GLOBAL MARKETS RESEARCH

Daily Market Outlook

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Breather

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Global Markets Research and Strategy

- **DXY. *Await PPI Report.*** USD eased slightly from recent highs on report that Trump team is studying. According to reports, one idea involves a schedule of graduated tariffs increasing by about 2% to 5% a month and would rely on executive authorities under the International Emergency Economic Powers Act. This shows how fluid tariff development is and we may have to brace for a range of plausible outcomes. Trump inauguration takes place next Mon (20 Jan). There is a lot of expectations that tariffs may soon be implemented. But we cannot rule out a case of Trump threatening with tariffs today, set a deadline, demand concessions and then cut a deal. The endgame may even be a watered-down version of tariffs and in this scenario, risk assets can rally. This morning, high-beta FX including MYR, NZD, AUD and KRW were trading firmer. But it is important to highlight that the report may still be in fairly early stages. DXY was last at 109.55. Mild bullish momentum on daily chart intact but RSI eased. Broader bias remains skewed to the upside but we do not rule out retracement play. Bearish divergence observed on RSI – we continue to monitor price action for confirmation. Resistance at 110.10, 110.90 levels. Support at 108.40 (21 DMA), 107.05 (50DMA). Focus this week on US PPI (today) and CPI on Wednesday. We would need a much softer print to help to apply brakes on dollar. Failing which, another hot print should fuel USD higher.

- **EURUSD. *Consolidate.*** EUR rebounded this morning as USD retreated on report about gradual tariff increase. But bearish bias remains on a few factors including 1/ sluggish growth in the Euro-area; 2/ anticipation of ECB needing to cut more/ deeper to support growth; 3/ rise in energy costs (as cold weather depletes reserves and reduced Russian supplies) adding more pain to industrials and households; 4/ other external factors such as concerns of universal tariffs, stronger USD. On ECBspeaks, Lane said he agreed that the direction (for policy rate) is clear. He further said that if rates remain too high for too long, it will weaken the inflation momentum in such a way that the disinflation process would not stop at 2% but could materially fall below target. He added that wage increase in 2025 are expected to be significantly lower, meaning inflation will continue to decline. EUR was last at 1.0250 levels. Daily momentum remains mild bearish while RSI is near oversold conditions. Risks skewed to the downside. Support at 1.01, 0.9950 levels (76.4% fibo retracement of 2022 low to 2023 high). Resistance at 1.0360 (21 DMA), 1.0405 (50% fibo).

- **USDJPY. *Range-Bound Near Recent Highs.*** USDJPY traded choppy overnight, driven by risk-off sentiment (global bond sell-off), yield differentials, and comments from BoJ deputy Chief Himino. He spoke about causing a surprise is not desirable except in crisis. He said MPC will discuss next week whether to raise rate or not and to raise rate if economic outlook is realised. He also said "In conducting monetary policy, it is difficult but essential to judge the right timing". Overall, he struck a balance in his speech. Even though he did not commit to any time frame, he did not remove the optionality to hike if conditions are met. We believe the upcoming MPC (24 Jan) is still live. Markets still see 15bp hike as of now. A 25bp hike should bring back JPY bulls. Pair was last at 157.60 levels. Bearish momentum on daily chart intact while RSI is flat. Consolidative trades likely for now as UST yields (dependent on US CPI catalyst) may still be the dominant force driving USDJPY. Support here at 157.20 (21 DMA), 156.60. Resistance at 158, 158.80 (recent high).

- **USDSGD. *Mild Pullback Risk?*** USDSGD traded a touch softer this morning, in reaction to mild USD pullback, modest RMB gains. Pair was last at 1.3695. Daily momentum and RSI indicators were flat. Price action still shows a potential rising wedge pattern in the making. This can be associated with a bearish reversal. Near term risks may point to the downside though conviction level is not strong. Support at 1.3635 (21 DMA). Resistance at 1.3760 levels, 1.38. The focus next is on upcoming MAS MPC (no later than 31 Jan). We are looking for MAS to ease policy at the upcoming MPC by reducing the policy slope slightly but still maintain a mild appreciation stance. Given that the disinflation journey has made good progress, we believe MAS now has optionality to ease especially if it takes on a pre-emptive stance in the face of policy transmission lag. In terms of USDSGD, the outcome of a reduction in policy slope in an environment of USD strength points to further upside risks for USDSGD. S$NEER was last at 0.55% above model-implied mid.

- **USDCNH. *Verbal Rhetoric.*** USDCNH eased but the pullback lower was retraced. Markets were initially reacting to a report that Trump team is studying. According to media reports, one idea involves a schedule of graduated tariffs increasing by about 2% to 5% a month. Compared to the 60% tariff that was initially floated, a gradual phase-in tariff approach provided a window of breather for risk proxies, including CNH. Pair was last at 7.3454. Daily momentum is flat while RSI fell. Corrective pullback not ruled out. Support at 7.3270 levels (21 DMA), 7.2835 (50 DMA). Resistance at 7.37 levels. A combination of steady fixing in onshore CNY (under 7.19), record issuance of offshore PBoC bills, temporary suspension of it own purchases of government bonds, raise cross border funding to 1.75, from 1.50 are tools aimed at sending a strong signal that authorities are doing whatever it takes to maintain the relative stability in RMB, at least until after tariff hits.

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