FX Weekly

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Tariffs, Truce to Drive 2-Way Trades

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Tariff Uncertainty on EU to Weigh on EUR. EUR retraced losses this week after Trump postponed tariffs on Mexico and Canada. That said, risks for EUR may still be skewed to the downside as Trump has yet to unveil further tariff details on Europe. So, in comparison, MXN and CAD can enjoy a breather while uncertainty looms for European Union, as Trump did earlier warn about tariffs, and he did say he wanted tariffs "much bigger" than 2.5%. In the interim, EUR may be the weakest link on a few factors: 1/ stagnation in the Euro-area; 2/ risk that ECB may need to cut below neutral to support growth; 3/ tariffs hitting Europe's exports when growth is already stagnating.

Focus on Trump-China and Onshore Fix. 10% tariff on China comes into effect and China hits back with counter-tariffs on US goods, announcing investigations into Google for alleged antitrust violations. It remains early to concur if trade tensions will escalate until Trump talks to China, likely within the next couple of hours. It is the same old playbook – to impose substantial tariffs if no deal is reached. But we need to stress that trade deals are never forged overnight. Finer details and legality can take time. Any sign that both Xi and Trump had a "good talk" or both countries expressing commitment to work on a deal should qualify as a temporary truce and can be supportive of sentiments. Aside from Trump and tariffs, USDCNY fixing will be closely watched if China makes good on its pledge to not devalue the RMB. The fix was last set at 7.1698 before LNY holidays. If the fix comes above 7.20, markets may interpret it as a sign that policymakers are allowing the RMB to depreciate. In this scenario, there may be a strong likelihood for USDCNH to trade closer towards 7.40 and beyond. But if the fix comes in around 7.17 – 7.18, USDCNH should trade more orderly around current levels.

2-Way Trades to Dominate. While it remains early to talk about trade truce or a deal (since the last trade war during Trump 1.0 lasted about 18 months), it is nevertheless important to consider the temporary truce scenario that may play out intermittently. Our recent report sent yesterday (an excerpt is published on the following page) shows that the trade war during Trump 1.0 contained many sub-episodes of trade war and trade truces between March 2018 (when trade war started) and Oct 2019, when the phase one deal was informally reached (deal only signed on 15 Jan 2020). Our observation also showed that the first instance of tariffs (occurred during Mar to Oct 2018) had the hardest impact on FX, whereby AxJ FX depreciated around 9 - 10%. But as markets adjust to the trade war regime, the impact from subsequent hit by tariffs may be more measured. While worsening/ broadening of trade war can undermine sentiments and provide a boost to the USD, we cannot rule out compromises or a truce that may provide a temporary breather for risk proxies. That said, unless we get greater clarity on trade relief/truce, markets may still prefer to buy USD on dips.

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

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We **revisited the last trade war that occurred in Trump 1.0** to look at FX implications. FX direction was not one way because of the series of trade war-trade truce that occurred, alongside Fed late hiking cycle, followed by rate cut cycle.

Consistent Pattern: Trade war → USD strength; Trade Truce → USD eases

Note: Bloomberg Asia dollar index tracks performance of leading Asian FX and the weightings of constituents are a function of both trading and liquidity. Weights are CNY 46.09%, KRW 12.41%, SGD 11.23%, INR 10.7%, TWD 8.32%, THB 3.73%, MYR 3%, IDR 2.63% and PHP 1.9%. Source: Bloomberg, OCBC Research.

While history may not repeat itself in entirety due to different market environment (Fed hike cycle and QT start in Trump 1.0, etc.), we can still broadly infer from the trade war in Trump 1.0 about the general direction that FX may take in Trump 2.0. High beta FX, including AUD, NZD and tariffed country (i.e. RMB) are likely to come under pressure. More domestic-oriented (less open trade, lower correlation with RMB) such as PHP and typical safe haven proxy, such as JPY, CHF and gold may be less affected.

FX % Change vs. USD in Different sub episodes of Trade War

	Trump 1.0		Trump 2.0		Trump 1.0 (Truce episodes)	
	Mar - Oct 2018 Trade war	Apr - Oct 2019 Resumption of Trade War	Feb 2025 Tariffs on Canada, Mexico, China and threat on EU		Nov 2018 - Apr 2019 Trade Truce	Oct 2019 - Jan 2020 Phase one Deal
CNY	-8.85	-5.69	NA	IDR	6.35	3.73
NZD	-10.10	-7.14	-1.56	XAU	4.40	3.92
AUD	-8.81	-4.94	-1.54	NZD	2.27	5.03
CNH	-8.99	-5.42	-0.22	CNY	3.16	3.45
GBP	-7.33	-5.04	-0.98	CNH	2.95	3.31
KRW	-4.98	-5.20	-0.84	GBP	0.70	5.12
EUR	-7.79	-1.85	-1.20	MYR	2.40	3.12
IDR	-9.57	0.52	-0.93	THB	3.95	0.09
MYR	-6.11	-2.61	-0.59	PHP	1.94	1.89
CHF	-6.61	0.17	-0.57	SGD	1.62	2.12
TWD	-5.35	-0.14	-1.38	CHF	0.34	3.35
SGD	-4.52	-1.55	-0.70	TWD	0.40	3.01
CAD	-2.43	0.12	-1.32	KRW	0.37	2.99
JPY	-5.93	3.12	-0.21	AUD	-1.30	2.03
THB	-5.34	4.33	-1.08	CAD	-1.66	1.91
PHP	-3.02	1.68	-0.54	EUR	-1.71	1.20
XAU	-7.77	16.02	-0.50	JPY	1.23	-1.98

Note: (1) FX % change under Trump 2.0 accounts for period 31 Jan 2025 close to 3 Feb 2025 (2pm); (2) NA change for CNY as onshore markets remained closed for Lunar New Year holidays; (3) FX order sorted from smallest to largest based on averages for trade war regimes and largest to smallest for trade truce regimes. Source: Bloomberg, OCBC Research *(CNY onshore remains closed for hols).*

AxJ Positioning Bias (Reuters Poll)

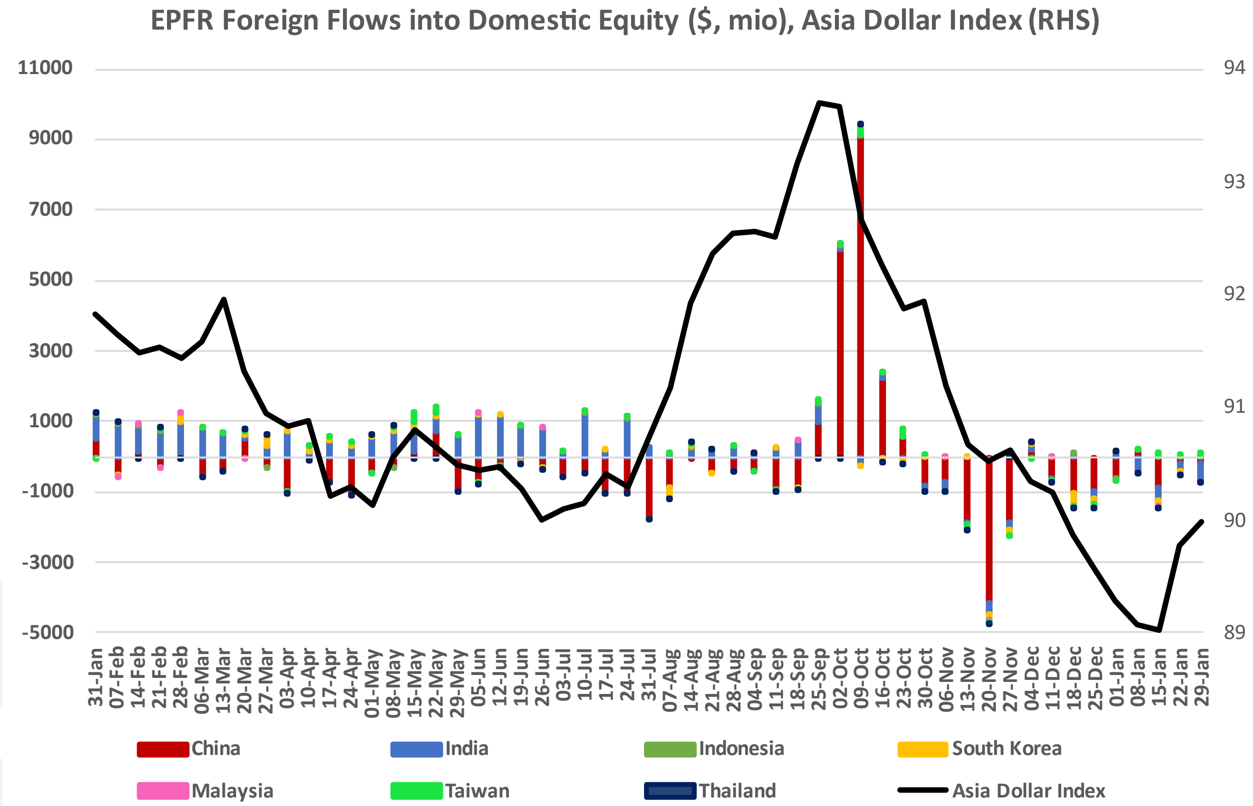
Based on Reuters survey on Asia FX positioning, AxJ FX remain bearish. IDR, INR and CNY were amongst the most bearish. Change in positioning was however mixed. IDR, PHP and INR saw increase in shorts while shorts in KRW, CNY, SGD and THB saw reduction. On net basis, THB and PHP were amongst the least bearish while INR is the most bearish.

	05-Sep-24	19-Sep-24	03-Oct-24	17-Oct-24	31-Oct-24	14-Nov-24	28-Nov-24	12-Dec-24	09-Jan-25	23-Jan-25
USD/CNY	-0.85	-0.67	-1.14	-0.43	0.3	1.14	1.32	1.15	1.65	1.33
USD/KRW	-1.09	-0.9	-0.79	0.26	1.06	1.61	1.45	1.86	1.75	1.04
USD/SGD	-1.26	-1.12	-1.26	-0.44	-0.03	0.8	1.12	0.83	1.34	1.11
USD/IDR	-1.05	-1.18	-1.08	0.04	0.59	0.81	1.03	0.87	1.2	1.5
USD/TWD	-0.77	-0.66	-0.59	0.24	0.6	1.07	1.1	0.82	1.18	1.01
USD/INR	0.21	0.33	-0.04	0.67	0.82	0.87	1.13	1.43	1.69	1.78
USD/MYR	-1.46	-1.3	-1.18	-0.4	0.11	0.65	0.76	0.65	0.99	1.01
USD/PHP	-1	-1.1	-0.7	0.26	0.81	1.18	1.13	0.53	0.65	0.77
USD/THB	-1.22	-1.33	-1.45	-0.28	0.09	0.9	0.66	0.26	0.76	0.54

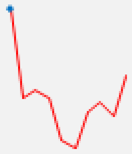
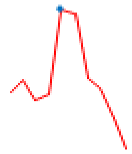
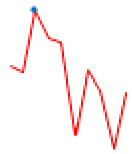
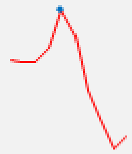
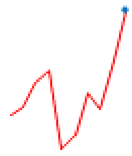
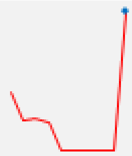
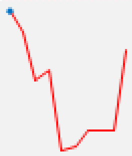
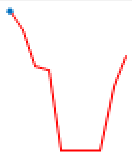
Note: Asian FX poll is conducted by Reuters, on bi-weekly basis on what analysts and fund managers believe the current market positioning are. Poll uses estimates of net short or long on a scale of -3 to +3. A score of +3 indicates significant long USD against the AxJ FX. Arrow direction indicates change in positioning from last date. Source: Reuters [latest avail: 23 Jan 2025], OCBC Research.

EPFR Foreign Flows to Selected AxJ Equities vs. Asiadollar Index

Net foreign equity outflow across most AxJ region, including China and Korea slowed. Taiwan continued to see mild foreign inflows for 3rd consecutive week. Asian FX rebounded as shorts unwound partially after Trump did not impose tariffs immediately. But looking ahead, Asian FX is likely to weaken as Trump just confirmed tariff plans on 1 Feb.



Note: Latest data available as of 29 Jan (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**: ISM Mfg (Jan); construction spending (Dec); **Tue:** JOLTS job openings, durable goods orders (Dec); **Wed:** ADP employment, ISM services (Jan); **Thu:** initial jobless claims; **Fri: Payrolls report (Jan)**; Uni of Michigan sentiment (Feb)		**S: 106.40; R: 110.20**
EURUSD	**Mon:** Mfg PMI, CPI estimates (Jan) **Tue:** - Nil – **Wed:** Services PMI (Jan); PPI (Dec); ECB wage trackers; **Thu:** Retail sales (Jan); German factory orders (Dec); **Fri:** German IP, trade (Dec)		**S: 1.0100; R: 1.0540**
GBPUSD	**Mon:** Mfg PMI (Jan); **Tue:** - Nil – **Wed:** Services PMI (Jan); **Thu:** Construction PMI (Jan); 1y CPI expectations; **BOE MPC** **Fri:** - Nil –		**S: 1.2040; R: 1.2510**
USDJPY	**Mon:** PMI Mfg (Jan); **Tue:** - Nil – **Wed:** Labor cash earnings, full-time pay (Dec); **Thu:** - Nil – **Fri:** Household spending (Dec)		**S: 152.50; R: 158.90**
AUDUSD	**Mon:** PMI Mfg (Jan); Building approvals, retail sales (Dec); **Tue:** Household spending (Dec); **Wed:** PMI Services (Jan); **Thu**: Trade (Dec); **Fri:** FX reserves (Jan)		**S: 06130; R: 0.6340**
USDCNH	**Mon:** Caixin PMI Mfg (Jan); **Tue**: - Nil – **Wed:** Caixin PMI Services (Jan); **Thu:** - Nil – **Fri:** FX reserve (Jan); **Sun**: CPI, PPI (Jan)		**S:7.2500; R: 7.3700**
USDKRW	**Mon**: PMI Mfg (Jan); Industrial production (Dec); **Tue:** - Nil – **Wed:** CPI (Jan); **Thu:** Current account (Dec) **Fri:** - Nil –		**S: 1,432; R: 1,480**
USDSGD	**Mon:** PMI (Jan); **Tue:** - Nil – **Wed:** Retail sales (Dec); **Thu:** - Nil – **Fri:** FX reserves (Jan)		**S: 1.3420; R: 1.3720**
USDMYR	**Mon:** PMI Mfg (Jan); **Tue:** - Nil – **Wed:** - Nil – **Thu:** - Nil – **Fri:** Industrial production (Dec); FX reserves (Jan)		**S: 4 4200; R: 4.5100**
USDIDR	**Mon:** PMI Mfg, CPI (Jan) **Tue:** - Nil – **Wed:** GDP (4Q); **Thu:** - Nil – **Fri:** FX reserves		**S: 16,200; R: 16,470**

Source: Bloomberg, OCBC Research

Key Themes and Trades

DXY

Tariff Concerns to Keep USD Bid on Dips. USD gapped higher as the week opened, in reaction to Trump's tariff announcement on Canada, Mexico and China over the weekend. He also confirmed that tariffs will 'definitely happen' with European Union. Canada has responded with a 25% counter-tariff on $107bn of US goods while Mexico pledged retaliatory levies. Trump's ignition of trade war undermined sentiments. But USD bulls were quickly tamed after Trump agreed to delay tariffs against Mexico and Canada for one month. Mexico agreed to tackle issues relating to illegal migrants and drugs. During this 1-month period, both US and Mexico will attempt to negotiate a deal. US and Canada will also work on a final economic deal during the 1-month period. The twist in development is similar to the Colombia case just about a week ago – in which Colombia agreed to accept deportees after Trump threatened to impose tariffs. Trump plans to speak to China soon. If a similar "delay" plays out, then USD may end up reversing the gap higher seen on Monday.

In this episode, the tariffs were first directed at Canada, Mexico and to some extent, China. Trump also set expectations for tariffs to hit European Union in due course. Alongside the high-beta FX (AUD, NZD), CAD, MXN, EUR, RMB and RMB-proxy such as KRW, THB, MYR are some of the sensitive currencies, that can be more exposed to 2-way swings. On the other hand, FX that are more domestic-oriented (less open trade, lower correlation with RMB) such as PHP and typical safe haven proxy, such as JPY, CHF and gold may be less affected. Protectionism measures, trade wars may undermine global trade, growth, sentiments and pose risks of inflation for US. This may derail its disinflation journey and imply fewer Fed cuts in 2025/26. Further hawkish re-pricing alongside risk-off sentiments will keep USD broadly supported in the interim. Near term, focus will be on Trump's talk with Trudeau and Mexican leaders (4 Feb).

That said, there are signs that China may be preparing for negotiations to avoid a full-blown trade war. WSJ reported that China is planning more investments in US, renewing pledge not to devalue the RMB to support its exports and commitment to reduce shipments of fentanyl precursors. It was also reported that Beijing is also looking to treat the situation around TikTok as a commercial matter, meaning it might allow investors in its Chinese parent ByteDance negotiate a deal with interested American bidders. While it remains early to talk about trade truce or a deal (since the last trade war in Trump 1.0 lasted about 18 months), it is nevertheless important to consider the temporary truce scenario playing out intermittently at some point. And in such scenario, RMB, alongside AxJ FX can recover while USD eases. Trade war-trade truce underscores the 2-way fluidity of FX movement.

DXY was last at 109 levels. Bearish momentum on daily chart shows signs of fading while RSI continued to rise. Rebound momentum likely still intact. Resistance at 110.20 levels (previous high). Support at 108.65 (21 DMA), 107.80 (50DMA, 23.6% fibo retracement of Oct low to Jan high). Had it not been for tariffs, we would be looking to tactically fade USD strength. Softer US data (CPI, PPI, services PMI, 4Q GDP) continues to support our house view for 3 Fed cuts in 2025. Markets are pricing about 2 cuts with the next cut only around mid-2025. Dovish repricing, alongside softer US data should weigh on USD. But the recent flare up in trade tensions suggests that risk-off trades take precedence.

Tariffs, immigration, deregulation, tax cuts and pursuing "peace" are some of Trump's immediate policy priorities. Tariffs may undermine global trade, growth, sentiments and pose risks of inflation for US. This may derail its disinflation journey and imply fewer Fed cuts in 2025/26. Hawkish re-pricing alongside US exceptionalism will keep USD supported in the interim. Trump's recent announcement has ignited a trade war as Canada has retaliated with counter-tariffs, Mexico is planning similar while China appears more open to negotiate. Worsening/ broadening of trade war can further undermine sentiments and provide a boost to the USD. But we cannot rule out compromises or a truce that may also provide a temporary breather for risk proxies. Until we get further clarity on trade relief/truce, markets are likely to continue to buy USD on dips.

Our medium-term view still expects the USD to trend lower. USD's overvaluation, alongside rising debt, twin deficit of fiscal and current accounts are some drivers that should weigh on USD.

EURUSD ***Weakest Link as Tariff Uncertainty Looms.*** EUR retraced losses overnight after Trump postponed tariffs on Mexico and Canada. That said, risks for EUR may still be skewed to the downside as Trump has yet to unveil further tariff details on Europe. So, in comparison, MXN and CAD can enjoy a breather while uncertainty looms for European Union, as Trump confirmed tariffs on European Union will happen. Recall last week, FT reported that US Treasury secretary Scott Bessent favours universal tariffs on US imports, starting at 2.5% while Trump said he wants tariffs 'much bigger' than 2.5%.

EUR was last at 1.0305 levels. Bullish momentum on daily chart faded while RSI fell. Risks to the downside. Support at 1.0240, 1.0140/80 levels (recent low). Resistance at 1.0360 (21 DMA), 1.0410 (50 DMA).

At the last GC meeting, ECB lowered policy rates for the 5th consecutive meeting by 25bp. Deposit rate now stands at 2.75%. Decision was unanimous and the Council did not discuss the possibility of a larger cut. Lagarde said that rates remain in restrictive territory, and it is premature to discuss when ECB should stop cutting rates. According to a Reuters report, 3 ECB policymakers commented that *they thought a further rate cut was likely to go through in Mar meeting without much resistance before debate within the Governing Council on further easing becomes more heated.* On tariff implications, Lagarde said that tariffs would have a "global negative impact" on growth but their potential effect on inflation was "far more complicated" due to possible retaliation and market adjustment.

We remain somewhat bearish on EUR's outlook on a few factors: 1/ stagnation 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/ tariffs hitting Europe's exports when growth is already stagnating. Universal tariff of up to 20% tariff can hurt Europe (if implemented) as US is EU's top export destination. Over the medium term, EUR can revert to trend higher when growth stabilises, and political and policy uncertainties find some clarity.

GBPUSD ***BoE Likely to Cut.*** GBP rebounded as Trump somewhat excluded UK from the first hit of tariffs on Canada, Mexico and China while also confirming that tariffs on EU will "definitely happen". When asked about Britain and whether it would face tariffs next, Trump told reporters: "We'll see how things work out. It might happen with them, but it will definitely happen with the European Union, I can tell you that. The UK is out of line, but I think that one can be worked out. But the European Union is an atrocity, what they've done." He also said Britain's PM Starmer had "been very nice. We've had a couple of meetings; we've had numerous phone calls. We're getting along very well. We'll see whether or not we can balance out our budget".

BoE decision is eyed (6 Feb). A 25bp cut is likely but **markets will be watching out for any dovish guidance**. Recall at the last meeting, MPC voted 6-3 to keep rates on hold. Deputy Governor Dave Ramsden, Swati Dhingra and Alan Taylor all voted to cut by 25bp. 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 was last at 1.2410 levels. Mild bullish momentum on daily chart intact but shows tentative signs of fading while RSI shows signs of easing lower. Broader risks remain skewed to the downside. Support at 1.2350 (21 DMA), 1.2180 and 1.2080. Resistance at 1.25 (50 DMA).

We remain cautious on GBP outlook. Slowing economy, growing twin deficits of current account and fiscal accounts in the face of rising yields are negatives for GBP. But we are not in the camp looking for GBP to come off hard as elevated services inflation (5%) and a still healthy labour market warrant a gradual approach to removing restraint. Moreover, US tariffs maybe less of a concern for UK for now, relative to other peers such as EU and Canada. 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.

USDJPY

Range-Bound. USDJPY traded choppy the past few days but largely in consolidation as US tariff developments have been 2-way. External drivers such as trade war developments and yield differentials will be bigger drivers of USDJPY. Intensification of trade tensions can affect sentiments, leading to demand for safe-haven proxy, such as JPY. USDJPY was last at 155.20 levels. Bearish momentum on daily chart is intact but shows signs of fading while RSI is not showing any clear indication. Pair may continue to trade 2-way for now. Support at 154 levels, 152.70 (100, 200 DMAs). Resistance at 156.20 (21 DMA), 158 levels.

BoJ meeting (24 Jan) was done and dusted. MPC hiked 25bp, as expected. BoJ hinted at continued policy normalisation, with Japanese economic data supporting BoJ policy normalisation. Wage growth pressure remains intact, alongside broadening services inflation. Tokyo core core CPI, PPI, wages rose while labour market report also pointed to upward wage pressure in Japan with jobless rate easing, while trade unions are calling for another 5-6% wage increase at shunto wage negotiations for 2025. So far, several Japanese corporates have indicated that they will be raising wages in 2025. Fast retailing (Uniqlo) announced it will raise starting pay for new employees by 10% and 5% for other employees, while companies in other sectors such as Meiji Yasuda Life Insurance Co. and Hoshino Resorts Co., Ltd announced raising wages by 5% and 5.5% on average respectively. Suntory Holdings is looking to raise monthly wages by about 7% in 2025 for the third straight year.

For this year, we still look for USDJPY to trend lower, premised on Fed cut cycle while the BoJ has room to further pursue policy normalisation (supported by data). 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. That said, the risk is that 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 even face intermittent upward.

AUDUSD

Trading Headlines. AUD came under pressure following Trump's announcement of tariffs on Canada, Mexico and China, although Australia was not hit with tariffs. Though tariffs were delayed for Canada and Mexico, China's measured tariff responses (4 Feb) to the 10% tariff somewhat kept risk appetite restrained. Worries of tariffs on Europe, worsening tensions between US and China may keep sentiment under pressure and AUD trading soft. But at the same time, a less drastic approach or any delay to tariff implementation could see risk proxies take an extended breather. Long story short, AUD being a high-beta FX will be trading headlines in the near term.

Pair was last at 0.62 levels. Daily momentum is flat while RSI fell. Risks somewhat skewed to the downside. Support at 0.6100/30 (recent low), 0.60 psychological level. Resistance at 0.6230 (21 DMA), 0.6290 (50 DMA) and 0.6320 (23.6% fibo retracement of 2024 high to 2025 low).

Near-term outlook for AUD remains challenging, owing to RMB softness, US/universal tariff concerns, RBA's dovish pivot, dip in Aussie consumer confidence, contractionary PMIs. But in the medium term, we remain constructive on 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; 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 1H 2025. Minutes released (24 Dec) indicated that RBA is *more confident that inflation is moving sustainably toward target but it's still too soon to conclude the battle is won given a recent pick-up in consumption and a still-tight labor market.* **Members noted that additional information on jobs, inflation and consumption, along with a revised set of staff forecasts, would be available by the 17-18 Feb meeting**. Elsewhere, AU labour market remains fairly tight though there are signs that 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 baseline 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

Taking Cues from USD. USDSGD traded choppy this week so far. Delay in tariffs on Mexico and Canada is supportive of risk sentiments while also taming USD bulls. But tariff concerns remain (especially for China and Europe), and this could still keep risk appetite restrained, thereby implying that USD dips may still find support. Pair was last seen at 1.36. Bearish momentum on daily chart faded but rise in RSI moderated. 2-way trades likely. Resistance at 1.3690, 1.3750 (2025 high). Support at 1.36 (21 DMA), 1.3560 (50 DMA).

At the last quarterly MPC meeting (24 Jan), MAS **announced it will reduce slightly the slope of the S$NEER policy band**. Essentially this means that the **SGD's rate of appreciation against trade partners is reduced but still on gradual appreciation**. Our model estimates the slope is reduced to 1% pa., down from 1.5%. The calibration was in line with our house view calling for a policy slope reduction while still maintaining a mild appreciation stance. We had earlier shared that the disinflation journey has made good progress, creating optionality for MAS to ease especially if it takes on a pre-emptive stance in the face of policy transmission lag. Other highlights of the MPS includes 1/ **GDP growth is projected to moderate over 2025**. *Impacts of shifts in global trade policies could weigh on domestic manufacturing and trade-related services sectors.* 2/ There was **downward revision to core inflation forecast to average 1% - 2%** for 2025, from 1.5% - 2.5%. *Business cost- and demand-driven inflationary pressures are expected to remain contained* while *imported costs should stay moderate reflecting forecasts of global oil price declines and favourable supply conditions in key food commodity markets.*

While there was a slight calibration in MAS policy stance via slope reduction, the overall policy stance remains on a modest and gradual appreciation path. Going forward, it is worth paying attention to core CPI in the coming months to get a sense on whether the MAS easing is one-off or may ease further. 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. Expectations for MAS to ease can imply that the SGD strength (on TWI terms) seen in the past 2-3 years will continue to ease. But so long the policy band doesn't revert to neutral, SGD could still retain some degree of relative resilience, selectively against trade partners.

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 for most parts of 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

Watch the Fix for Policy Cues on RMB while Keeping a Close Watch on Trump Talks. The rise in USDCNH to above 7.37 briefly (3 Feb) was reversed out entirely the following day, after delay in tariffs on Canada and Mexico provided some hopes that the same may be repeated for China. This remains early to tell until Trump talks to China, likely within the next couple of hours. It is the same old playbook – to impose substantial tariffs if no deal is reached. But we need to stress that trade deals are never forged overnight. Finer details and legality can take time. Any sign that both Xi and Trump had a "good talk" or both countries working to come to a deal should qualify as a temporary truce and be supportive of sentiments.

In addition, there were signs that China may be preparing for negotiations to avoid a full-blown trade war. WSJ reported that China is planning more investments in US, renewing pledge not to devalue the RMB to support its exports, commitment to reduce shipments of fentanyl precursors. It was also reported that *Beijing is also looking to treat the situation around TikTok as a commercial matter, meaning it might allow investors in its Chinese parent ByteDance negotiate a deal with interested American bidders*.

Aside from Trump, USDCNY fixing will be closely watched if China makes good on its pledge to not devalue the RMB. The fix was last set at 7.1698 before LNY holidays. If the fix comes in above 7.20, then markets may interpret it as a sign that policymakers are allowing the RMB to depreciate. In this scenario, there may be a strong likelihood for USDCNH to trade closer towards 7.40 and beyond. But if the fix comes in around 7.17 – 7.18, USDCNH should trade more orderly around current levels.

USDCNH was last seen at 7.3120. Daily momentum turned mild bullish while rise in RSI slowed. Consolidation likely until we get some clarity out of Trump-China talks. Support at 7.30 (50 DMA), 7.2755. Resistance at 7.35, 7.37 levels.

RMB depreciation remains the path of least resistance amid 1/ wider UST-CGB yield differentials amid expectations for further China rate cuts while Fed may potentially slow the pace of rate cut cycle; 2/ uneven economic recovery in China and lack of stimulus support measures; 3/ markets anticipating for further RMB softness when US tariffs were implemented. Eventual recovery in RMB requires a softer USD, China economic recovery to find a better footing or foreign investors to regain confidence in Chinese assets.

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	USDCNY's decline was a function of USD leg. Faced 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	0.841	-0.3	Policy and growth divergence between EU/ECB and UK/BOE. Target a decline towards 0.81. SL 0.8470. [SL]	14-Jan-25
10-Dec-24	Short USDJPY	151.5	154.7	-2.07	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. [SL]	18-Dec-24
15-Jan-25	Short SGDJPY	115.1	113.8	1.13	To express MAS-BOJ monetary policy/ inflation divergence trade. Targeting a move towards 110 levels. SL at 117.12. [TP]	03-Feb-25

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: Sell Rallies

SGDMYR rebounded last week, in line with our caution for rebound risks. Cross was last at 3.29 levels.

Daily momentum is flat while RSI rose. Rebound risks remains intact in the near term. But bearish trend channel still holds for now unless cross breaks above. Bias remains skewed towards fading rally.

Resistance at 3.2950 levels (50DMA), 3.3140, 3.3220 levels.

Support at 3.2810 (21 DMA), 3.27 and 3,2430 (recent low).

SGDJPY Daily Chart: Sell Rallies

SGDJPY fell last week amid JPY outperformance. Cross was last at 113.75 levels.

Daily momentum is mild bearish while decline in RSI moderated. Risks may turn 2-way from here.

Resistance at 114.30/40 levels (50, 200 DMAs, 23.6% fibo retracement of 2024 low to Nov-Dec double-top), 115 (21 DMA), 116.50 (double-top).

Support at 113.45/60 levels, 112.90 (38.2% fibo).

(3 Feb) *Exited short at 113.80. Trade entered at 115.10 (15 Jan). Look for better levels to fade.*

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

Gold Daily Chart: Double Top?

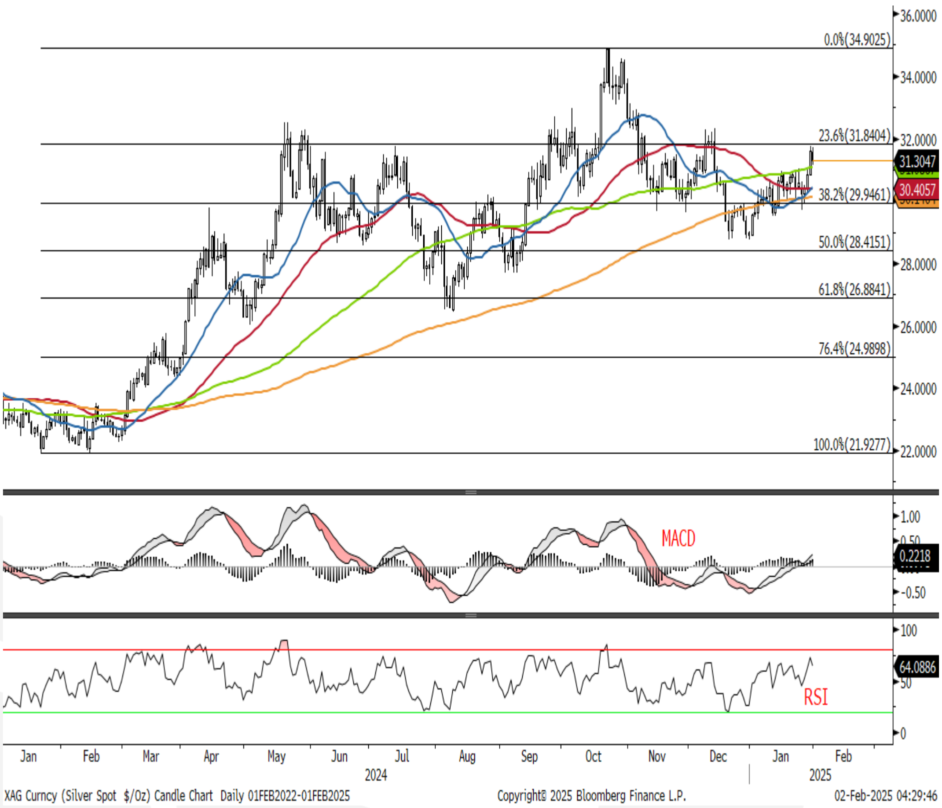
Gold attempted to break higher last week, trading to 2817 all-time high at one point before turning lower. Last seen at 2798 levels.

Daily momentum remains bullish while RSI is near overbought conditions. Price action on Fri shows a gravestone doji, which can be associated with bearish reversal. Elsewhere, a double top pattern may be in place. A corrective pullback to the downside is not ruled out in the interim.

Support at 2713 (21 DMA), 2670 (23.6% fibo retracement of May low to Oct high, 50, 100 DMAs),

Resistance at 2800, 2815 levels (previous high).

Silver Daily Chart: Fade Rallies



Silver traded higher last week. Last at 31.30.

Bullish momentum on daily chart intact but RSI shows signs of turning lower from near overbought conditions. Pullback not ruled out in the interim.

Support at 30.15/40 levels (21, 50, 200 DMAs), 30 (38.2% fibo) and 29.50.

Resistance at 31.85 (23.6% fibo of 2024 low to high), 32.40.

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

Medium Term FX Forecasts

Currency Pair	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
USD-JPY	154.00	152.00	151.00	150.00	149.00
EUR-USD	1.0350	1.0280	1.0300	1.0350	1.0400
GBP-USD	1.2250	1.2200	1.2250	1.2300	1.2450
AUD-USD	0.6200	0.6250	0.6300	0.6400	0.6450
NZD-USD	0.5650	0.5700	0.5750	0.5800	0.5900
USD-CAD	1.4500	1.4500	1.4600	1.4700	1.4750
USD-CHF	0.9100	0.9100	0.9100	0.9200	0.9250
USD-SEK	11.00	10.94	10.89	10.83	10.83
DXY	108.54	108.80	108.57	108.20	107.70
USD-SGD	1.3650	1.3700	1.3750	1.3800	1.3820
USD-CNY	7.3200	7.3400	7.3700	7.3900	7.4000
USD-CNH	7.3400	7.3600	7.3900	7.4100	7.4200
USD-THB	34.50	34.70	34.70	34.50	34.30
USD-IDR	16100	16150	16200	16200	16300
USD-MYR	4.4800	4.5200	4.5400	4.5600	4.6000
USD-KRW	1460	1465	1480	1485	1490
USD-TWD	33.00	33.20	33.30	33.60	33.60
USD-HKD	7.7600	7.7700	7.7800	7.7900	7.7900
USD-PHP	58.00	58.30	58.50	58.70	58.80
USD-INR	87.50	87.70	87.90	88.00	88.00
USD-VND	25300	25400	25500	25600	25600
EUR-JPY	159.39	156.26	155.53	155.25	154.96
EUR-GBP	0.8449	0.8426	0.8408	0.8415	0.8353
EUR-CHF	0.9419	0.9355	0.9373	0.9522	0.9620
EUR-SGD	1.4128	1.4084	1.4163	1.4283	1.4373
GBP-SGD	1.6721	1.6714	1.6844	1.6974	1.7206
AUD-SGD	0.8463	0.8563	0.8663	0.8832	0.8914
NZD-SGD	0.7712	0.7809	0.7906	0.8004	0.8154
CHF-SGD	1.5000	1.5055	1.5110	1.5000	1.4941
JPY-SGD	0.8864	0.9013	0.9106	0.9200	0.9275
SGD-MYR	3.2821	3.2993	3.3018	3.3043	3.3285
SGD-CNY	5.3626	5.3577	5.3600	5.3551	5.3546
SGD-IDR	11795	11788	11782	11739	11795
SGD-THB	25.27	25.33	25.24	25.00	24.82
SGD-PHP	42.49	42.55	42.55	42.54	42.55
SGD-VND	18535	18540	18545	18551	18524
SGD-CNH	5.3773	5.3723	5.3745	5.3696	5.3690
SGD-TWD	24.18	24.23	24.22	24.35	24.31
SGD-KRW	1069.60	1069.34	1076.36	1076.09	1078.15
SGD-HKD	5.6850	5.6715	5.6582	5.6449	5.6368
SGD-JPY	112.82	110.95	109.82	108.70	107.81
Gold $/oz	2750	2770	2780	2800	2820
Silver $/oz	31.25	31.66	31.59	31.82	33.98

Source: OCBC Research (Latest Forecast Updated: 3 February 2025)

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

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