FX Weekly

17 December 2024

Of Central Bank Meetings and CPI Releases

Christopher Wong
FX and Rates Strategy
ChristopherWong@ocbc.com

Step Down in Pace of Fed Cut is Likely. USD strength shows some signs of easing this week as FOMC comes into focus (Thu 3am SGT). A 25bp cut is more or less a done deal (markets pricing 95% probability of a cut) but the focus is on the refreshed dot plot, which will provide guidance on Fed members' expectation on rate cut trajectory into 2025 - 26. The previous dot plot back in Sep guided for 4 cuts (or 100bps) in 2025 and markets are now pricing in about 2 cuts (or 50bps). If the dot plot points to **2 cuts or less for 2025, markets would read it as hawkish, and the USD may see another round of strength**. But **if dot plot points to 3 cuts, then this would be interpreted as less hawkish than expected. On this note, we may see a sigh of relief for risk proxies and USD strength can be pared back**. However, **if dot plot still points to 4 cuts (no change from previous), then we can expect to see USD trade much softer**. At this point, markets appeared to have prepared itself for a cautious outcome – Fed to signal a slowdown in pace of rate cuts going forward. Taking stock, Fed signalled its intent to pivot sometime in Jul-Aug and started its rate cut cycle at the Sep meeting with 50bp cut, followed by another 25bp cut at the last meeting in Nov. It is evident from ISM surveys, NFP that labour market tightness is already easing. Recent Beige book also pointed to subdued hiring activity as worker turnover remained low and few firms reported increasing their headcounts. Elsewhere, core PCE has also slowed, ISM services is coming off and ISM manufacturing remained in contractionary territory. These should continue to justify Fed further normalising its monetary policy. Apart from FOMC, data focus includes retail sales, IP (Tue); housing starts, building permits (Wed); FOMC, GDP, existing home sales (Thu); core PCE, personal spending, income, Kansas City Fed manufacturing index (Fri).

Bias for BoJ Hike. Typically, BoJ MPC matters for USDJPY but this time, the USDJPY may also matter for BoJ given the >3% decline in JPY lately. For BoJ MPC (Thu), we are looking for BoJ to carry on with policy normalization with a hike. 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. Sell rallies preferred for USDJPY.

UK Data May Matter More to GBP than BoE Decision. BoE MPC likely a non-event as a hold is likely. The last MPC meeting (Nov) saw BoE putting an emphasis on making sure inflation stays close to target. This reinforces the view for a gradual approach to removing restraint. UK data this week - labour market report today, CPI tomorrow and retail sales on Fri - probably may matter more for GBP.

Bloomberg FX Forecast Ranking (3Q 2024)

By Region:
No. 7 for 13 Major FX

By Currency:
No. 3 for TWD
No.4 for EUR
No. 8 for CHF

(2Q 2024)

By Currency:
No. 3 for TWD, THB
No. 8 for EUR, CHF

(1Q 2024)

By Region:
No. 7 for 13 Major FX

By Currency:
No. 3 for EUR
No. 4 for TWD
No. 5 for GBP

AxJ Positioning Bias (Reuters Poll)

Based on Reuters survey on Asia FX positioning, all AxJs FX remain bearish. KRW, INR, and CNY were amongst the most bearish. In terms of incremental bearish adjustments, KRW and INR saw the largest increase in shorts. On net basis, THB and PHP were amongst the least bearish. While sentiments for AXJ is bearish, there was some scale back in bearishness on an incremental basis for PHP, THB and SGD.

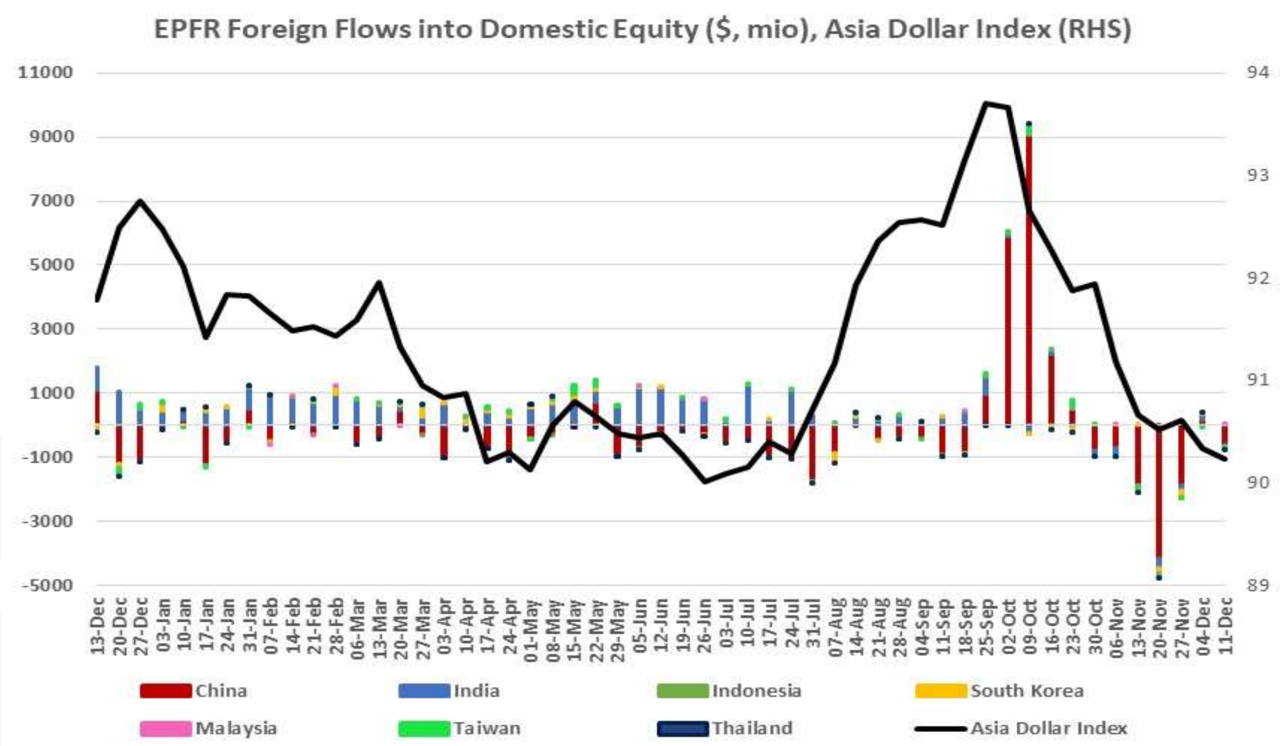
	08-Aug-24	25-Aug-24	05-Sep-24	19-Sep-24	03-Oct-24	17-Oct-24	31-Oct-24	14-Nov-24	28-Nov-24	11-Dec-24
USD/CNY	-0.02	-0.62	-0.85	-0.67	-1.14	-0.43	0.3	1.14	1.32	1.15
USD/KRW	0.05	-0.93	-1.09	-0.9	-0.79	0.26	1.06	1.61	1.45	1.86
USD/SGD	-0.61	-1.08	-1.26	-1.12	-1.26	-0.44	-0.03	0.8	1.12	0.83
USD/IDR	-0.02	-1.26	-1.05	-1.18	-1.08	0.04	0.59	0.81	1.03	0.87
USD/TWD	0.59	-0.7	-0.77	-0.66	-0.59	0.24	0.6	1.07	1.1	0.82
USD/INR	0.6	0.21	0.21	0.33	-0.04	0.67	0.82	0.87	1.13	1.43
USD/MYR	-0.78	-1.57	-1.46	-1.3	-1.18	-0.4	0.11	0.65	0.76	0.65
USD/PHP	-0.29	-1.03	-1	-1.1	-0.7	0.26	0.81	1.18	1.13	0.53
USD/THB	-0.57	-1.16	-1.22	-1.33	-1.45	-0.28	0.09	0.9	0.66	0.26

Note: Asian FX poll is conducted by Reuters, on bi-weekly basis on what analysts and fund managers believe the current market positioning are. Poll uses estimates of net short or long on a scale of -3 to +3. A score of +3 indicates significant long USD against the AxJ FX. Arrow direction indicates change in positioning from last date.

Source: Reuters [latest avail: 11 Dec 2024], OCBC Research

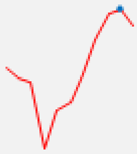
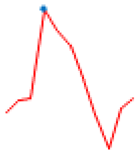
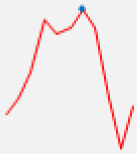
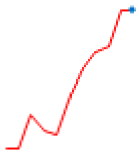
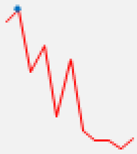
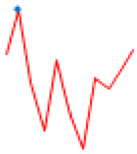
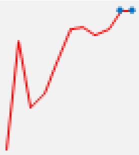
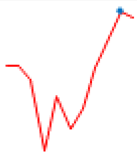
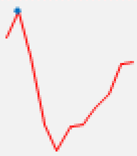
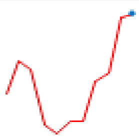
EPFR Foreign Flows to Selected AxJ Equities vs. Asiadollar Index

Net foreign equity outflow across the AXJ region resumed last week. Tariff concerns under Trump presidency remains one of the key concerns. This week, FOMC takes centre stage as markets eye dot plot guidance on trajectory of rate cut going forward. Asian FX sentiment remains cautious for now.



Note: Latest data available as of 11 Dec (weekly frequency); ASIADOL index refers to Bloomberg Asia dollar index

Source: EPFR, Bloomberg, OCBC Research

FX	Key Data and Events for the Week	14D Trend	Support/Resistance
Dollar	**Mon**: Empire manufacturing, prelim PMIs (Dec); **Tue:** IP, retail sales (Nov); NAHB housing market index (Dec); **Wed:** Housing starts, building permits (Nov); Current account (3Q); **Thu: FOMC decision**; GDP (3Q T); Philadelphia Fed business outlook (Dec); Initial jobless claims; Existing home sales (Nov); **Fri: Core PCE**, personal income, spending (Nov); Kansas City Fed manf. Activity, Uni of Michigan sentiment (Dec)		**S: 104.10; R: 108.00**
EURUSD	**Mon:** Prelim PMIs (Dec); Labour costs (3Q); ECB's Lagarde speaks; **Tue:** ZEW survey expectations (Dec); trade (Oct); **Wed:** CPI (Nov); construction output (Oct); **Thu:** Current account (Oct); **Fri:** Consumer confidence (Dec P)		**S: 1.0320; R: 1.0750**
GBPUSD	**Mon:** Prelim PMIs (Dec); **Tue: Labor market report (Oct);** **Wed: CPI**, PPI, RPI (Nov); CBI trends selling prices (Dec); **Thu: BoE MPC;** **Fri:** Public finances, retail sales (Nov); CBI reported sales (Dec)		**S: 1.2500; R: 1.2830**
USDJPY	**Mon:** Core machine orders (Oct); prelim PMIs (Dec); **Tue:** - Nil – **Wed:** Trade (Nov); **Thu: BOJ MPC** **Fri:** CPI (Nov)		**S: 146.20; R: 155.00**
AUDUSD	**Mon:** Prelim PMIs (Dec); **Tue:** Westpac consumer confidence (Dec); **Wed:** Westpac leading index (Dec); **Thu**: Inflation expectation; **Fri:** Private sector credit (Nov)		**S: 0.6270; R: 0.6550**
USDCNH	**Mon:** IP, FAI, retail sales, jobless rate, home prices (Nov); **Tue**: - Nil – **Wed:** - Nil – **Thu:** - Nil – **Fri:** 1y, 5y Loan prime rate		**S:7.2400; R: 7.3200**
USDKRW	**Mon**: - Nil – **Tue:** - Nil – **Wed:** - Nil – **Thu:** - Nil – **Fri:** PPI (Nov)		**S: 1,410; R: 1,450**
USDSGD	**Mon:** - Nil – **Tue:** NODX (Nov) **Wed:** - Nil – **Thu:** - Nil – **Fri:** - Nil –		**S: 1.3340; R: 1.3580**
USDMYR	**Mon:** - Nil – **Tue:** - Nil – **Wed:** Trade (Nov); **Thu:** - Nil – **Fri: CPI (Nov);** FX reserves		**S: 4 4000; R: 4.5000**
USDIDR	**Mon:** Trade (Nov); **Tue:** - Nil – **Wed: BI MPC** **Thu:** - Nil – **Fri:** - Nil –		**S: 15,850; R: 16,200**

Source: Bloomberg, OCBC Research

	Key Themes and Trades
DXY	***Focus on Fed's Guidance.*** USD strength shows some signs of easing this week as FOMC comes into focus (Thu 3am SGT). A 25bp cut is more or less a done deal (markets pricing 95% probability of a cut) but the focus is on the refreshed dot plot, which will provide guidance on Fed members' expectation on rate cut trajectory into 2025 - 26. The previous dot plot back in Sep guided for 4 cuts (or 100bps) in 2025 and markets are now pricing in about 2 cuts (or 50bps). If the dot plot points to 2 cuts or less for 2025, markets would read it as hawkish, and the USD could see another round of strength. But if dot plot points to 3 cuts, then this would be interpreted as less hawkish than expected. On this note, we may see a sigh of relief and USD strength can be pared back. However, if dot plot still points to 4 cuts (no change from previous), then we can expect to see USD trade much softer. At this point, markets appeared to have prepared itself for a cautious outcome – Fed to signal a slowdown in pace of rate cuts going forward. Taking stock, Fed signalled its intent to pivot sometime in Jul-Aug and started its rate cut cycle at the Sep meeting with 50bp cut, followed by another 25bp cut at the last meeting in Nov. It is evident from ISM surveys, NFP that labor market tightness is already easing. Recent Beige book also pointed to subdued hiring activity as worker turnover remained low and few firms reported increasing their headcounts. Elsewhere, core PCE has also slowed, ISM services is coming off and ISM manufacturing remained in contractionary territory. These should continue to justify Fed further normalising its monetary policy. DXY was last at 106.87 levels. Bearish momentum on daily chart faded while RSI fell. Head and shoulders (H&S) pattern remains intact with DXY trading near second shoulder. A rise in DXY back above the "head" would nullify the H&S pattern. But at point of writing, DXY is respecting the second shoulder. We watch price action. A play-out of the H&S pattern (bearish reversal) requires a decisive break below neckline support. Next support at 106.20/50 levels (23.6% fibo, 21 DMA), 105.00/20 levels (38.2% fibo retracement of Sep low to Nov high, 50 DMA). Resistance at 107.20 (both shoulders), 108 (2024 high). This week brings retail sales, IP (Tue); housing starts, building permits (Wed); FOMC, GDP, existing home sales (Thu); core PCE, personal spending, income, Kansas City Fed manufacturing index (Fri). Tariffs, immigration, deregulation, tax cuts, pursuing "peace" are likely some of Trump's policy priorities post-inauguration on 20th Jan 2025. Tariffs may undermine global trade, growth, sentiments and pose risks of inflation (for US). This may derail the disinflation journey and imply fewer Fed cuts in 2025/26. Hawkish re-pricing alongside US exceptionalism will keep USD supported in the interim. On tariff implementation, we do not rule out tariff being used as bargaining chip to unlock foreign policies, level the playing ground. The recent Mexican episode shows that Trump's tariff threat was likely a bargaining chip to unlock other policy agenda, which in this case appears to be migration, drugs. Hence, there is a chance that tariff could come later in 2H 2025, rather than earlier. We look for a USD pullback in 1Q 2025 as Fed cut cycle continues but USD risks and trajectory are skewed to the upside over 2Q – 4Q 2025, as we take into consideration the potential risk of tariff implementation, inflation risks and slower pace of Fed cut. Our medium-term view still expects the USD to trend lower. USD's overvaluation, alongside rising debt, twin deficit of fiscal and current account are some drivers that should weigh on USD.
EURUSD	***Forming an Interim Bottom?*** EUR continued to hold steady despite political uncertainties in Germany, France and a Moody's rating downgrade on French rating. Bundestag has voted and a federal election is now expected to be held 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. Elsewhere in France, President Macron has appointed François Bayrou as the new PM of France. The far-left party La France Insoumise has announced it will launch a no-confidence vote to bring down PM Bayrou while other parties appear less aggressive and have laid down conditions for their support. At the last ECB meeting (12 Dec), ECB cut 25bp, as widely anticipated. During the press conference, President Lagarde reiterated that the direction for policy was "very clear." President Lagarde stated that the Council would debate the neutral rate "in due course" but that a discussion remained "premature"

at this stage. Lagarde also mentioned that 50bp cut was discussed though 25bp cut decision was unanimous. Growth concerns were clearly on policymakers' radar. Our rate strategist shared that our base-case is for additional 75bps of cuts in 2025, bringing the key deposit facility rate to 2.25% which is within ECB staff estimated range for a neutral rate of 1.75-2.50%. Risk is for more or quicker rate cuts should growth turn out to be even weaker than expected and if the ECB judges that lower rates are required to help channel savings into spending and investments. Still, given current dovish market pricing, downside to rates at 2Y and beyond appears very limited. From an FX point of view, the limits of the downside in rates may be why the EUR seem so stubborn at this level even with so many downside risk factors flagged.

Pair was last at 1.0510 levels. Mild bullish momentum on daily chart is intact while RSI rose. Risks are modestly skewed to the upside. Resistance here at 1.0540 (21 DMA, 23.6% fibo retracement of Oct high to Nov low), 1.0610 and 1.0670 (38.2% fibo). Support at 1.0460, 1.0410 levels. Today brings ZEW survey expectations, trade (Tue); final CPI, construction output (Wed); current account (Thu); consumer confidence (Fri).

Looking out into 2025, we remain somewhat bearish on EUR's outlook. Trump presidency will result in shifts in US foreign and trade policies, and they will have implications on EUR. Universal tariff of up-to-20% tariff can hurt Europe (if implemented) as US is EU's top export destination. Growth in the Euro-area is also slowing. EU-UST yield differentials have already widened and may widen further amid shifts in market expectations on ECB (more cuts), Fed cut (fewer cuts). In Germany, the coalition government has collapsed. Pending outcome of the confidence vote (16 Dec), an election is more likely than not on 23 Feb 2025. Elsewhere, France is also without a government and a budget after PM Barnier lost the vote of confidence. As no legislative elections can be held until 1 year after the last elections that was held in July, snap elections are not possible. In the interim, Macron will need to appoint a new Prime minister soon. Meanwhile there are already calls from time to time for President Macron to resign but he has resisted, and the next Presidential election is not due until Apr 2027. Political uncertainty in Germany, France may still weigh on EUR in the interim, though we do expect this to come to pass. In terms of US foreign policy, military aid to Ukraine may dwindle when Trump takes over. He has on many occasions in the past said his priority is to end the war and stop what he described as a drain on US resources. He also declared before that he can end the war in one day, without offering specifics. Europe will have to take responsibility for its security in the interim and that would mean increasing defence spending – possibly adding to fiscal burden for some EU nations. That said, the medium-term benefits of ending the war in Ukraine may also take away supply side pressure, and perhaps normalise energy concerns (if sanctions on Russia are removed but these are likely not to materialise in the short term). Overall, concerns of political uncertainty in Germany, policy uncertainties associated with Trump presidency, softer growth momentum in Euro-area and potential widening of EU-UST yield differentials are some of the factors that may weigh on the EUR. But over the medium term, EUR can revert to trend higher when growth stabilises, and political and policy uncertainties find some clarity.

GBPUSD

Data May Matter More For GBP than BoE MPC This Week. GBP fell on weaker data last week – monthly GDP, industrial production, construction output came in weaker. Focus this week on labour market report (Tue), CPI (Wed) BoE MPC (Thu) and retail sales (Fri). BoE MPC likely a non-event as a hold is likely. The last MPC meeting (Nov) saw BoE putting an emphasis on making sure inflation stays close to target. This reinforces the view for a gradual approach to removing restraint.

GBP was last at 1.2680 levels. Bullish momentum on daily chart is fading while RSI rose. Death cross looks on track to be formed as 50DMA cuts 200DMA to the downside. This can potentially be bearish but we watch price action. Consolidation likely for now. Support at 1.2610, 1.2570 (76.4% fibo). Resistance at 1.2730 (61.8% fibo retracement of 2024 low to high), 1.2830 levels (50, 200 DMAs).

Over the medium term, we are slightly constructive on GBP outlook. Growth continues to hold up and likely to be further supported by UK budget while labour market remains healthy. Employment growth improved and wage growth continues to outpace headline CPI. Even as headline CPI eased, services inflation remains sticky at 5%. This supports the case for gradual pace of BoE cuts in 2025. The last MPC meeting (Nov) saw BoE putting an emphasis on making sure inflation stays close to target. This reinforces the view for a gradual approach to removing restraint. BoE member Mann believes that neutral interest rate is higher than BoE's model and as such, policy rate at 5% is less restrictive today. Downside risks to our view include 1/ a more aggressive BoE cut cycle than the Fed; 2/ faster growth slowdown in UK, 3/ energy price surge; 4/ Fed slowing down on policy normalisation and/or return of US exceptionalism. A play-up of any of these risks may undermine GBP.

USDCHF

Short CHF Bias. USDCHF rose after SNB surprised with a 50bp cuts last week to bring policy rate to 0.50%. We had earlier flagged that markets were split between a 25 and 50bp cut. And we reckon the decision for the larger cut was partly to send a strong message that SNB is against excessive CHF strength. Pair was last at 0.8945 levels. Daily momentum turned mild bullish while RSI rose. Risks skewed to the upside. Resistance at 0.8955, 0.9020 (76.4% fibo retracement of 2024 high to low) and 0.9160 levels. Support at 0.8850 (21 DMA), 0.88 levels (50% fibo).

There was a slight tweak in the statement to say that policymakers will "adjust its monetary policy if necessary to ensure inflation remains within the range consistent with price stability over the medium term." vs. its Sep statement, which indicated that "Further cuts in the SNB policy rate may become necessary in the coming quarters to ensure price stability over the medium term." The phrase "further cuts" was dropped in the current statement. SNB Chairman Schlegel also said that "if needed we will adjust rate at March meeting.. will tolerate inflation outside 0 - 2% range".

It does give the impression that policymakers will be more tolerant of any slippage in inflation in the short term but policymakers will still be watchful of CHF appreciation. Statement mentioned that SNB is prepared to intervene in FX markets if needed and that Schlegel reiterated their willingness to implement negative interest rates if necessary.

Overall, we maintain a mild bearish bias on CHF on the back of dovish SNB that is watchful of strong CHF, 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.

USDJPY

Sell Rallies. USDJPY rose as bets on BoJ hike this week was scaled back significantly while USTs saw a sell-off (i.e. UST yields rose sharply). USDJPY's breakout was well cautioned in our technical scan when we first highlighted about moving averages compression (MAC) last week. We noted that this pattern typically precedes a break-out trade. Pair was last at 154.20. Daily momentum turned bullish while RSI rose to near overbought conditions. Risks skewed to the upside. Resistance at 154.80, 155.90 levels. A decline back below the MA "convergence level" would nullify the bullish break-out. Support at 152.70, 152.10 (21, 100, 200 DMAs).

Typically, BoJ MPC matters for USDJPY but this time, the USDJPY may also matter for BoJ given the >3% decline in JPY lately. For BoJ MPC (Thu), we are looking for BoJ to carry on with policy normalization with a hike. 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. For USDJPY, it is not just JPY or BoJ in the equation, the Fed and US data also matters. While we are of the view that broader direction of travel for USDJPY is skewed towards the downside as Fed cuts and BoJ hikes. The risk is a slowdown in pace of respective policy normalisation, especially if Fed slows pace on return of US exceptionalism. Then USDJPY moves may even face intermittent upward pressure.

Looking out into 2025, we still look for USDJPY to trend lower, premised on Fed cut cycle while the BoJ has room to further pursue policy normalisation. BoJ is also expected to uphold central bank independence and Governor Ueda had earlier said that the current political situation in Japan wouldn't stop him from lifting rates if prices and the economy stay in line with BoJ's forecast. On the data front for Japan, Tokyo core core CPI, PPI, wages rose. Recent labour market report also pointed to upward wage pressure in Japan with 1/ jobless rate easing, 2/ job-to-applicant ratio increasing; 3/ trade unions calling for another 5-6% wage increase at shunto wage negotiations for 2025. Wage growth pressure remains intact, alongside broadening services inflation is supportive of BoJ normalizing rates. Our house view remains for one additional BoJ rate hike this week and continued policy normalisation in 2025. Divergence in Fed-BoJ policies should bring about further narrowing of UST-JGB yield differentials and this should underpin the broader direction of travel for USDJPY to the downside. Elsewhere, escalation in geopolitical tensions, protectionism measures may also support safe-haven demand (positive JPY). That said, any slowdown in pace of policy normalisation - be it the Fed or BoJ - would mean that USDJPY's direction of travel may be bumpy or face intermittent upward pressure.

AUDUSD

Heavy Bias. AUD continued to trade with a heavy bias, triggered by an RBA dovish pivot at its recent MPC (10 Dec). While RBA left cash rate steady at 4.35% as expected, the accompanying statement saw some dovish tilt in language. 1/ "Board is gaining some confidence that inflation is moving sustainably towards target." The statement removed previous language around needing to "remain vigilant to upside risks to inflation" and "not ruling anything in or out". The statement also omitted the phrase "policy will need to be sufficiently restrictive until the Board is confident that inflation is moving sustainably towards the target range". Elsewhere, softer RMB owing to no concrete stimulus support measure post-CEWC, higher UST yields, dip in Aussie consumer confidence were some factors that further weighed on AUD.

AUD was last at 0.6350. Daily momentum is mild bearish while RSI is near oversold conditions. Death cross observed as 50DMA cut 200DMA to the downside. Support here at 0.6340, 0.6270 levels. Resistance at 0.6450 921 DMA), 0.65 levels. Technically, we also observed a falling wedge pattern, which typically is associated with a bullish reversal at some point. We continue to monitor price action for this.

Near term outlook remains challenging for AUD, owing to RMB softness, US/universal tariff concerns and RBA's dovish pivot. But broadly in the medium term, we are broadly constructive on the outlook of AUD. Some of the reasons underpinning the bias include: 1/ expectations for a shallower pace of RBA rate cut cycle, given still sticky inflation, and tight labour market; and 2/ expectations that China stabilisation story can find traction amid stimulus support, though some patience is needed.

There is room for RBA to calibrate monetary policy settings at some point in 2025 but there is no need for RBA to hurry into easing policies, given still tight labour market and sticky services inflationary pressures. AU labour market remains fairly tight though there are signs the tightness is fading. Other labour market surveys such as NAB employment index, ANZ job ads have been easing. This suggests that some normalising in labour market conditions could be on the cards into 1H 2025. Elsewhere, wage growth continued to ease to 2.5% for 3Q (vs. 4.1% in 2Q). The trend of wage growth moderating is expected as labour market conditions ease. RBA has also recently lowered its projection for wage price index to 3.2% for end-2025 (vs. 3.5% previous projection). Our base line looks for one 25bp cut in 2Q and another 25bp cut in 3Q 2025. Key downside risk factors that may affect AUD outlook are 1/ extent of CNH swings (if any); 2/ if Fed under-deliver rate cuts; 3/ global growth outlook turning sour; 4/ any market risk-off event (i.e., potential escalation in US-China trade tension, commodity or tech sell-off if they were to persist beyond mere position adjustment, geopolitics).

USDSGD

Eyes on SG CPI Next Mon. USDSGD continued to drift higher, tracking the rise in UST yields and weaker RMB. Pair was last at 1.3505. Mild bearish momentum on daily chart faded while RSI rose. Risks to the upside. Immediate resistance here at 1.3520 levels (triple top). Decisive break out puts 1.36, 1.3670 (2024 high) in focus. Support at 1.3440 (21 DMA), 1.3340 (200 DMA, 23.6% fibo retracement of Sep low to Nov high) and 1.3310 (50 DMA). Pair should continue to take directional cues from moves in USD and CNY ahead of FOMC event risk later this week.

S$NEER continued to ease; last at 0.79% above model-implied mid. Key data of interest is Nov CPI report (next Mon) after Oct CPI report (both headline and core CPI surprised to the downside) led to chatters if MAS would ease policy as soon as at the next MPC in Jan-2025. Consensus is looking for core to come in steady at 2.1% and headline CPI to pick up to 1.8% (vs. 1.4%). Another downtick in core CPI would add to S$NEER softness while an uptick can steady S$NEER. On MAS policy, we believe there is no hurry to ease amidst many moving parts – tariff threats, geopolitics – which may see price pressures return. MAS is better off monitoring further to avoid any risk of flip-flopping on policy. Moreover, MAS did not typically rush into easing policy when there was disinflation in the past, unless there is a need to fight against some unexpected shocks (oil price plunge in 2015).

That said, it is still worth paying attention to core CPI in the coming months to get a sense on timing of MAS easing and SGD directional bias. Historically the positive correlation between the change in S$NEER and MAS core inflation shows that SGD strength can ease when core inflation eases materially. At some point in 2Q or 3Q in 2025, MAS may ease policy if core CPI does ease further. This implies that some SGD strength can continue to fade in 2025. But so long MAS band doesn't revert to neutral, the SGD could still retain relative resilience, selectively. To add, SGD also hold onto the "safe-haven" status in the region. In the event of trade war scenario (i.e. may still be better supported vs. its peers). But in the event of no tariff, risk-on scenario, then SGD may underperform peers.

Looking into our USDSGD forecast trajectory, we see a tactical window for USDSGD to pullback in 1Q 2025, premised on Fed cut cycle, expectations that China recovery to find some traction amidst stimulus support. Subsequently, USDSGD forecast is projected to skew to the upside into 2H 2025, taking into consideration potential implementation of Trump tariffs (on China/ global though timing of tariff remains uncertain) and Fed pause in 4Q 2025.

USDCNH

Supported. USDCNH drifted higher this week. Wider UST-CGB yield differentials amid expectations for further China rate cuts/ higher UST yields, uneven economic recovery momentum in China, no concrete support measures post CEWC were some of the factors undermining RMB. On the other hand, policymakers have continued to manage the daily fix, setting it below 7.20. Fixing gap to Bloomberg consensus is at its widest of -956pips while the fix was more than 1000 pips lower than where spot CNH is trading at. fixing pattern suggests that PBoC is doing whatever it takes to not only restraint the RMB from over-weakening but also to guide its bias and direction. Tariffs may hurt RMB when it happens but that may be a story for 2025 after Trump inauguration. In the interim, we see little incentive for PBoC to let RMB "go" at this point before the tariff hits. Policymakers are likely to rely on a combination of tools including daily fix and offshore funding squeeze, etc. to manage the RMB. Ultimately, for RMB to recover meaningfully would require confidence to be "repaired", China economic recovery to gain better momentum and for USD to turn lower.

Pair was last at 7.29 levels. Bearish momentum on daily chart is fading but rise in RSI shows signs of slowing. Consolidation likely. Resistance at 7.3150, 7.3450 levels. Support at 7.2670 (21 DMA), 7.2340 and 7.20 levels. This week, we watch US FOMC for clues on USD direction. A less hawkish dot plot may provide a breather for RMB.

Trade Ideas

Entry Date	Trade	Entry	Close	Profit/ Loss (%)	Remarks	Exit Date
25-Apr-24	Short USDKRW	1375	1320	4.00	High for longer narrative (US rates) has been a dampener on sentiments. But since last trilateral meeting, there seems to be a psychological resistance for the USD. For the year, we still expect USD to trend slightly lower as the Fed is done tightening and should embark on rate cut cycle in due course (house looks for Jul Fed cut). Eventual re-coupling in tech/KR stocks vs FX (KRW) should return amid underlying tech/AI trend. KRW would be positioned for more gains given its high-beta characteristics and close proxy to tech and growth cycles. Start of Fed rate cut cycle and expectations for China stabilisation are other drivers that should underpin KRW's positive appeal. Entered tactical short at 1375. To take profit at 1320. SL at 1406. [Trade TP]	26-Aug-24
01-May-24	Long EURUSD	1.0661	1.09	2.24	Markets have largely priced in ECB's 75bps cuts into EUR but a growth re-rating outlook on Euro-area economy is probably not priced. And lately there are signs to suggest some signs of stabilisation in Euro-area growth. ECB's Lagarde and Bundesbank have recently spoken about signs of activity picking up pace in Germany. A better growth story in Euro-area can push back against aggressive rate cut expectations and this is supportive of EUR. Entered at 1.0661. Targeting move towards 1.0900. SL at 1.0508. [Trade TP]	04-Jun-24
12-Aug-24	Short RMB Index	98.53	98.5	0	with domestic woes, the RMB should remain weak on TWI basis. This should see RMB CFETS index fall further (i.e. short CNH vs basket trade). And a move towards 2023 low at 96 levels is not ruled out. SL 99.70. [EXIT with no P&L, given recent market development in China]	30-Sep-24
19-Aug-24	Short CHFJPY	170.1			SNB-BOJ policy divergence. SNB may turn wary of how recent CHF strength may complicate inflation objective. May press on for 3rd cut of the year and/or pursue FX intervention to weaken CHF. On the other hand, BOJ is embarking on policy normalization which is likely to continue into 2025. Also, USDJPY is more sensitive to declines in UST yield. Target 148. SL 181. [LIVE]	
23-Sep-24	Short EURGBP	0.838			Policy and growth divergence between EU/ECB and UK/BOE. Target a decline towards 0.81. SL 0.8470. [LIVE]	
10-Dec-24	Short USDJPY	151.5			Bias for USDJPY to trend lower, premised on Fed cut cycle while the BoJ has room to further pursue policy normalisation. Target a move towards 146.10. SL at 154.70. [LIVE]	

Note: TP refers to take profit; SL refers to stop-loss. Trade can take profit or stopped earlier than indicated levels, depending on market conditions.

Selected SGD Crosses

SGDMYR Daily Chart: Waiting for Break-Out

SGDMYR consolidated last week. Cross was last at 3.3000 levels.

Daily momentum is mild bearish while RSI is flat. Compression of moving averages observed, and this typically precedes a break-out trade. In the interim, consolidation likely.

Support at 3.29 (23.6% fibo retracement of 2024 high to low) and 3.27 levels.

Resistance at 3.3110/20 levels (21, 100 DMAs), 3.3450 levels (38.2%).

SGDJPY Daily Chart: Sell Rallies Preferred

SGDJPY rebounded last week as JPY underperformed. Cross was last at 114 levels.

Daily momentum turned mild bullish while RSI rose. Near term risk skewed to the upside but bias to sell rallies. Rising wedge pattern shows signs of building and this is typically associated with bearish reversal. Bias to sell rallies.

Support at 113 (50% fibo retracement 2023 low to 2024 high), 111.40 (61.8% fibo).

Resistance at 114.30/60 levels (50DMA, 38.2% fibo), 115.50.

Note: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA

Gold Daily Chart: Consolidation

Gold traded a week of 2 halves, rising in early half before erasing gains. Last seen at 2658 levels.

Mild bullish momentum on daily chart shows signs of fading while RSI fell. Consolidation likely. Resistance at 2670 (50 DMA, 23.6% fibo), 2726 levels (interim triple top).

Support at 2650 levels (21DMA), 2595/2600 levels (100 DMA, 38.2% fibo retracement of May low to Oct high) and 2533 (50% fibo).

Silver Daily Chart: Testing Neckline Support

Silver slipped. Last seen 30.65 levels.

Bullish momentum on daily chart faded while RSI fell. Silver's recent upmove failed to move past second shoulder as it once again looks to test neckline support. H&S pattern is typically associated with a bearish reversal. Break below neckline could usher in bearish pressure.

Support at 30 levels (neckline), 29.54 (200 DMA) and 28.41 (50% fibo).

Resistance at 31.65/85 levels (50DMA, 23.6% fibo of 2024 low to high, second shoulder), 32.80 levels.

Note: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA

Medium Term FX Forecasts

Currency Pair	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
USD-JPY	148.00	145.00	143.00	142.00	141.00
EUR-USD	1.0600	1.0600	1.0550	1.0500	1.0500
GBP-USD	1.2600	1.2700	1.2800	1.2800	1.2900
AUD-USD	0.6550	0.6650	0.6650	0.6700	0.6750
NZD-USD	0.5950	0.6000	0.6000	0.6050	0.6100
USD-CAD	1.4050	1.3900	1.4000	1.4100	1.4200
USD-CHF	0.8900	0.8800	0.8900	0.8900	0.9000
USD-SEK	10.86	10.95	10.95	10.80	10.50
DXY	105.67	105.17	105.27	105.47	105.26
USD-SGD	1.3520	1.3450	1.3500	1.3550	1.3600
USD-CNY	7.3000	7.2100	7.2600	7.2900	7.3100
USD-CNH	7.3200	7.2300	7.2800	7.3100	7.3300
USD-THB	34.50	34.50	34.20	34.20	34.00
USD-IDR	15900	15700	15700	15850	16000
USD-MYR	4.4800	4.4100	4.4400	4.4600	4.5000
USD-KRW	1390	1370	1375	1390	1405
USD-TWD	32.70	32.30	32.40	32.50	32.80
USD-HKD	7.7800	7.7700	7.7700	7.7800	7.7900
USD-PHP	58.60	58.00	58.30	58.50	58.70
USD-INR	85.00	84.70	84.90	85.10	85.20
USD-VND	25400	25200	25250	25350	25450
EUR-JPY	156.88	153.70	150.87	149.10	148.05
EUR-GBP	0.8413	0.8346	0.8242	0.8203	0.8140
EUR-CHF	0.9434	0.9328	0.9390	0.9345	0.9450
EUR-SGD	1.4331	1.4257	1.4243	1.4228	1.4280
GBP-SGD	1.7035	1.7082	1.7280	1.7344	1.7544
AUD-SGD	0.8856	0.8944	0.8978	0.9079	0.9180
NZD-SGD	0.8044	0.8070	0.8100	0.8198	0.8296
CHF-SGD	1.5191	1.5284	1.5169	1.5225	1.5111
JPY-SGD	0.9135	0.9276	0.9441	0.9542	0.9645
SGD-MYR	3.3136	3.2788	3.2889	3.2915	3.3088
SGD-CNY	5.3994	5.3606	5.3778	5.3801	5.3750
SGD-IDR	11760	11673	11630	11697	11765
SGD-THB	25.52	25.65	25.33	25.24	25.00
SGD-PHP	43.34	43.12	43.19	43.17	43.16
SGD-VND	18787	18736	18704	18708	18713
SGD-CNH	5.4142	5.3755	5.3926	5.3948	5.3897
SGD-TWD	24.19	24.01	24.00	23.99	24.12
SGD-KRW	1028.11	1018.59	1018.52	1025.83	1033.09
SGD-HKD	5.7544	5.7770	5.7556	5.7417	5.7279
SGD-JPY	109.47	107.81	105.93	104.80	103.68
Gold $/oz	2660	2690	2720	2740	2760
Silver $/oz	30.93	30.92	31.09	31.14	31.36

Source: OCBC Research (Latest Forecast Updated: 3rd December 2024)

Note: These are not meant to serve as point forecast for the quarter-end but meant as trajectory bias of the currency pair

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
mengteechin@ocbc.com