

Daily Market Outlook

11 November 2024

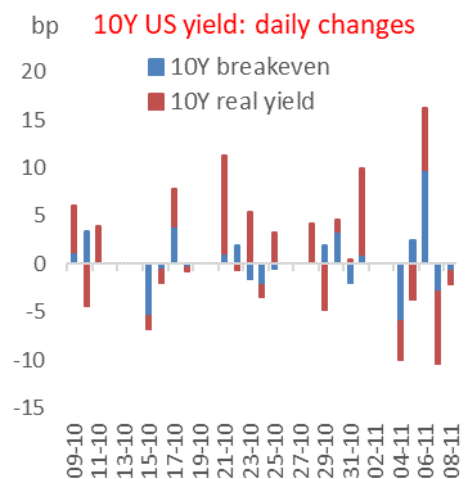
Adjustments

- USD rates.** The UST curve pivotal flattened on Friday with short-end yields rising as market further pared back rate cuts expectation. Long-end yields touched session lows in NY hours before rebounding but still ended the day a few bps lower. We mentioned on Friday that while curve steepening is our medium-term view, “for the days ahead, there may be a mild flattening bias” on potential downside to long-end yields. However, Friday’s flattening was partly driven by higher short-end yields while we had expected some consolidation there. With Friday’s move, we consider the near-term flattening that we had looked for was mostly done. Fed funds futures last priced 65% chance for a 25bp cut at the December FOMC meeting, and a total of 63bps of cuts in 2025. The timeline of any potential tariffs suggests that the impact on inflation, if any, may only be felt from Q32025 onwards. It remains more likely than not that there will be another 25bp Fed Funds rate cut at the December FOMC meeting, in our view. But in view of potential inflation impact starting to emerge in the latter part of 2025, we remove one 25bp rate cut that we previously expected for Q4-2025. We now expect one 25bp Fed funds rate cut each in December, January, March, Q2-2025 and Q3-2025, adding up to 100bps of cuts in 2025. This expected profile will bring the Fed funds rate target range to 3.25-3.50% at end 2025. This will be consistent with the stance of bringing rates gradually down over time to a more neutral level.
- DXY. Still 2-Way Trades.** USD saw a late comeback into Fri NY close as there appeared to be some disappointment with China stimulus. Trump’s threat on tariff remains one of the biggest risks that markets are concerned about, but we do not know how long it takes for those policies to be in place after all, President inauguration only takes place on 20th Jan. And we do not know for sure if election threats/ promises become reality. Tariff risk and Trump policy uncertainty may keep USD supported on dips but in the event of a delay to implementing tariffs or even in the scenario it doesn’t materialise, then further unwinding of Trump trade may also be likely. DXY was last at 104.50 levels. Daily momentum is showing a mild bearish bias while RSI fell. Support at 103.70/80 levels (21, 200 DMAs, 50% fibo retracement of 2023 high to 2024 low). Resistance at 104.60 (61.8% fibo), 105.20 and 105.60 levels (76.4% fibo). This week, the focus is on US CPI on Wed. Consensus expects core to hold steady at 3.3% while headline CPI may come

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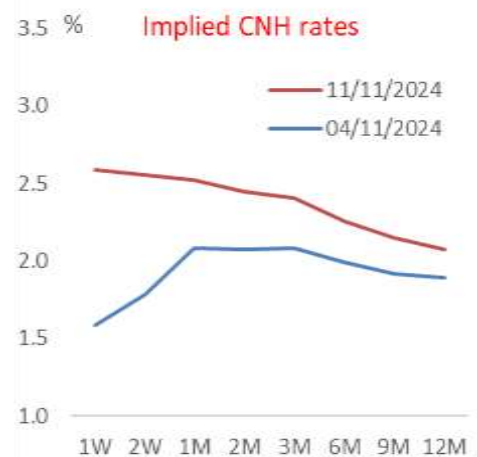
Source: Bloomberg, OCBC Research

in higher at 2.6%. The uptick may raise doubts if Fed will still cut rates in Dec. But we expect Fed to cut in Dec amid cooling job market. Moreover, post-FOMC last week, Powell commented that the election will have no near-term effect on monetary policy decisions.

- **EURUSD. Heavy.** EUR continued to trade near recent lows, weighed by fresh concerns of political uncertainty in Germany (Chancellor Scholz dismissed Finance Minister and called for confidence vote on 15 Jan) and ongoing concerns of Trump win on European security and exports to US (due to potential tariffs). Pair was last seen at 1.0725 levels. Daily momentum turned bearish while RSI fell. Support at 1.0670/80 levels (recent low) before 1.06 (2024 low). Breach below this support will open way for further downside towards 1.05 levels. Resistance at 1.0780, 1.0830/40 levels (21 DMA, 61.8% fibo retracement of 2024 low to high), 1.0870 (200 DMA). But given that quite a handful of negative news maybe factored into the price of EUR in the near term, further downside may require additional catalyst. But looking out into forecast horizon, the path of least resistance may be skewed to the downside.
- **GBPUSD. Consolidate.** GBP traded a touch softer last week, despite larger magnitude of decline seen in other FX including EUR, CHF. Hawkish BoE was one factor that kept GBP supported. Governor Bailey stressed on the need to make sure inflation stays close to target. Also, labour government's budget may add to inflation, alongside Trump's tariff plans. These reinforced our view that the BoE may have to stick with its gradual approach on lowering rates. GBP was last at 1.2920 levels. Daily momentum is flat while RSI shows little signal. Consolidation likely. Support here at 1.2870 (50% fibo) and 1.2820 (200 DMA). Resistance at 1.2990/1.30 (38.2% fibo retracement of Apr low to Sep high, 21, 100 DMAs), 1.3100 levels (50 DMA). Week's data docket brings labour market data (Tue) and activity/GDP data (Fri).
- **USDJPY. PM Vote Risk.** Japanese parliament will vote in a special session this afternoon to decide on who will take premiership. Prime ministerial vote can take up to two rounds, where in the first round, lawmakers of different political party typically vote for their respective leaders making it unlikely for any candidate to secure a clear majority. In this case, top two candidates will go into a run-off (in the second round) that only requires a simple majority to win. There is some uncertainty if PM Ishiba will win enough votes to lead a new government as the new PM. LDP and Komeito need support from some in the opposition to pass major legislation, including an extra budget to fund an economic stimulus package. Assuming no major upset. i.e. Ishiba may still win and a minority government may suffice with opposition DPP and JIP as partners on confidence and supply agreement. Point to note is that these opposition partners had earlier critique BoJ for

raising rates. USDJPY inched higher this morning. Pair was last at 153.30 levels. Daily momentum is mild bearish while RSI rose. Consolidation likely. Resistance here at 153.30 (61.8% fibo retracement of Jul high to Sep low), 154.80 (recent high) and 156.50 (76.4% fibo). Support at 151.70 levels (21, 200 DMAs), 150.70 (50% fibo).

- USDSGD. Consolidation.** USDSGD traded higher this morning, tracking moves in USDJPY. Pair was last at 1.3275. Daily momentum is flat while RSI rose. Consolidation likely. Resistance at 1.3290 (61.8% fibo retracement of Jun high to Oct low), 1.3345 levels (200 DMA). Support at 1.3190 (50% fibo), 1.31 (38.2% fibo). Expect USDSGD to take cues from broad USD moves and sentiments with regards to China stimuli. Lack of follow-through on support measures post-NPC may undermine SGD. S\$NEER was last at 1.59% above model-implied mid.
- CNY rates.** NPC measures focused on resolving local government debt issues, which appeared to be seen as a marginal disappointment for the market with long-end CGB yields traded soft post announcement. The CNY6trn of debt swap program over a three-year period still represents additional funds, but the usage will constrain any spillover onto real economic activities. In the absence of additional central government bond issuances, long-end CGB yields are likely to settle around current levels and we now see the range for 10Y CGB yield at 2.05-2.15% through to year-end. We maintain a steepening bias on the CGB curve primarily premised on downside to short-end yields on potential further monetary easing. October PPI deflation deepened to 2.9%YoY while CPI also came in a tad softer than expected at 0.3% YoY. With additional LGBs issuances for debt swap and heavy MLF maturity, an RRR cut before year end is highly likely. FX swap was well bid especially on the offshore CNH DF curve. Front-end implied CNH rates traded higher as we had cautioned against potential tightening in CNH liquidity.



Source: Bloomberg, OCBC Research

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