rising inflation expectations and acknowledged that tighter financial conditions were doing some of the Fed's work. While the door for another hike remains open, **we believe the FOMC is likely done with tightening for current cycle** as inflation pressure is already coming off, alongside inflation expectations and that real rates was already restrictive.

USD narrative is starting to shift, led by softer US data, including the last CPI report, industrial production, jobless claims. This shift is a setback to the "higher for longer" market narrative as consistently softer US data forces a dovish repricing while USD longs unwind. We remain biased to adopt a "sell-on-rally" for USD as Fed is likely done with tightening for current cycle. The extent of USD decline is highly dependent on 1/ how much market expects the Fed to cut; and 2/ timing of first cut. This would be highly dependent on how data pans out. A more entrenched disinflation trend and further easing of labour market tightness, activity data in US should see USD softness accelerate. That said even with UST yields easing, the USD still retain some degree of yield advantage and is a safe haven proxy to some extent. A scenario of global, China growth momentum sputtering and escalation in geopolitical tensions could see USD finding support on dips.

Bulls Riding on USD's Softness. EUR consolidated last week in absence of fresh catalyst. Focus next on Euro-area CPI estimate (Thu). Headline CPI has come off sharply to 2.9% in Oct, from 4.3% in Sep. Consensus is looking for CPI estimate to come in at 2.7% for Nov. Markets expects first ECB cut to come in around Jun-2024. A softer print could bring forward the timeline and weigh on EUR. However, ECBspeaks have been saying that rate cut discussion are premature at this point. Then in a way if Euro-area CPI comes in steady to higher than expected, EUR may extend gains.

On ECBspeaks, Wunsch said that "with wage growth of around 5%, ECB will not lower interest rate even if the economy shrinks slightly" while Nagel said that premature ECB cut would jeopardise the timely return of inflation to 2% target. Schnabel said that disinflation process is projected to slow while Lagarde said that ECB needs clarity on where fiscal policy is headed to set monetary policy.

Elsewhere on Dutch election outcome last week, Far-Right Geert Wilders (known for anti-Islamic Euroskeptic views) won most seats but still way less than the 76 required to secure an outright majority. He is keen to be a Prime Minister and is looking for coalition partners to form a government. It remains unclear if there will be rival parties who are willing to form an alliance with him to form the next government. But the outcome is a reminder that far-right popularity is gathering traction in Europe and this may bring back fears of Euro break-up, referendum risks again. Indeed, Europe's election calendar in 2024 is a busy one, with Portugal holding parliamentary election in Mar, Belgium and European parliamentary election in Jun, Austria in Sep and Lithuania in Oct. This is worth keeping a close watch as the past decade has shown that rise in far-right sentiments can undermine EUR.

Pair was last at 1.0935 levels. Bullish momentum on daily chart intact but shows signs of it fading while RSI rose to near-overbought conditions. Resistance here at 1.0960 (61.8% fibo). Breakout puts 1.1020, 1.1080 levels in focus. Support at 1.09, 1.0860 (50% fibo retracement of Jul high to Oct low), 1.08 levels (100, 200 DMAs).

We still see room for EUR to recover as USD adjusts lower on shifting USD narrative. Near term, we do not rule out EUR trading higher but whether the gains can be sustained will depend on growth momentum and inflation trends in the Euro-bloc. Meanwhile China data has been seeing some signs of improvement. Sustained improvement in China demand may start to show up in European data, and that could potentially help to brighten EU's growth outlook, given peak pessimism and support EUR's recovery. While ECB tightening cycle has likely concluded, we expect rates to stay elevated for longer. We still expect Fed to be closer to rate cut as early as 2Q 2024 vs. ECB. Some degree of convergence in ECB-Fed monetary policies is still likely and that could still be supportive of a mild upward trajectory into 2024. Going forward, future ECB meetings will focus less on rates and should focus more on how to reduce excess liquidity possibly on three areas: 1/ the amount of reserves banks must keep at the ECB; 2/ the unwinding of its bond-buying programmes and 3/ a new framework for steering short-term interest rates. These imply that raising minimum RR is a possible first move. Key risks to EUR's outlook are an earlier than expected dovish ECB pivot and/or growth momentum in Euro-area continues to decelerate sharply.

Buy Dips. GBP continued to trade higher on hawkish BoE rhetoric while USD trades on the backfoot. In particular, BoE's Chief Economist Huw Pill said that key price gauges (i.e. wage growth, service inflation, etc.) very elevated in UK. He also said that BoE will not relent of its fight against inflation despite signs that UK economy is softening. Elsewhere Chancellor Hunt introduced measures to reduce debt, cut taxes and reward work. OBR expects UK economy to expand 0.6%, 0.7% and 1.4% in 2023, 2024 and 2025, respectively.

GBP rose, in line with our call. Pair was last at 1.26 levels. Bearish momentum on weekly chart is fading while RSI rose. On daily chart, bullish momentum intact while RSI rose to near overbought conditions. Risks skewed to upside. Next area of resistance at 1.2590 (50% fibo retracement of Jul high to Oct low) – 1.2670. Break out puts next resistance at 1.2720 (61.8% fibo). Support at 1.2450/60 levels (200 DMA, 38.2% fibo) and 1.2360.

We see room for GBP to recover as UK growth momentum deceleration was not as bad as feared, BoE may have room to keep rates high for a little longer than the Fed while the USD trades on the back foot. We still hold to a mild upward trajectory for GBP as BoE is likely to keep rates restrictive for a little longer as inflationary pressures remain, and potential BoE-Fed policy divergence may be supportive of GBP. Risk to our outlook is the pockets of concerns in some aspects of domestic fundamentals (i.e. over-tightening into recession, consumer squeeze, etc.) that could still restrain GBP's recovery to some extent.

2-Way Trades. USDJPY was a touch firmer last week. Japan CPI came in slightly softer than expected – headline at 3.3% (vs. 3.4% expected) while core, core CPI came in at 4% (vs. 4.1% expected). Going forward, we expect USDJPY to take cues from UST yields. Pair was last seen at 149.44 levels. Bearish bias intact while RSI is flat. 2-way trades likely but bias still to sell rallies. Resistance here at 149.67 (50 DMA), 150.20 (21 DMA). Support at 148.30 (23.6% fibo), 146.60 (100 DMA) and 146.20 (38.2% fibo retracement of Jul low to Oct double-top).

Our house view still expects both the YCC, NIRP regimes to be removed, depending on how fast JGB yields, inflationary, wage pressures rise over time and how sustained the rise is. We do note that inflationary pressures are broadening; growth outlook is improving and upward pressure on wage growth remains intact. Core-core inflation (strips away fuel and food) is now running at over 40year high of 4.3% and both nationwide and Tokyo CPIs show that price pressures are broadening. Recent 3Q Tankan survey shows rising confidence among large manufacturers while sentiment for non-manufacturers rose to highest level in more than 30 years. Nikkei also reported that Japan's largest business lobby (Keidanren) is likely to urge member companies to consider raising base pay for spring wage negotiations in 2024. Recall that for 2023, large firms belonging to Keidanren raised total pay increasing base pay for their employees by 3.99% (the biggest increase in 30 years). These reinforce our view for a BoJ shift at some point this year/ early next year. Recall BoJ had made a surprise tweak to YCC (29 Jul), allowing for 10y JGB yield to above the cap as long as it stays under 1%. Subsequently, at the last MPC (31 Oct), BoJ tweaked another time to increasing flexibility means that 1% is no longer a hard cap but is now known as a reference rate, around which the BOJ will nimbly conduct market operations. This suggests that policymakers may be increasingly tolerant for JGB yields to adjust higher, though Governor Ueda himself replied that he does not expect JGB yields to go significantly above 1%, when asked whether 1.5% or 2% would be possible. A surprise at Dec-2023 BoJ MPC may catch market off-guard and lead to USDJPY declining.

Looking out, we expect USDJPY to trade lower on the back of a moderate-to-soft USD profile (as Fed tightening has likely concluded and that USD can fall when rate cut comes into play in 2024) and on expectation for further BoJ shift towards policy normalisation amid higher inflationary and wage pressures in Japan.

Bullish Bias but RSI Near Overbought. AUD remains better bid, riding on softer USD and supported risk sentiments. Focus this week on China PMIs. Softer print may drag AUD lower, but uptick should fuel the pair higher. Pair was last at 0.6585 levels. Bullish momentum on daily chart intact while RSI rose near overbought conditions. Resistance here at 0.6580/90 levels (200 DMA, 50% fibo retracement of Jul high to Nov low). This level needs to be broken for further upside to gather momentum. Next resistance at 0.6660 (61.8% fibo), 0.6750 (76.4% fibo). Support at 0.6510 (38.2% fibo), 0.6460 levels.

We continue to favour AUD recovery in coming months: 1/ on signs that China growth may be stabilising; 2/ possibly warmer ties between Australia and China to support investment and trade flows benefits AUD; 3/ RBA to be hold for longer; 4/ a more moderate-to-soft USD profile into 2024 (as Fed nears end tightening cycle and embark on rate cut cycle in 2Q 2024). On AU-China relations, development has been promising. The latest was Australia PM's visit to Beijing; a restart of high-level talks between Australia and China in Beijing, providing a platform for senior reps from industry, government, etc to exchange perspectives across the breadth of bilateral relationship. This is the first time since early 2020 that a dialogue has been held and PM Albanese's visit is the first visit made by an Australian leader in 7 years. This represents an important step towards warmer bilateral ties. Australia is looking to work with China to lift restrictions on other Australian imports such as wine, etc. Other notable developments this year include: 1/ China imports of Australian timber resumed since mid-May (halted since late 2020 and is worth approx. A$600mio); 2/ China lifted tariff on import of Australian barley (5 Aug), hay; 3/ China's top steelmaker and 3 central government-backed utilities have resumed coal imports from Australia earlier this year; 4/ wine, crayfish, and meat are outstanding items that could potentially see restrictions lifted by Beijing. We have shared that the tourism, education, and property sectors in Australia could benefit if relations between China and Australia further warm up, and this can be a positive for AUD.

Key downside risk factors that may affect AUD outlook are 1/ extent of CNH swings; 2/ if Fed tightening cycle unexpectedly extends; 3/ global growth outlook – if DM's slowdown deteriorates; 4/ any market risk-off event (i.e. escalation in Israel-Hamas conflict).

Cautious of Rebound Risks; Bias to Sell Rallies. USDSGD traded range-bound last week in absence of fresh catalyst. SG data last week was a bag of upside surprises, with 3Q GDP coming in higher than expected, IP rose 7.4% y/y (vs. -2.3% expected) while inflation rose 3.3% y/y (vs. 3.1% expected).

Pair was last at 1.3395 levels. Daily momentum remains bearish but shows signs of waning while RSI is near oversold conditions. Cautious of rebound risks but bias to sell rallies. Resistance at 1.34 (61.8% fibo retracement of Jul low to Oct high), 1.3470 (50% fibo, 200 DMA). Support at 1.3360 before 1.3310 (76.4% fibo).

S$NEER is trading near its upper bound and may still continue to do so as MAS's policy stance is still on an appreciation stance. However, **should core inflation ease further into 2024 as projected by MAS, then the S$ 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. To put in context, if we get a scenario of core inflation easing further in Singapore, USD decline and sentiment is risk-on, then other currencies within the trade baskets may have more room to appreciate vs. SGD. To some extent, current environment could possible see low-beta SGD trade on the back foot vs. some of the currencies in its trade basket (non-USD).

Looking out into our forecast horizon, we still expect a mild downward trajectory for USDSGD, premised on our view for a moderate-to-soft USD outlook, on expectations that Fed is likely at end of tightening cycle/ to embark on rate cut cycle in 1Q 24) and on expectations that China growth to find a bottom in 2H.

Recap: At the 13th Oct MPC, MAS maintained policy status quo. Key highlights include: 1/ **change in frequency of MPC meeting to quarterly** from 2024 and the next meeting will be in Jan. This is part of MAS' continuing efforts to enhance monetary policy communications; 2/ **MPS was overall more balanced** than previous. Statement noted that the *risk of a sharp global downturn, precipitated by financial vulnerabilities, has receded compared to earlier in the year. Growth in Singapore's major trading partners should gradually pick up later in 2024 as inflation continues to ease and the electronics cycle turns up modestly, although the timing and extent of the recovery is subject to significant uncertainty*; 3/ **core inflation projected to slow to an average of 2.5-3.5% in 2024** vs. 2023 projected MAS core cpi of around 4%. MAS retain the view that *there are both upside and downside risks to inflation. Shocks to global food and energy prices or domestic labour costs could bring about additional inflationary pressures.*

200DMA is Key Support. USDCNH consolidated last week, after trending lower for most of the month so far. USDCNH was last at 7.1490 levels. Bearish momentum on daily chart intact while RSI fell into oversold conditions. Support next at 7.1340 (200 DMA), 7.1120 (38.2% fibo retracement of 2023 low to high). Resistance at 7.18, 7.21 (23.6% fibo).

The strategy of buying time (keeping fixing nearly constant) to wait for the USD's turn lower paid off once again. Policymakers did similar last year before the turn in the USD in Oct/Nov-2022. Stronger than expected fix continues to signal that the policymakers want the RMB to adjust to reflect recent market developments. Last week there were news report that officials are drafting a whitelist of 50 developers that may be eligible for a range of financing. This goes to show how extensive and targeted the measures are to support one of the weakest links – real estate sector - in the economy. If UST yields and USD stay soft, export recovery in the region continues to point to recovery momentum, then we should continue to expect RMB to extend its recovery towards 7.11 or even 7.08 in coming weeks. And this should provide an extended breather for Asian FX.

Overall, we retain the view that quite a fair bit of pessimism is already in the price of RMB. Policymakers have stepped up with pro-growth support measures including plans to sell RMB1tn bonds, raise fiscal deficit ratio to 3.8% (which may seem piecemeal but is rather extensive and targeted), that could potentially bear fruit over time. Some of these measures include but not limited to:

- Real estate measures such as 1st home mortgage rate cut;
- Debt swap to move up to RMB1.5tn off-balance sheet liabilities with extended maturities and lower interest rates;
- Taking steps to ease strict capital control measures in Shanghai's free trade zone and Lingang;
- Several provinces including Sichuan, Hebei launched new batch of major projects worth RMB1.1tn;
- Consideration for stabilisation fund to prop up local stock market;
- Reduction in loan prime rate, RRR, aggressive daily RMB fix and offshore CNH funding squeeze, etc.

To take stock, upbeat China data continues to point to signs of stabilisation in China economy and reinforces our view of a glass half full. Past 2 months of China data has been encouraging – 3Q GDP surprised to the upside; Industrial production, retail sales rebounded in Aug, Sep; exports and imports data saw its pace of deceleration slowing in Aug, Sep; credit data (aggregate financing and new RMB loans) rebounded significantly for Aug and Sep from July numbers.

And if policymakers can address the confidence, sentiment channels, then RMB weakness can reverse especially when there is already so much pessimism in the price. Ultimately for RMB to stabilise fundamentally and recover would still require China economic activities to pick up, confidence to be "repaired" (foreign inflows to return) and USD, UST yields to turn lower (dependent on timing of Fed pivot).

Watch if KMT-TPP Alliance is Formed. USDTWD rebounded on Fri as hopes of alliance formation have fell apart. The disappointment may see USDTWD further retrace some of its recent losses, but the election is still too close to call. Independent Terry Gou did not register for candidacy, and we do not rule out support swinging in favour of TPP's Ko. While a DPP win may continue to put more strain on cross-straits relations, a TPP or KMT win should bode well for cross-straits relationship and lead to further unwinding of election risk premium. That said, pre-election developments are expected to remain fluid.

Spot was last at 31.62 levels. Bearish momentum on daily chart intact but shows signs of fading while RSI rose from oversold conditions. Resistance at 31.65, 31.85 (100 DMA, 23.6% fibo retracement of 2023 low to high) and 32 levels. Support at 31.42 levels (38.2% fibo retracement of 2023 low to high), 31.20 (200 DMA).

Elsewhere, we have also been highlighting that there are tentative signs that the export slump for some countries in Asia may have moderated. Exports growth for Taiwan, Korea, Japan, Vietnam have turned positive for first time in a year while exports of Singapore, China, Indonesia, and Malaysia are less negative. More sustained and broader recovery is needed for exports recovery story to gather traction. When that happens, trade-dependent FX such as KRW, TWD, SGD, JPY can see a turnaround. This is also highly dependent on when the USD inflection is, when UST yields ease materially lower, and state of geopolitical situation.

Taiwan export orders has been showing signs of bottoming (but a strong rebound Is yet to show up) amid growing demand for semiconductor chips linked to generative AI applications. Global AI chip market is set to soar to US$383.7bn by 2032 from US$14.9bn as of 2022 (Allied Market Research). Typically, SOX rally ahead of cyclical tech recovery from downcycle.

Meanwhile a number of TW tech firms posted strongly monthly sales gain in Oct. Earnings guidance, also observed early signs of demand stabilization in PC and smartphone market, while also noting continued demand for AI-related chips. Alongside UST yields trending lower, stars could be aligned for TWD to recover from depressed levels.

To summarise, Taiwan Presidential, Legislative elections (13 Jan 2024) are risks to watch – geopolitical concerns, reshoring/offshoring flows. YTD decline in TWD should moderate and a more significant recovery could be likely next year when 1/ UST yields, USD turn lower; 2/ global demand picks up.

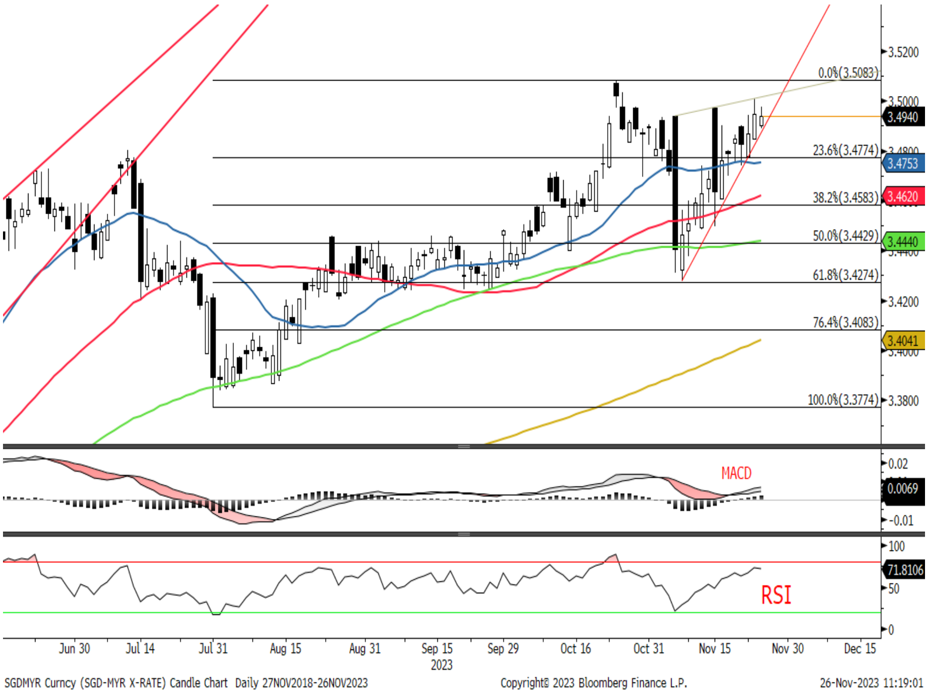
Trade Ideas

Entry Date	Trade	Entry	Close	Profit/ Loss	Remarks	Exit Date
03-Oct-22	Short AUDNZD	1.141	1.1143	2.34%	RBNZ-RBA policy divergence. First target at 1.12 met. Targeting next objective at 1.1050. Shift SL to 1.1360. [Trade TP earlier at 1.1085]	19-Oct-22
04-Oct-22	Short AUDJPY	94.6	92.9	1.80%	Tentative signs of market stresses. First objective at 92.1 met. Targeting next objective at 90.50. Move SL to 93.70 (17 Oct). [Trade tripped SL in NY time]	17-Oct-22
27-Oct-22	Short CADJPY	107.3	104.9	2.24%	Tentative signs of market stresses.Target a move towards 105.75, 104.20 and 102.70 objectives. SL at 110.70. [TP trade earlier given that JPY leg appreciated larger and faster than expected]	14-Nov-22
20-Dec-22	Short NZDUSD	0.6345	0.63125	0.51%	Softer activity outlook, business confidence and consumer confidence in NZ undermined NZD. Short NZDUSD, targeting a move lower towards 0.6280 (first objective met) before 0.62 (second objective). SL moved to 0.6345 from 0.6385 [Trade tripped SL]	28-Dec-22
20-Dec-22	Long AUDNZD	1.0555	1.074667	1.82%	Tactical long AUDNZD on bullish divergence, targeting a move towards 1.0650 (first objective met), 1.0725 (second objective met) and 1.0865. SL at 1.0475 [Trade TP]	04-Jan-23
09-Mar-23	Short USDJPY	137	131.9	3.72%	look for a removal of YCC regime. Sustained rise and broadening inflationary pressures supports our bias for an abolishment of YCC and or exit from NIRP. Moderate-to-soft USD profile(as Fed tightening stretches into late cycle and that USD can fall when peak is priced) should also support USDJPY lower. Targeting move towards 132.50, 131.30 objectives. SL at 138.30. [Trade TP]	22-Mar-23
10-Mar-23	Long AUDUSD	0.6570	0.685	4.26%	Favor AUD to trade higher on the back of 1/ China reopening story; 2/ possibly warmer ties between Australia and China; 3/ room for RBA to tighten. Target a move towards 0.70, 0.7160 objectives. SL at 0.64 [Trade TP]	20-Jun-23
17-May-23	Short USDTHB	34.2	34.75	-1.61%	Favor THB to strengthen on the back of Fed pause, a proxy for China reopening trade (to benefit TH inbound tourism), softer oil prices. Sell rally USDTHB towards 34.20. Target a move towards 33.50, 33.1 objectives. SL at 34.75 [SL].	29-May-23
11-Aug-23	Long CADSGD	1.0040	0.9980	-0.60%	Long energy vs. short SGD on potential MAS easing, RMB and JPY softness. Target move towards 1.01, 1.0140 objectives. SL at 0.9980. [SL]	23-Aug-23
23-Aug-23	Long AUDUSD	0.6433	0.628	-2.38%	Expectations of China growth stabilisation, warmer ties between China and Australia, Fed near end tightening cycle. Target move towards 0.67. SL at 0.6280. [SL]	26-Oct-23
08-Nov-23	Long 3m put spread USDTWD 31.5 vs. 31. Pay 0.35%				Position for potential change in political climate towards one that may bode well for cross-straits relations, export recovery momentum and lower yields, softer USD. [Live]	

Note: Close level is average of 1st, 2nd and 3rd objectives for take profit scenario; TP refers to take profit; SL refers to stop-loss

Selected SGD Crosses

SGDMYR Daily Chart: Near Term Upside Risks; Bias to Sell Rallies



SGDMYR drifted higher last week. Cross was last at 3.4940 levels.

Daily momentum turned mild bullish while RSI rose. Near term risks remain skewed to the upside. But bias to lean against strength.

Resistance at 3.50 and 3.5080 levels (2023 high).

Support at 3.4750/80 levels (21 DMA, 23.6% fibo), 3.4580 (38.2% fibo retracement of Jul low to Oct high) and 3.4430 levels (50% fibo, 100 DMA).

SGDJPY Daily Chart: 2-Way Trades

SGDJPY resumed its move higher last week. Cross was last at 111.52 levels.

Mild bearish momentum on daily chart intact while RSI was flat. 2-way trades likely.

Support at 111 (21 DMA), 109.90 (50 DMA) and 108.40/50 levels (100 DMA, 23.6% fibo retracement of 2023 low to high).

Resistance at 112.23 levels (previous high).

Note: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA

SGDCNH Daily Chart: Consolidate with Risks to the Downside

SGDCNH fell, in line with our caution to the downside. Cross was last at 5.3350 levels.

Daily momentum is mild bearish while decline in RSI shows signs of moderation. Consolidation likely with risks skewed to the downside.

Support at 5.32, 5.3120 (38.2% fibo retracement of 2023 low to high).

Resistance at 5.3520 (50 DMA), 5.3680 (23.6% fibo, 21, 100 DMAs) and 5.38 levels.

EURSGD Daily Chart: Bullish Crossover

EURSGD traded range-bound last week. Cross was last at 1.4660 levels.

Mild bullish momentum on daily chart intact while RSI rose. Bullish crossover observed with 21 DMA cutting 200 DMA to the upside. Cross may attempt to try higher.

Resistance at 1.4720 (23.6% fibo), 1.48 levels.

Support at 1.4600/10 levels (100 DMA, 38.2% fibo retracement of 2023 low to high), 1.4560 (21, 200 DMAs) and 1.4510 (50% fibo 50 DMA).

Note: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA

GBPSGD Daily Chart: Risks Skewed to Upside

GBPSGD turned higher last week. Cross was last at 1.6890 levels.

Daily momentum is mild bullish while RSI rose. Bullish cross over observed as 21 DMA cuts 50 DMA to the upside. Risks remained skewed to the upside.

Resistance at 1.6920 (100 DMA), 1.6960 (50% fibo retracement of Jul high to Oct low) and 1.7020 levels.

Support at 1.6870 (38.2% fibo retracement of Jul high to Oct low) ,1.6750 (23.6% fibo) and 1.67 (21, 50 DMAs).

AUDSGD Daily Chart: Upside Play

AUDSGD drifted higher last week. Cross was last at 0.8820 levels.

Daily momentum is mild bullish bias while RSI rose. Bullish crossover observed with 21DMA cutting 50 DMA to the upside. Bias remains for upside play.

Immediate resistance 0.8845 (38.2% fibo retracement of Jun high to Oct low), 0.8870 (200 DMA) before 0.8920 levels (200 DMA, 50% fibo).

Support at 0.8750/70 levels (23.6% fibo, 100 DMA), 0.8720 (21, 50 DMAs) and 0.8650 levels.

Note: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA

Gold Daily Chart: Break-Out Risks

Gold traded higher last week. Cross was last seen at 2000 levels.

Bearish momentum on daily chart faded while RSI rose. Risks remain skewed to the upside. Compression of moving averages typically precedes breakout but direction unclear until it breaks. But judging from direction of travel, risk is to the upside.

Resistance at 2010, 2025 levels.

Support at 1978 (21 DMA), 1957 (23.6% fibo retracement of 2022 low to 2023 high) and 1930/40 levels (50, 100, 200 DMAs).

Note: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA

Medium Term FX Forecasts

FX	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
USD-JPY	146.00	143.00	142.00	141.00	138.00
EUR-USD	1.0900	1.0900	1.1000	1.1000	1.1200
GBP-USD	1.2450	1.2500	1.2500	1.2500	1.2600
AUD-USD	0.6500	0.6600	0.6600	0.6700	0.6850
NZD-USD	0.6100	0.6100	0.6200	0.6300	0.6400
USD-CAD	1.3600	1.3500	1.3300	1.3100	1.3100
USD-CHF	0.8900	0.8900	0.8900	0.8900	0.8900
USD-SEK	10.8200	10.6000	10.2400	10.0000	9.7700
DXY	103.62	103.12	102.20	101.86	100.32
USD-SGD	1.3450	1.3410	1.3390	1.3350	1.3300
USD-CNY	7.1500	7.1000	7.0500	7.0000	6.9900
USD-CNH	7.1500	7.1000	7.0500	7.0000	6.9900
USD-THB	35.100	35.000	35.000	34.800	34.600
USD-IDR	15500	15350	15320	15300	15300
USD-MYR	4.6400	4.6200	4.6000	4.5800	4.5800
USD-KRW	1285.0	1275.0	1260.0	1255.0	1250.0
USD-TWD	31.200	30.800	30.800	30.600	30.600
USD-HKD	7.8000	7.7900	7.7800	7.7800	7.7800
USD-PHP	55.200	54.900	54.600	54.200	54.000
USD-INR	83.000	82.500	82.300	82.000	81.500
USD-VND	24300	24200	24200	24000	23900
EUR-JPY	159.14	155.87	156.20	155.10	154.56
EUR-GBP	0.8755	0.8720	0.8800	0.8800	0.8889
EUR-CHF	0.9701	0.9701	0.9790	0.9790	0.9968
EUR-SGD	1.4661	1.4617	1.4729	1.4685	1.4896
GBP-SGD	1.6745	1.6763	1.6738	1.6688	1.6758
AUD-SGD	0.8743	0.8851	0.8837	0.8945	0.9111
NZD-SGD	0.8205	0.8180	0.8302	0.8411	0.8512
CHF-SGD	1.5112	1.5067	1.5045	1.5000	1.4944
JPY-SGD	0.9212	0.9378	0.9430	0.9468	0.9638
SGD-MYR	3.4498	3.4452	3.4354	3.4307	3.4436
SGD-CNY	5.3160	5.2946	5.2651	5.2434	5.2556
SGD-IDR	11524	11447	11441	11461	11504
SGD-THB	26.097	26.100	26.139	26.067	26.015
SGD-PHP	41.041	40.940	40.777	40.599	40.602
SGD-CNH	5.3160	5.2946	5.2651	5.2434	5.2556
SGD-TWD	23.197	22.968	23.002	22.921	23.008
SGD-KRW	955.39	950.78	941.00	940.07	939.85
SGD-HKD	5.7993	5.8091	5.8103	5.8277	5.8496
SGD-JPY	108.55	106.64	106.05	105.62	103.76
Gold $/oz	1955.0	1980.0	2000.0	2020.0	2040.0

Note: These are not meant to serve as point forecast for the quarter-end but meant as trajectory bias of the currency pair
Source: OCBC Research (Latest Forecast Update: 21st Nov 2023)

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