Dollar steady ahead of FOMC, BoJ decision to drive Yen volatility

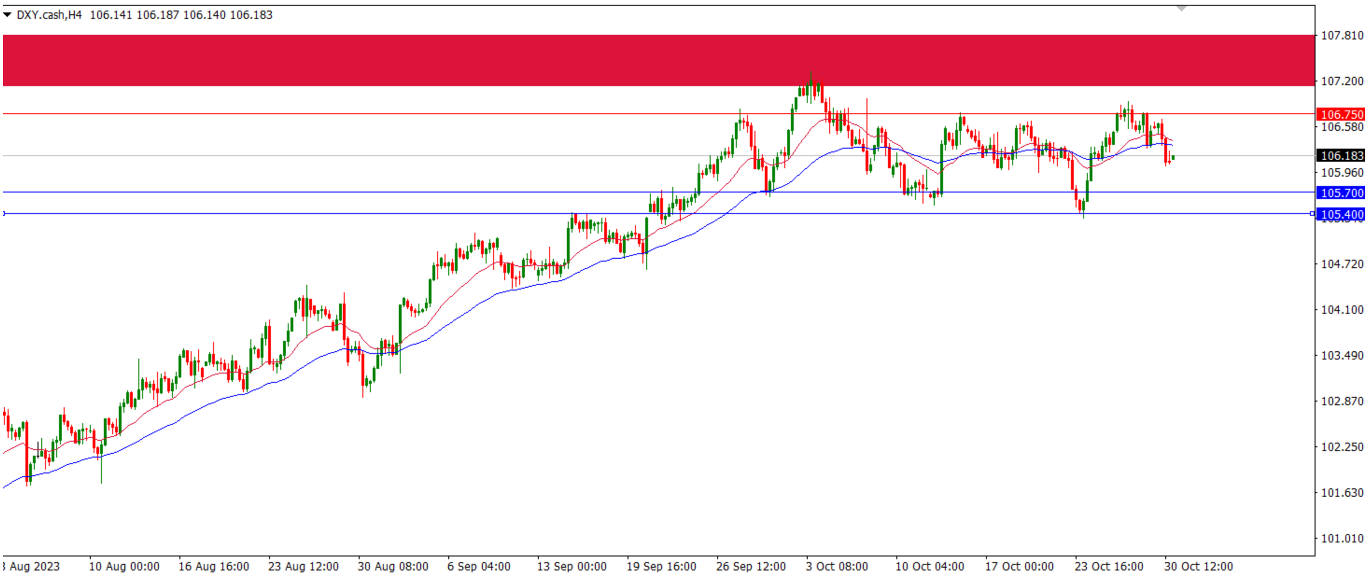
Good morning Traders,

1. **US Dollar Index (DXY) ahead of FOMC Decision**

After more than a month-long wait, the FOMC is expected to announce it interest rates again on Thursday. While the market is widely expecting the US Federal Reserve to keep the rate on hold, the focus is more toward the Fed Chairman Powell's subsequent remarks.

Following the US Dollar Index (DXY) hitting a nearly one-year high in October, the Dollar's rally has stalled over the past few weeks. Part of the reason was attributed to the dovish comments from several Fed Officials, pointing out that rise in yield has reduced the need for more tightening.

US Fed Chairman Jerome Powell, while acknowledging on the financial conditions recently, however, did not entirely rule out more hikes. Therefore, Powell's remarks after the Fed Meeting will be crucial for the US Dollar.



US Dollar (DXY) H4

From a technical perspective, the US Dollar's strength has seen a stalled around the 107.00 resistance area in the October, leading to a consolidation phase for the dollar's overall momentum.

The Dollar Index has formed a clear consolidation zone between 106.750 (resistance) and 105.700 - 105.400 (support). It might be premature to claim that the Dollar Index has peaked at the moment, but the crucial point for a potential breakout could be after Thursday's FOMC rate decision. That is to say, the Dollar Index after Thursday could either break above 106.750 to continue the rally or break below 105.700 - 105.400, thus indicating a potential trend reversal.

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Level 15, 122 Arthur Street, North Sydney, NSW 2060, Australia
Tel: +61 (2) 9929 2100 Fax: +61 (2) 9929 2055
https://www.aetoscg.com.au

DXY.Cash Key level to watch:
106.750 (Resistance)
105.700 – 105.400 (Support)

2. **What's Next for the Bank of Japan?**

Apart from the Federal Reserve, the Bank of Japan is also expected to maintain its interest rates this week, staying at the -0.10% negative rate level. Therefore, the market is more focused on the Bank of Japan's outlook on inflation and its policy statement.

The Bank of Japan has revised its 2024 inflation outlook from 1.9% to 2.2%. If Japan aims to achieve a stable 2% inflation target without jeopardizing economic stability and gradually moving away from ultra-loose policy, it is possible that BoJ could adjust its yield curve control program.

It is widely believed that the Bank of Japan's current objective is to gradually exit ultra-loose policies while maintaining stable 2% inflation. The adjustment of the YCC serves as the initial step toward monetary policy normalization. In this Bank of Japan interest rate decision, the market predicts that Japan is likely tweak it YCC Program, permitting long-term government bond rates to moderately surpass the current 1.0% cap. Although this adjustment doesn't necessarily imply a hawkish turn for the Bank of Japan, the YCC adjustment might yield certain positive impacts on the Japanese yen.

USDJPY D1:

USDJPY Daily

Looking at the major trend, USD/JPY continues to be entrenched in a robust uptrend. However, on shorter time-frame charts, the pair has been coiling around the key level of 150.00 within a rising wedge

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pattern. Of course, the particular attention is still drawn to the significance level of 150.00

If the pair resumes it uptrend, it's expected to target the area around 151.70, a high point from November 2022. A breakthrough above this crucial level could have led to more upward momentum.

However, the surge should be reliant on a more favourable environment for the US dollar and less favourable conditions for the Japanese yen.

If the Bank of Japan provides guidance favouring the yen this week (while also considering the policy direction of the Federal Reserve as pivotal), the probability of the USD/JPY pair breaking below the wedge pattern's trend line will be higher.

In such a scenario, the area to watch would be around 149.50. A breach of this support level could lead to a decline towards the 147.800 - 148.00 zone. If the downtrend momentum persists, the next level might shift to 146.00.

Associate Analyst
Shawn Lee

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