

## Daily Market Outlook

12 December 2024

### ECB, SNB in Focus

- **USD rates.** UST yields fell upon the CPI release which was in line with expectations. The bond rally did not last, probably as the debate continued as to whether there will be a January pause in rate cutting. Still, that did not explain the steeper curve. The 10Y coupon bond auction was well-received with cut-off coming in around 1.7bps below WI level and indirect accepted higher at 70% versus 61.7% prior; the bid/cover ratio of 2.70x was the highest since June 2016. Meanwhile, the breakdown of CPI supports the notion that the broader disinflation trend remains intact. Core services inflation eased to 4.56%YoY from 4.77% prior; we had mentioned “we look for a steady core CPI or ideally some mild disinflation in core services to give the greenlight for a rate cut next week”. The easing in core services was offset by narrower deflation in core goods prices – which is likely to be less of a concern; this left core CPI little changed. Market added to near-term rate cut expectation and now a December cut is almost fully priced, but 2025 pricing stayed subdued at around 60bps of cuts. This compares to the September dot-plot which had the median dot pointing to 100bps of rate cuts for 2025; market awaits an updated dot-plot next week.
- **DXY. PPI Next.** Market reaction was largely muted in the FX space as CPI report was in line with expectations, with headline coming in at 2.7% and core holding steady at 3.3%. The DXY was firmer but the bullish momentum started in Asia afternoon (well before US CPI report was released) after a Reuters report said that China’s top leaders and policymakers are considering allowing the RMB to weaken in 2025 as they brace for tariffs. DXY received another boost after a report says that BoJ officials see little cost to waiting before raising rates. Focus next on PPI report later tonight before FOMC next week. A 25bp cut is more or less a done deal (markets pricing 98.5% probability of a cut). DXY was last at 106.54. Bearish momentum on daily chart is fading but rise in RSI moderated. Head and shoulders pattern have formed but DXY has yet to break below the neckline. A decisive break below neckline is required for bears to gather momentum. Support at 106.20/40 levels (23.6% fibo, 21 DMA), 105 levels (38.2% fibo retracement of Sep low to Nov high, 50 DMA) and 104.10 (200 DMA, 50% fibo). Resistance at 106.80 (second shoulder), 107.20 (first shoulder).

**Frances Cheung, CFA**  
FX and Rates Strategy  
[FrancesCheung@ocbc.com](mailto:FrancesCheung@ocbc.com)

**Christopher Wong**  
FX and Rates Strategy  
[ChristopherWong@ocbc.com](mailto:ChristopherWong@ocbc.com)

Global Markets Research and Strategy

- **EUR rates.** Bunds yields rebounded from intra-session lows to end the day little changed. EUR OIS essentially price a 25bp cut at the ECB meeting later today, which is also our call. But overall EUR OIS pricing remains dovish. The EUR OIS curve is very inverted across 1M to 2Y with market looking for a terminal rate well below 2% - 1Y1Y rate was last at 1.65%. Such pricing reflects more of a weak growth/recession driven rate-cutting cycle rather than monetary policy normalization. Our base-case is for a further 100bps of rate cuts between now and end-2025. But risk is for more or quicker rate cuts should the economy weaken by more than expected and should the ECB judge that much lower rates are required to help channel savings into spending and investments. ECB and Lagarde's commentaries especially on growth will again be scrutinized. Any further market dovishness may be more reflected in the 1Y rate as the 2-3Y rates are more depressed.
- **EURUSD. Lagarde's Press Conference Eyed.** A 25bp cut is likely a done deal. OIS-implied has priced in back-to-back cuts for 1H next year, taking rates to below 2% in Jun 2025, or even 1.7% in July. The aggressive dovish pricing reflects a recession-driven rate cut cycle rather than a policy normalisation. Nevertheless, we would pay closer attention to Lagarde's press conference for clues on how policymakers assess growth outlook to be. On German politics, Chancellor Scholz has called for a vote of confidence yesterday 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. Political risks in Europe, risk of dovish ECB and renewed weakness in RMB may continue to weigh on EUR, until we get some clarity. EUR fell, dragged by RMB's decline yesterday (on Reuters report). Last at 1.0505 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. Decisive break out puts next resistance at 1.0670 (38.2% fibo), 1.0710 (50 DMA). Support at 1.0460 levels.
- **USDCHF. SNB Rhetoric in Focus.** 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 ~40% chance of a jumbo 50bp cut. We would 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 restraint (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. USDCHF was last at 0.8840 levels. Bearish momentum on daily chart is fading but rise in RSI moderated. Consolidation likely. Resistance here at 0.8850, 0.89 (61.8% fibo retracement of 2024 high to low). Support at 0.88, 0.8740 (50 DMA), 0.8640 (100 DMA).

- **USDJPY. Moving Averages Compression (MAC).** USDJPY rose sharply, in response to news that BoJ officials see little cost to waiting before raising rates. Pair was last seen at 152.20 levels. Bearish momentum on daily chart shows signs of fading but rise in RSI slowed. We reiterated a compression of moving averages, with 21, 50, 200 DMAs converging. This typically precedes a directional break-out trade. Resistance at 152.50/70 levels (21 DMA, 23.6% fibo), 154.70 levels. Support at 152 (50, 200 DMAs), 150.20 (38.2% fibo retracement of Sep low to Nov high). Tomorrow 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 labour market, alongside still elevated services inflation, better 3Q GDP and expectations for 5-6% wage increases for 2025. That said, the risk is a slowdown in Fed and/or BoJ's pace of policy normalisation would affect USDJPY's moves.
- **USDSGD. Consolidation.** USDSGD firmed, tracking the move up in USDCNH. Pair was last at 1.3435. 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 1.3460, 1.3490 levels. Pair should continue to take directional cues from USD and CNY moves in absence of key data. Next set of SG data is NODX (17 Dec) and CPI (23 Dec). S\$NEER was last at 1.08% above model-implied mid.
- **USDCNH. 2-Day CEWC Meeting Wraps Up Today.** USDCNH rose yesterday after a Reuters report said that China's top leaders and policymakers are considering allowing the RMB to weaken in 2025 as they brace for tariffs. But the pair fell today after daily USDCNY fix continue to be set below 7.20. We expect policymakers to continue using the fix to manage RMB expectations for now until tariff hits (if any). In the interim, we would keep a look out for the China's CEWC meeting which wraps up today. 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. 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. USDCNH was last at 7.2675 levels. Daily momentum is bearish while RSI fell. Risks remain skewed to the downside. Support at 7.26 (21 DMA), 7.2340 (23.6% fibo retracement of Sep low to Dec high) and 7.2040 (200 DMA). Resistance at 7.27, 7.2940 levels.

## Macro Research

**Selena Ling**  
Head of Research & Strategy  
[lingssselena@ocbc.com](mailto:lingssselena@ocbc.com)

**Tommy Xie Dongming**  
Head of Asia Macro Research  
[xied@ocbc.com](mailto:xied@ocbc.com)

**Keung Ching (Cindy)**  
Hong Kong & Macau Economist  
[cindyckeung@ocbc.com](mailto:cindyckeung@ocbc.com)

**Herbert Wong**  
Hong Kong & Taiwan Economist  
[herberhtwong@ocbc.com](mailto:herberhtwong@ocbc.com)

**Lavanya Venkateswaran**  
Senior ASEAN Economist  
[lavanyavenkateswaran@ocbc.com](mailto:lavanyavenkateswaran@ocbc.com)

**Ahmad A Enver**  
ASEAN Economist  
[ahmad.enver@ocbc.com](mailto:ahmad.enver@ocbc.com)

**Jonathan Ng**  
ASEAN Economist  
[jonathannq4@ocbc.com](mailto:jonathannq4@ocbc.com)

**Ong Shu Yi**  
ESG Analyst  
[shuyionq1@ocbc.com](mailto:shuyionq1@ocbc.com)

## FX/Rates Strategy

**Frances Cheung, CFA**  
Head of FX & Rates Strategy  
[francescheung@ocbc.com](mailto:francescheung@ocbc.com)

**Christopher Wong**  
FX Strategist  
[christopherwong@ocbc.com](mailto:christopherwong@ocbc.com)

## Credit Research

**Andrew Wong**  
Head of Credit Research  
[wongvkam@ocbc.com](mailto:wongvkam@ocbc.com)

**Ezien Hoo, CFA**  
Credit Research Analyst  
[ezienhoo@ocbc.com](mailto:ezienhoo@ocbc.com)

**Wong Hong Wei, CFA**  
Credit Research Analyst  
[wonghongwei@ocbc.com](mailto:wonghongwei@ocbc.com)

**Chin Meng Tee, CFA**  
Credit Research Analyst  
[mengteechin@ocbc.com](mailto:mengteechin@ocbc.com)

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