

Daily Market Outlook

11 December 2024

Will The US CPI Surprise?

- DXY. CPI on Tap.** US CPI is upon us tonight (930pm SGT) and this should give Fed officials a final look at inflation environment ahead of next week’s FOMC. A 25bp cut is more or less a done deal for next week’s FOMC unless US CPI unexpectedly surprises a lot to the upside. Headline CPI may have ticked higher partly because of the base effect but core CPI is expected to come in steady at 3.3%. For DXY, there could be room for downside should core CPI come in softer. But given FOMC, and a refreshed dot plot next week, there may also be limitations to how much lower the USD can go. DXY was last at 106.32. Daily momentum is mild bearish while RSI is flat. Head and shoulders pattern appears to have formed but DXY has yet to break below the neckline. A decisive break below neckline should see bears gather momentum. Support at 105 levels (38.2% fibo retracement of Sep low to Nov high), 104.60 (50 DMA) and 104.10 (200 DMA, 50% fibo). Resistance at 106.20/30 levels (23.6% fibo, 21 DMA), 106.70 (second shoulder). Tomorrow brings PPI data.
- USDCHF. SNB in Focus Tomorrow.** USDCHF inched higher overnight, tracking broader USD moves and in anticipation of SNB meeting tomorrow. Last CPI print saw a small uptick to 0.7% for Nov but largely, on trend basis, inflationary pressure has come off significantly from peak of 3.5% in Aug 2023 to 0.6% in Oct 2024. Another 25bp cut is likely this Thu though markets have priced in ~50% chance of a jumbo 50bp cut. We will be watching for any SNB surprises on this front, as SNB Chair had said that the SNB will re-introduce negative interest rates if necessary. He added that even though SNB did not like negative rates, SNB could use negative rates as a tool to weaken CHF. So clearly, policymakers are against CHF strength. If the dovish rhetoric remains, then the room for CHF to appreciate may be more restrained (unless USD falls further). Overall, we maintain a mild bearish bias on CHF on the back of dovish SNB, amid ongoing disinflationary pressures. That said, safe-haven characteristic of the CHF may play up in the event of geopolitical risk-offs or during episodes of political uncertainties in Germany, France. Pair was last at 0.8830 levels. Bearish momentum on daily chart is fading while RSI rose. Risks somewhat skewed to the upside. Resistance here at 0.8830 (200 DMA), 0.89 (61.8% fibo retracement of 2024 high to low). Support at 0.88, 0.8730 (50 DMA), 0.8640 (100 DMA).

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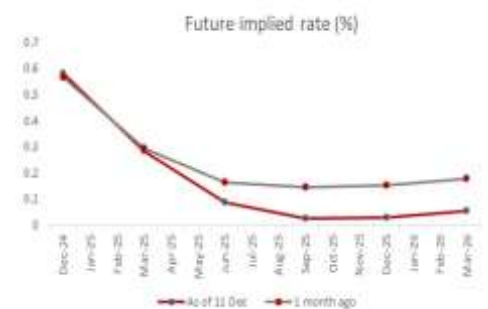
Global Markets Research and Strategy

Pace of Disinflation Slows



Source: Bloomberg, OCBC Research

Markets Turned More Dovish on SNB



Source: Bloomberg, OCBC Research

- EURUSD. Eyeing ECB, German Vote.** For EUR, the focus is on ECB tomorrow before Germany's vote of confidence next Monday. German Chancellor Scholz is expected to call for a vote of confidence today and the Bundestag will vote next Monday on 16 Dec. To survive the vote, Scholz would need to receive the support of an absolute majority of 367 votes. But in the event, he fails, then Germany is likely to make way for elections on 23 Feb 2025. Far-right AfD is calling for Germany to leave the European Union, the EUR and Paris climate deal as the party prepares for early elections in Feb-2025. The concern here is the explicit language to quit EU unlike its manifesto ahead of the European parliament elections previously in Jun-2024. Tomorrow, ECB meeting takes centre stage. Markets are now pricing just a 25bp cut but OIS-implied has priced in back-to-back cuts for 1H next year, taking rates to below 2% in Jun 2025, or even 1.75% in July. The aggressive dovish pricing reflects a recession-driven rate cut cycle rather than a policy normalisation. Nevertheless, we will pay closer attention to Lagarde's press conference for clues on how policymakers assess growth outlook to be. Political risks in Europe and concerns of dovish ECB may continue to limit the extent of any EUR's upmove, until we get some clarity. Pair was last at 1.0535 levels. Daily momentum is mild bullish but RSI fell. Consolidation likely. Broader price pattern shows a classic formation of an inverted head & shoulders pattern, which is typically associated with a bullish reversal. Neckline comes in at 1.0610/20 levels. Break-out puts 1.0670 (38.2% fibo) within reach before next resistance comes in at 1.0750/75 levels (50 DMA, 50% fibo). Support at 1.0540/50 levels (23.6% fibo, 21 DMA), 1.0460 levels.
- USDJPY. Moving Averages Compression (MAC).** USDJPY eased lower this morning after PPI came in higher than expected. Last seen at 151.45 levels. Bearish momentum on daily chart shows signs of fading but rise in RSI slowed. Moving averages compression observed, with 21, 50, 200 DMAs converging. This typically precedes a directional break-out trade. Resistance at 152 levels (50, 200 DMAs) and 152.60/70 levels (21 DMA, 23.6% fibo). Support at 150.20 (38.2% fibo), 148.70 levels (100 DMA) and 148.20 (38.2% fibo retracement of Sep low to Nov high). We retain a bias to sell rallies. Fri brings Tankan survey before BoJ MPC (19 Dec). But largely, we are looking for BoJ to carry on with policy normalization with a hike next week and into 2025. Recent uptick in base pay supports the view about positive development in labor market, alongside still elevated services inflation, better 3Q GDP and expectations for 5-6% wage increases for 2025. The risk is a slowdown in Fed and/or BoJ's pace of policy normalisation as a slowdown may affect USDJPY's moves.

**MAC Precedes Technical Breakout**



Source: Bloomberg, OCBC Research

- USDSGD. Consolidation with Slight Bias to Downside.** USDSGD traded a subdued range. Pair was last seen at 1.3405. Mild bearish momentum on daily chart intact while RSI fell. Consolidation likely with slight bias to the downside. Support at 1.3340 (200 DMA, 23.6% fibo), 1.33, 1.3240 (32.8% fibo retracement of Sep low to Nov high). Resistance at 1.3420 (21 DMA), 1.3490 levels. Pair should continue to take directional cues from USD and CNY fix in absence of key data. Next set of SG data is NODX (17 Dec) and CPI (23 Dec). S\$NEER strengthened; last at 1.1% above model-implied mid.
- USDCNH. 2-Day CEWC Meeting Commences** USDCNH continued to drift lower, taking cues from stronger daily fixing guidance and politburo optimism. Expectations are building up for stimulus support after politburo vowed to stabilise property and stock markets. Officials also pledged to ramp up ‘extraordinary counter-cyclical policy adjustment’ to support the economy. In the interim, we would keep a look out for the China’s CEWC meeting over today-tomorrow. Follow-up policy action is crucial, and bear in mind markets are impatient. We caution that any delay in concrete policy action may setup a case for disappointment (again). An unwinding of politburo optimism may weigh further on other Asian FX such as KRW, SGD and MYR. Meanwhile daily USDCNY fix was set at 7.1843 (the lowest in a month) vs. 7.1896 (yesterday). Fixing pattern continues to suggest that PBoC is doing whatever it takes to guide RMB’s bias and direction. USDCNH was last at 7.2510 levels. Daily momentum is bearish while RSI fell. Risks are skewed to the downside. Support at 7.2340 (23.6% fibo retracement of Sep low to Dec high), 7.2040 (200 DMA), 7.1830 (38.2% fibo, 50 DMA). Resistance at 7.2570 (21 DMA), 7.27 levels.

**Decline in S\$NEER Stabilises**



Source: Bloomberg, OCBC Research

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