

Daily Market Outlook

20 February 2025

JPY, Gold Outperformance

- **USDJPY. *Breaking Out?*** USDJPY continued to trade under pressure as hawkish remarks from BoJ officials lingered. Yesterday, Takata said it is important for BoJ to continue to consider policy adjustments even after last month's rate hike in order to avoid excessively high expectations that monetary easing might persist. He also touched on the need to avoid letting upside inflation risks be realised. He did not express concern regarding rising JGB yields. Instead, he said yields moving higher is in line with the market's view of the economy. Last week, BoJ's Tamura said that policy rate should be raised to at least around 1% by the second half of this fiscal year. He also added that the neutral rate is at least 1%, and the rate at 0.75% would still be clearly negative in real terms, and there would still be some distance to a level where the rate would cool the economy. Several Japanese corporates have also indicated their intent to raise wages above 5% and wage increase is one of BoJ's pre-requisite for continued policy normalisation. Overall, we remain of the view for USDJPY to trend lower premised on Fed-BoJ policy divergence. That said, we continue to caution that direction of travel can potentially hit speed bumps as Trump's tariffs remains an uncertainty. 25% tariff on auto is likely to impact Japan as US is one of Japan's largest trading partners. Japanese cars are amongst the top 5 most popular in US and Japanese cars are a key component for Japan's economy. Japan officials have already sought exemption from the US, but it remains unclear at this point what the status is and how reciprocal tariffs (another concern) may pan out for Japan. USDJPY was last at 150.80 levels. Daily momentum is turning mild bearish while RSI fell. Risks skewed to the downside. Psychological support at 150. Decisive break below may unravel room for further downside towards 149.20 (50% fibo). Resistance at 151.50 (38.2% fibo retracement of Sep low to Jan high), 152.60 (200 DMA) and 153.60 (21, 100 DMAs). CPI and prelim PMI data is due tomorrow.
- **EURUSD. *Dip into German Elections.*** German election risk premium may be slowly creeping in to erode the recent rally in EUR. German federal elections take place this Sunday. Polls suggest none of the parties can secure an absolute majority, meaning a coalition will need to be formed. Most likely coalition is the union (CDU/CSU) with SPD but Monday evening's TV show in Berlin saw both leaders Merz (from CDU/CSU) and Scholz from SPD ruled out serving together in the same cabinet. Hence,

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government formation may take a while and is likely to involve a grand coalition between CDU/CSU union with a few other smaller parties. EUR was last seen at 1.0440 levels. Bullish momentum on daily chart shows signs of fading though decline in RSI moderated. Consolidation likely. Support at 1.0410 (21 DMA), 1.0380 (50 DMA). Resistance at 1.05, 1.0540 (100 DMA).

- **Gold. Record High.** Gold marched on to a record high of 2947 overnight. Trump policy uncertainty, geopolitical risks and central banks keeping up with their gold purchases (China for 3rd consecutive month) are some drivers that continue to keep gold marching higher. While tariffs have been delayed to a later time in Mar (for steel and aluminium imports), and Apr (reciprocal tariffs), Trump has been talking about tariffs on-and-off. Most recently, he brought up 25% tariff on lumber, autos, pharmaceuticals, etc. with no further details. As such, tariff uncertainty keeps gold better bid. Elsewhere, while there may be early signs that US is talking to Russia to end the Ukraine war, there are still uncertainties with regards to Europe's security and how the binding a peace deal may be if Ukraine and Europe are not involved. Geopolitical risk is another factor keeping gold supported. XAU last seen at 2940. Bullish momentum shows signs of fading while RSI is near overbought conditions. Resistance at 2950/60 levels, before 3000 big psychological level. Support at 2900, 2850 (21 DMA).
- **DXY. Subdued Trading.** USD was just a touch softer today but largely traded in subdued range. Trump spoke that a new trade deal with China is possible, triggering a knee-jerk response for USDxJs including USDCNH and USDKRW to the downside. But there are questions over how significant these remarks can be. On Fed's side overnight, Goolsbee said that rates can come down more once inflation comes down while Jefferson said that the path for inflation will likely be bumpy. A strong economy allows policymakers to take their time before considering any additional cuts to interest rate. These comments are consistent with earlier Fed officials – that a hold is likely preferred for now and the rate cut can continue when there is clarity on the disinflation journey. DXY was last at 107. Daily momentum is bearish but RSI turned lower. Consolidation still likely. Support at 106.20/40 levels (100 DMA, 38.2% fibo retracement of Oct low to Jan high). Resistance at 107.30, 107.80 (23.6% fibo, 21 DMA) and 108.50 levels.
- **USDSGD. Consolidate.** USDSGD traded a touch softer this morning, tracking moves in USDCNH on Trump's comments regarding a possible new China trade deal. Pair was last seen at 1.34. Daily momentum is mild bearish while RSI slipped. 2-way trades likely. Support at 1.3380 levels (38.2% fibo retracement of Sep low to Jan high), 1.3360 (200 DMA). Resistance at 1.3460, 1.3510/20 (23.6% fibo, 21 DMA). S\$NEER was last seen around 1.36% above model-implied mid.

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