Daily Market Outlook

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Asian FX on Softer Footing

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- **DXY. *Supported.*** USD continue to scale fresh highs, as markets pare back rate cut expectations owing to US exceptionalism trade. December payrolls report was notably stronger than expected, with NFP at +256k, minimal revision to prior 2-month and the unemployment rate falling to 4.1%. University of Michigan Prelim report also saw a sharp rise in 5-10y consumer inflation expectations. Recall that last week, ISM prices paid also rose to >20month high. Fed Funds futures saw another round of hawkish repricing. Next Fed cut is only fully priced for the October meeting (vs. Sep previously) and 27bp of cuts for whole of 2025 (vs. about 38bp cut priced previously prior to NFP). Stronger USD, higher yields undermined Asian FX. IDR, PHP were amongst the Asian FX that were hit hardest. Focus this week on US PPI on Tue and CPI on Wednesday. We would need a much softer print to help to apply brakes on the dollar. Failing which, another hot print should fuel USD higher. DXY was last at 109.65. Mild bullish momentum on daily chart intact while RSI rose. Risks remain skewed to the upside. Resistance at 110.10, 110.90 levels. Support at 108 levels (21 DMA), 106.70 (50DMA).

- **USDCNH. *Verbal Rhetoric.*** USDCNH traded a touch softer this morning, on a slew of comments from policymakers. PBoC raised cross border funding from 1.50 to 1.75 to allow for companies and FIs to raise funds overseas and help increase USD liquidity in the onshore markets. PBoC Chief Pan said to drastically raise China FX asset allocation in HK. He also said it will make use of tools including interest rates and RRR to maintain ample liquidity in the market. Priority of policy should shift to both investment and consumption from investment solely, as weak consumer demand and low prices are among economic challenges. Recall last week, PBoC announced that it is temporarily suspending its purchase of government bonds and plans to issue record amount of bills in HK (offshore PBoC bills) to soak up offshore liquidity. These efforts alongside steady fixing in onshore CNH (under 7.19) sent a strong signal that authorities are doing whatever it takes to maintain the relative stability in RMB. While CNH may see some brief respite, these measures cannot alter the fate of RMB. RMB recovery requires a softer USD, economic recovery to find a better footing or foreign investors to regain confidence. USDCNH was last seen at 7.3540 levels. Daily momentum is flat while RSI fell. Corrective pullback not ruled out. Support at 7.3250 levels (21 DMA), 7.28 levels (50 DMA). Resistance at 7.37 levels.

- **GBPUSD. *Pressured.*** GBP continued to trade under pressure amid the surge in UST yields, USD. Slowing UK economy, growing twin deficits of current account and fiscal accounts are negatives for GBP. Recent surge in GILT yields added to interest bill concerns that may threaten Chancellor Reeves's fiscal space. Media reports there were also concerns that some pension funds were told to come up with more cash to maintain hedging position thru liability driven investment (LDI) strategies (i.e. Basically requires more collateral to make up for the movement in prices). There were also concerns of GBP, GILTS facing a "Liz Truss" moment (recall 2022). GBP was last at 1.2150 levels. Berish momentum on daily chart intact while RSI fell. Risks remain skewed to the downside. Support at 1.2040, 1.1810 levels (2023 low). Resistance at 1.2205, 1.23 levels.

- **USDSGD. *Supported.*** USDSGD traded modestly higher, tracking broader USD strength and higher UST yields. Pair was last at 1.3710 levels. Daily momentum is flat while RSI rose. Price action still shows a potential rising wedge pattern in the making. This is typically associated with a bearish reversal. Risks somewhat skewed to the downside. Support at 1.3625 (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.

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