

Daily Market Outlook

11 October 2024

BOK Cut; Watching MAS Next

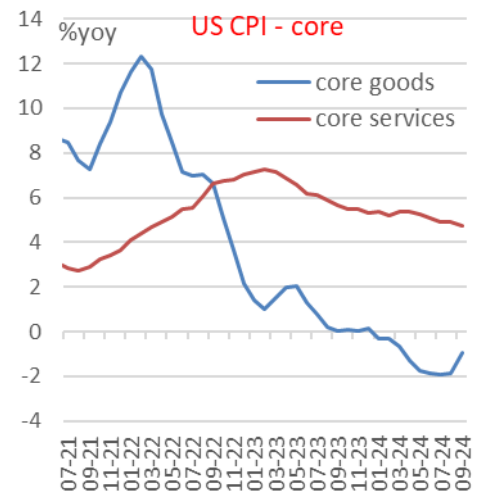
- **USD rates.** UST yields ended NY session lower after some initial bouncing upon the CPI and jobless claims prints. CPI and core CPI printed a tad higher than consensus, while both initial jobless claims and continuing claims came in higher than expected. Yields had risen further running into CPI suggesting investors had positioned for some upside surprise. The September CPI outcome is unlikely to be a major obstacle to FOMC normalizing interest rate policy. Meanwhile, bonds were probably supported by safe-haven flows as well. Williams, Goolsbee and Barkin spoke after the CPI release, all opining that inflation is moving in the right direction. While Bostic commented that he is “totally comfortable with skipping a meeting if the data suggest that’s appropriate; he revealed that he put down the dot which corresponded to one more 25bp cut by year end and as such this is not a new piece of information compared to what we have known from the September dot-plot – there were a total of 7 members who put their dots as such. Overnight, the 30Y coupon bond sales were well received, garnering a bid/cover ratio of 2.50x versus 2.38x prior; indirect accepted was higher at 80.5% versus 68.7%. The 30Y yield fell post auction. We maintain our downward bias to 2Y UST yield with the next level to watch at 3.86%.
- **DXY. Bulls To Pause?** USD traded choppy on mixed data yesterday before settling into range. Headline CPI saw modest sequential uptick but jobless claims surged to >1y high. Fed officials, including Williams, Goolsbee and Barkin preferred to look past the blip in CPI print. Instead, they spoke about the disinflation journey, which remains intact. That said, Bostic raises the plausibility of a pause. Markets are still eyeing about 45bp cut for the rest of the year, as opposed to 75bps cut seen just 2-3 weeks ago. Markets and Fed’s dot plot are now in alignment. To some extent, USD may have settled into this temporal state of equilibrium where the risks from here can largely be 2-way. DXY was last at 102.91. Daily momentum remains bullish but RSI shows signs of turning lower from overbought conditions. 2-way trades still likely. Resistance here at 102.90 (38.2% fibo), 103.30 (100 DMA). Support at 101.75/90 levels (50 DMA, 23.6% fibo retracement of 2023 high to 2024 low), 101.30 (21 DMA). Today brings PPI data.

Frances Cheung, CFA
FX and Rates Strategy
FrancesCheung@ocbc.com

Christopher Wong
FX and Rates Strategy
ChristopherWong@ocbc.com

Global Markets Research and Strategy

- US CPI.** Headline CPI eased by less than expected to 2.4%YoY from 2.5%YoY prior, while MoM readings stayed the same as in last month against expectation for some easing. Most attention has been on core CPI which accelerated to 3.3%YoY versus 3.2%YoY prior. We note the uptick in core inflation was a result of narrower deflation in core goods prices, while core services inflation continued to ease – this combination shall not be as much of a concern as at first sight. Core services inflation eased to 4.75%YoY versus 4.9.%YoY prior; within core services, rent of shelter eased to 4.88%YoY versus 5.25%YoY prior, but transport picked up to 8.53%YoY from 7.89% prior. On the other hand, core goods deflation narrowed to 0.96%YoY from 1.86%YoY prior; with supply chain pressure having improved to or better than pre-COVID level as measured by NY Fed’s Global Supply China Press Index, the 1.7-1.9% deflation over the past months in core goods prices shall not be extrapolated.



Source: CEIC, OCBC Research

- EURUSD. Doji?** EUR traded little changed near recent lows. EUR was last at 1.0937. Daily momentum is bearish bias but RSI shows tentative signs of turning from near oversold conditions. Price pattern reveals a doji yesterday. A technical rebound in the short term is not ruled out. Key area of support at 1.0900/30 levels (100 DMA, 50% fibo). Resistance at 1.1010, 1.1050/60 levels (50 DMA, 23.6% fibo retracement of 2024 low to high). French budget released yesterday saw EUR60.6bn in spending cuts and higher taxes on businesses, wealthy and energy. The French government aims to narrow the deficit to 5% of GDP from forecast of 6.1% of GDP. Next week brings ECB meeting (17 Oct). Markets are pricing in 96% probability of a 25bp cut and another 25bp cut at the next meeting in Dec. Dovish expectations are in the price. Should ECB fall short of expectations, EUR may rebound.
- USDJPY. 2-Way Risks.** USDJPY dipped slightly overnight but still remains near recent highs. Pair was last seen at 148.63. Bullish momentum on daily chart intact while RSI eased from overbought conditions. 2-way trades likely. Resistance at 149.5 (recent high) before 150, 151.20 levels (100, 200 DMAs). Support at 148, 147.20 levels. Japanese calendar gets busy in 2 weeks’ time – snap elections (27 Oct), BoJ MPC (31 Oct). Election is more noise than signal and near-term election risk should come to pass. Sticking with Governor Ueda, his previous comments did carry hints of no hurry to raise rates but that does not change the course of monetary policy in the broader scheme of things. BoJ has room to further pursue policy normalisation amid higher services inflation and wage pressures in Japan. Shifts in Fed-BoJ policies should bring about further narrowing of UST-JGB yield differentials and this should continue to underpin the broader direction of travel for USDJPY to the downside. But in coming weeks, any slowdown in pace of policy normalisation - be it the Fed or BoJ - would mean that USDJPY may still be supported on dips.

- **NZDUSD. *Rebound Underway.*** NZD rebounded, in line with our observation that bears are feeling lethargic while dovish expectations are already in the price. This may result in the downside being constraint. Pair was last at 0.61. Bearish momentum on daily chart intact while RSI rose from near oversold conditions. Support at 0.6060 and 0.60 levels. Resistance at 0.6120 (100 DMA), 0.6165 (50 DMA).
- **USDSGD. *MAS Decision Next.*** MAS policy decision will be announced on 14 Oct (Mon), alongside 3Q GDP (advance estimate). We expect MAS to maintain policy status quo again at the upcoming Oct MPC meeting as prevailing appreciating path of the S\$NEER policy band remains appropriate. Core inflation stands at 3% y/y for the first 8 months of 2024 remains well above historical mean of ~2%. 5y average is about 2.2% and 10y average is about 1.7%. MAS does not have an explicit inflation target, but MAS has previously indicated that a core inflation of just under 2% is close to its historical mean, and consistent with price stability in the economy. There is no rush for MAS to ease policy stance at the Oct MPC, but we do not rule out an outside chance that MAS may surprise with an earlier easing given that MAS adopts a forward-looking approach to monetary policy making. While core inflation may still be high from a historical standpoint, the disinflation trajectory remains intact and is projected to ease further into 2025. A forward-looking approach to policymaking suggests that MAS can potentially ease policy stance earlier, by way of reducing slope of policy band slightly. This is not our baseline scenario, but we do not rule out an outside chance of this happening. USDSGD eased slightly; last at 1.3050 levels. Daily momentum remains bullish but rise in RSI shows sign of moderation from near overbought conditions. Pullback is likely. Support at 1.3040 (50 DMA), 1.2980 (23.6% fibo), 1.2950 (21 DMA). Resistance at 1.31 (38.2% fibo retracement of Jul high to Sep low). S\$NEER was last estimated at ~1.89% above our model-implied mid.
- **KRW rates.** Bank of Korea cut its policy Base Rate by 25bps to 3.25%, in line with expectations; the decision was by a 5-1 vote. The main reasons cited were “inflation is showing a clear trend of stabilization” and “household debt growth has begun to slow”. Overall, we do not see today’s decision as hawkish, although Governor Rhee did not oppose to a “hawkish cut” interpretation. 1Y KRW IRS was offered down by 7bps thus far and did not change much as the post-meeting press conference went. 1/ The MPC statement removed the phrase “maintaining a restrictive monetary policy stance” from the last paragraph (which is usually seen as the “monetary policy outlook” paragraph); in the first paragraph, the statement did mention “it is appropriate to slightly moderate the restrictive monetary policy” but this was describing today’s decision. 2/ BoK expect CPI inflation “to be below 2% level for some time” – this is a downgrade from the previous assessment of “to fluctuate in the low 2% range for some time”.

3/ Governor revealed that 5 members (out of 6) see rate staying at 3.25% in the next three months; and when he was asked if the market shall see today's decision as a "hawkish cut", the Governor kind of said yes. Nevertheless, he added that the central bank is in process of adjusting rate to neutral level and there is room for more cuts as rate is above neutral level. The window of opportunity is not close yet for another 25bp cut at the November meeting, in our view.

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
herberhtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

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

Jonathan Ng
ASEAN Economist
jonathannq4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyionq1@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

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