Daily Market Outlook

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Forming the Line of Defence

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- **Asian FX. *Policymakers "Leaning Against the Wind".*** Most Asian FX are trading near their respective lows against the USD. USDKRW is near 1450, USDCNH back above 7.30, USDJPY is back above 157, USDINR at record highs of above-85 levels, while most Asean FX, including PHP, IDR, TWD are trading 4-5% weaker (on YTD terms). Central banks in the region have stepped up their rhetoric. BI said it will guard the IDR boldly to build market confidence, BSP said that policymakers are watching the PHP drop closely and has stepped up intervention in the FX market. Japan's Finance Minister Kato and Currency chief Mimura said authorities will take appropriate action if there are excessive moves in currency markets. In China, policymakers continue to set the fix steady at under 7.20 (last set at 7.1901 vs. 7.1911 yesterday despite USD's rise). Fixing pattern suggests that PBoC is doing whatever it takes to not only restrain the RMB from over-weakening but also to hold it steady in the interim. South Korea said it will ease the cap on banks' foreign exchange forward positions by 50% to boost inflows and address demand and supply imbalances in the local currency market. It can be challenging for policymakers to go against a strong USD trend. Intervention in such an environment can only slow the pace of currency depreciation. Despite that, central banks may still have to use a mix of verbal, policy and actual intervention tools to slow the pace of currency depreciation.

- **DXY. *Watching Core PCE.*** USD continues to trade near its 2-year highs. DXY was last at 108.44. Daily momentum is mild bullish while RSI rose into overbought conditions. Resistance at 108.50, 109 levels. Support at 107.20, 106.70 (21 DMA). Day ahead watch US data – core PCE, personal income/spending and Uni of Michigan sentiment. Market liquidity is increasingly thinner and fluid pricing can exacerbate FX moves. A softer than expected print may provide a breather for risk proxies and tame USD bulls. But we caution that hotter print could lead to shallower dips in the USD pullback and USD bulls may extend its run higher. To recap, FOMC guided for a slower pace of rate cut for 2025 and even 2026 (2 cuts each year). The quantum of rate cuts has also been reduced for the cycle. Although markets have earlier anticipated for 2 cuts, the hawkish outcome saw further hawkish re-pricing. Markets are now not fully pricing another cut until July or Sep with only 38bp now priced for whole of 2025. As of writing, markets are only fully

We wish all readers a Merry Christmas and Happy 2025 in advance! The next publication of Daily Market Outlook (DMO) will return on 6 Jan 2025.

pricing in a 25bp cut at June 2025 FOMC. Market pricing can be fluid. If core PCE data (today) comes in softer than expected or NFP (10 Jan) comes in with slower job, then rate cut expectations can adjust again and the USD can weaken from current highs.

- **USDJPY. *Verbal Intervention.*** USDJPY rose sharply after BoJ kept policy rate on hold yesterday. USDJPY's rise can also be attributed to the rise in UST yields as Fed guided for slower pace of rate cuts. Back to BoJ, Governor Ueda's remarks seem more cautious and appear to be "buying time". He said that the "lack of wage info" was one reason why policymakers held rates. He did say that "certain degree of info expected on wages by next meeting". He also touched on wanting to see more wage hike sustainability. He also mentioned that it will take a long time before the full picture is clear for both the spring wage negotiations and the Trump administration's policies. That being said, he did warn that the BoJ must consider the risk of falling behind the curve carefully as real interest rates remain at very low levels. Chance of hike at the next MPC (24 Jan) is probably still live. But for now, the reluctance of BOJ and the guidance for Fed pause suggests that USDJPY may continue to face intermittent upward pressure. This morning, in response to the sharp 300pips fall in JPY against USD, Finance Minister Kato said authorities will take appropriate action if there are excessive moves in currency markets. Currency Chief Mimura also spoke about taking appropriate response if excessive FX moves. Verbal intervention in the face of strong USD trend and policy inaction can only be at best in slowing JPY's bout of depreciation pressure. What can stop JPY from further weakening in the near term would be a less dovish BoJ, some guidance in expectations for BoJ hike in due course and/or a softer USD. Pair was last seen at 157.10. Bullish momentum on daily chart intact while RSI show signs of turning from near overbought conditions. Resistance at 158, 158.90 levels. Support at 156.67 (76.4% fibo retracement of Jul high to Sep low), 154.50/155 levels.

- **GBPUSD. *Weigh by Vote Split.*** GBP fell on surprise BoE vote split even as BoE keeps policy rate on hold at 4.75%. MPC voted 6-3 to keep rates on hold. Deputy Governor Dave Ramsden, Swati Dhingra and Alan Taylor all voted to cut by 25bp. Markets were only expecting Dhingra to vote for a cut. BoE staff also downgraded their economic forecast for 4Q 2024, now predicting no growth, compared with the 0.3% expansion projected in its Nov report. Taken together, dovish split and downgrade in growth assessment was a negative for GBP. Accompanying policy saw little changes from previous, while still noting that policy would need to be "restrictive for sufficiently long." On inflation, MPC mentioned continued progress in disinflation but warned that "remaining domestic inflationary pressures are resolving more slowly." In written comments to reporters, Governor Bailey said that "we think a gradual approach to rate cuts remains right, but with the heightened uncertainty in the economy we can't commit to when or by how much we will cut rates in the coming year”. GBP fell amid dovish hold outcome and stronger USD. Pair was last at 1.2490. Daily momentum turned bearish while RSI fell. Risks are skewed to the downside. Support at 1.2450, 1.2410 levels. Break puts 1.23 (2024 low) in focus. Resistance at 1.2570 (76.4% fibo retracement of 2024 low to high), 1.2660 levels (21 DMA). Today brings retail sales data.

- **USDSGD. *Pullback Should Find Support.*** USDSGD traded a touch softer this morning, easing slightly away from its near-2024 high. Pair was last at 1.36 levels. Daily momentum is mild bullish while RSI shows signs of turning lower from overbought conditions. Technically, there is still signs of pullback move lower in the near term, but dips may still find support. Support at 1.3510, 1.3470 (21 DMA). Resistance at 1.3620, 1.3670 levels S$NEER was last at 0.93% above model-implied mid.

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