Daily Market Outlook

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Lacklustre Sentiment

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- **DXY.** ***ADP Employment Today.*** USD short squeeze continued overnight. The messaging out of FoMC minutes that rates will stay elevated raises a second look at the aggressive rate cut expectations markets are pricing. Global growth concerns, risk-off sentiments in US equities and markets partially unwinding some of their aggressive bets on Fed cut were some of those factors that drove the USD rebound so far. Extended sell-off in equities continued to undermine broad market sentiments. There are chatters that the sell-off led by US magnificent-7 (previously known as FAANGS- apple, alphabet, amazon, MSFT, Nvidia, Tesla, Meta) may have more room to fall, given that the large run up (75% up in 2023) have yet to see robust follow-through in actual and projected earnings. Contractionary readings in US and China manufacturing PMIs also did little to support sentiments. Key releases this week including ADP employment tonight, payrolls and ISM services on Fri will provide an opportunity for markets to assess the USD narrative and whether there are merits to the aggressive bets on Fed cut. That said, if equity risk sentiments remain poor, then that may still provide the excuse to squeeze USD shorts in the interim. We are still in favor of leaning against USD strength. Recent data continues to point to a consistent story of how US labor market tightness is gradually easing, and that the disinflation trend remains intact. If you look at ISM mfg report last night, new orders fell, ISM prices paid also fell while JOLTS job openings and quit rate continue to fall. The trend of falling quit rate can be interpreted as a sign that workers are less certain about the labor market or may also imply that they are very satisfied with their current jobs. But taken together, the trend of falling job openings, quit rate, higher continuing claims and news of layoffs in tech sector and most recently at Xerox (by about 15% of workforce) do suggest that labor market tightness is gradually easing. These support the story that the Fed is done with tightening but may not fully justify the aggressive rate cut bets at this point. Hence the caution that USD is not a one-way trade. Further data pointing to softer US data over time should eventually see USD gains fizzled out. DXY was last at 102.50 levels. Daily momentum turned mild bullish but rise in RSI moderated. Bullish divergence observed on MACD. Further upside from here still not ruled out. Resistance at 102.60 (21 DMA). Decisive break above opens room for move towards 103.10 and 103.40 (200 DMA). Support at 101.40, 100.60 levels (Dec low). But retain bias to sell USD on rallies.

Source: Bloomberg, OCBC Research

- **EURUSD. *Consolidate with Slight Downward Bias Near Term.*** EUR continued to trade lower amid rebound in USD and risk-off sentiments. Pair was last seen at 1.0920 levels. Daily momentum turned bearish while RSI fell. Bearish divergence observed on daily MACD. Risks remain skewed to the downside. Support at 1.0850/60 levels (50, 200 DMAs, 50% fibo retracement of Aug high to Oct low). Resistance at 1.0960 (61.8% fibo), 1.1020. Focus this week still fixated on services PMI (Thu) and CPI estimate and PPI (Fri). A firmer CPI print may push back expectations of the timing of ECB first cut.

- **USDJPY. *Upside Risks but Watch US Data.*** USDJPY extended its rise, tracking the increase in UST yields. Move higher remains in line with our last FX weekly where we flagged the risk on a potential bullish reversal. Pair was last at 143.40 levels. Daily momentum is mild bullish while RSI rose. Near term risks skewed to the upside but bias to fade. Bearish crossover observed (21 DMA cuts 200DMA to the downside). Resistance at 144, 144.50 (50% fibo). Support at 143.20 (21, 200 DMAs), 142.80 (61.8% fibo retracement of Jul low to Oct-Nov double top). In the interim, US data, in particular ADP employment (today) and payrolls report (Fri) may drive UST yields and USDJPY. On BoJspeaks, Governor Ueda said he is hoping wages and prices will rise in balanced manner and that the BoJ will be fully prepared to support financial system after the recent quake in northwestern Japan. Next BoJ MPC is scheduled on 23 Jan. Some major banks/brokerages have already pushed back their calls on BoJ move to a later date due to BOJ needing time to assess quake impact, etc. We hold to our long-standing view for the removal of both YCC and negative interest rate regimes at some point before mid-2024 as inflationary pressures are broadening; growth outlook was improving and upward pressure on wage growth remains intact. It was also reported that Japan's largest union will seek 5% pay increase at the shunto wage negotiation next year, following the near 4% increase this year. 4Q Tankan survey for both manufacturing and non-manufacturing continued to point to further upside. A BoJ move is a question of timing not whether they will or not. And the impact for USDJPY will depend on how aggressive BoJ normalises. These will have impact on USDJPY.

- **USDCNH. *Supported.*** USDCNH continue to trade higher, tracking the broad USD rebound. Risk-off sentiments, modestly higher UST yields and mixed manufacturing PMI readings in China (NBS worsened while Caixin improved) were still some of the factors driving the move. On data release this morning, Caixin services PMI surprised to the upside. Services activity expanded at its quickest pace in 5 months. Both Caixin manufacturing and services PMIs have surprised to the upside but this is in stark contrast to the NBS PMIs released over the weekend. Divergence in PMI readings highlight how fragile the China recovery story is. We continue to monitor if China data shows signs of cracks or continue to point to signs of stabilisation. China releases trade data (12 Jan) and GDP, activity data (17 Jan). A more material recovery in RMB would require patience: China economic activities to pick up, confidence to be "repaired" (foreign inflows to return) and USD to turn lower. USDCNH was last at 7.1655 levels. Mild bullish momentum on daily chart intact while RSI rose. Risks skewed to the upside for now. Resistance at 7.1750 (38.2% fibo retracement of Nov high to Dec low), 7.20 (50 DMA). Support at 7.1410, 7.11 levels.

- **USDTWD. *Sell Rallies.*** Elections take place in 10days time. 1w to 2w vols are higher than say 1m to 3m vols, basically reflecting the short-term uncertainty associated with the upcoming elections. Polls have already stopped and based on what was last available, the ruling party DPP leads but the outcome is far from certain. Rally turnout and voter participation on the day may perhaps give a better indication than polls, where the validity/ credibility remains to be seen. Given the fluid nature of election developments, one should not rule out surprises. An opposition win (i.e. either KMT to TPP) may bode well for cross-straits relationship and lead to unwinding of election risk premium". This can be a positive factor for further inflows and is positive for TWD. But in the interim, broader USD moves and risk-off sentiments are seen to be driving up USDTWD. Spot was last at 31.05 levels. Bearish momentum on daily chart is fading while RSI rose. Risks skewed to the upside. Resistance at 31.08 (23.6% fibo retracement of Nov high to Dec low), 31.21 (21 DMA) and 31.35/36 levels (200 DMA, 38.2% fibo). Bias to sell rallies. Support at 30.87, 30.64 (recent low).

- **USDSGD. *Corrective Rebound.*** USDSGD extended its run higher, tracking broader USD moves, uptick in UST yields while risk sentiment remained soggy. Chatters of big-US tech sell-off having more room to go continued to weigh on sentiments while FoMC minutes (released overnight) suggested a relook at the aggressive Fed cut expectations. Pair was last seen around 1.33 levels. Daily momentum is mild bullish while RSI rose. Risks skewed to the upside. Resistance at 1.3310 levels (21 DMA, 76.4% fibo retracement of Oct high to Dec low), 1.3350 and 1.3390 (38.2% fibo). Support at 1.3190, 1.3160 (Dec low).

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