

## Daily Market Outlook

13 December 2024

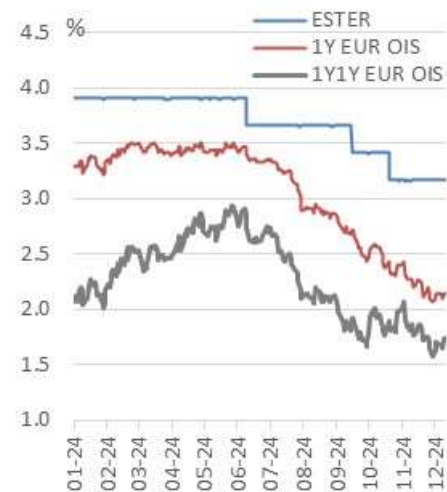
### ECB, SNB Ease; Waiting for China...

- USD rates.** UST yields initially fell on the mixed data prints but rebounded to end the day higher as the 30Y coupon bond auction tailed. Initial jobless claims and continuing claims printed mildly higher than expected, while PPI also printed higher; market chose to focus on the labour market given that earlier CPI already came in as expected. Thereafter, the 30Y coupon bond auction cut off at 4.535% which was around 1bp higher than WI level; bid/cover was at 2.39x versus 2.64x prior. Yields rose subsequently. For the week ahead, there is net coupon bond settlement of USD65bn following this week's auction; there is net bill paydown of USD34bn ahead of the reinstatement of the debt ceiling comes January. There is no coupon bond auction next week. Overall, the liquidity condition looks neutral. At the long end, with 10Y real yield back up to almost 2% and 10Y breakeven at 2.33%, bias to the 10Y nominal yield is probably tilted to the downside.
- EUR rates.** Bunds yields fell upon ECB policy rate cut decisions, before rebounding taking cue from the UST market while Lagarde's speech was probably seen as not dovish enough. The MPC statement removed the phrase "will keep policy rates sufficiently restrictive" and Lagarde said the risk to inflation is now "more two-sided" (supposedly as opposed to two-side but tilted more on the upward) – these nevertheless represent dovish tweaks and EUR OIS added to near-term rate cut expectation almost fully pricing in a 50bp cut at the January meeting; however, market mildly pared back expectation for rate cuts further out, with the 1Y1Y rate last at 1.74% versus 1.65% before ECB decision. Our base-case is for additional 75bps of cuts in 2025, bringing the key deposit facility rate to 2.25% which is within ECB staff estimated range for a neutral rate of 1.75-2.50%. Risk is for more or quicker rate cuts should growth turn out to be even weaker than expected and if the ECB judges that lower rates are required to help channel savings into spending and investments. Still, given current dovish market pricing, downside to rates at 2Y and beyond appears very limited.
- EURUSD. ECB Cut; Focus Next on Germany.** EUR fell. ECB rhetoric is dovish (though the extent of dovishness can be debatable). During the press conference, President Lagarde reiterated that the direction for policy was "very clear." President Lagarde stated that the Council would debate the neutral rate "in due course" but

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Global Markets Research and Strategy



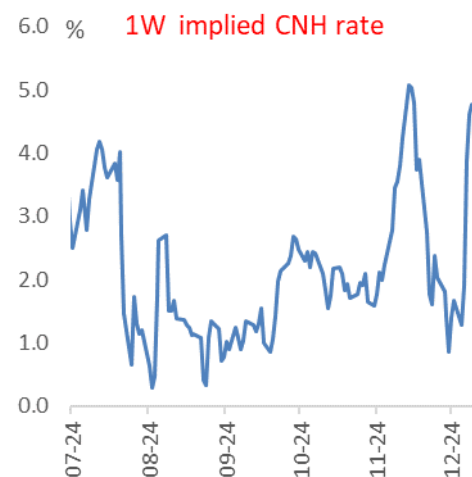
Source: Bloomberg, OCBC Research

that a discussion remained “premature” at this stage. Lagarde also mentioned that 50bp cut was discussed though 25bp cut decision was unanimous. Growth concerns remain on policymakers’ radar. EUR was at 1.0465 levels. Mild bullish momentum on daily chart is fading while RSI fell. Risks skewed to the downside. Support at 1.0460, 1.0410 levels. Resistance at 1.0525 (21 DMA), 1.0540 (23.6% fibo retracement of Oct high to Nov low), 1.0670 (38.2% fibo). Focus next shifts to German politics. Chancellor Scholz has called for a vote of confidence on Wed and the Bundestag will vote next Monday on 16 Dec. To survive the vote, Scholz would need to receive the support of an absolute majority of 367 votes. But in the event, he fails, then Germany is likely to make way for elections on 23 Feb 2025. Far-right AfD is calling for Germany to leave the European Union, the EUR and Paris climate deal as the party prepares for early elections in Feb-2025. The concern here is the explicit language to quit EU unlike its manifesto ahead of the European parliament elections previously in Jun-2024. Political risks in Europe, dovish ECB and renewed weakness in RMB may continue to weigh on EUR

- **USDCHF. Upside Risk.** SNB surprised with a 50bp cut to bring policy rate to 0.5%. We had flagged that markets were split between a 25 and 50bp cut. There was a slight tweak in the statement to say that policymakers will “adjust its monetary policy if necessary to ensure inflation remains within the range consistent with price stability over the medium term.” Vs its Sep statement, which indicated that “Further cuts in the SNB policy rate may become necessary in the coming quarters to ensure price stability over the medium term.” The phrase “further cuts” was dropped in the current statement. SNB Chairman Schlegel did say that “if needed we will adjust rate at March meeting.. will tolerate inflation outside 0 - 2% range”. It does give the impression that policymakers will be more tolerant of any slippage in inflation in the short term but policymakers will still be watchful of CHF appreciation. Statement mentioned that SNB is prepared to intervene in FX markets if needed and that Schlegel reiterated their willingness to implement negative interest rates if necessary. Overall, we maintain a mild bearish bias on CHF on the back of dovish SNB that is watchful of strong CHF, amid ongoing disinflationary pressures. That said, safe-haven characteristic of the CHF may play up in the event of geopolitical risk-offs or during episodes of political uncertainties in Germany, France. USDCHF rose; last at 0.8920 levels. Bearish momentum on daily chart faded while RSI rose. Risks skewed to the upside. Resistance at 0.8955, 0.9020 (76.4% fibo retracement of 2024 high to low). Support at 0.8850 (21 DMA), 0.88 levels (50% fibo).
- **DXY. Supported.** DXY continued to go higher on better-than-expected PPI and softer EUR, following ECB meeting. Focus next on FOMC next week. A 25bp cut is more or less a done deal

(markets pricing 97% probability of a cut). DXY was last at 107 levels. Bearish momentum faded while RSI rose. Head and shoulders pattern have formed but DXY has yet to break below the neckline and is now challenging the second shoulder. A decisive break below neckline is required for bears to gather momentum. If not a rise in DXY back above the “head” would nullify the H&S pattern. Resistance at 107.20 (first shoulder), 108 (2024 high). Support at 106.20/50 levels (23.6% fibo, 21 DMA), 105 levels (38.2% fibo retracement of Sep low to Nov high, 50 DMA). Today brings import/export price indexes.

- USDSGD. Consolidation.** USDSGD continued to inch higher, tracking broader USD strength while softer EUR and RMB spill-over. Pair was last at 1.3475. Mild bearish momentum on daily chart faded while RSI rose. Consolidation likely with slight bias to the upside. Resistance at 1.3490, 1.3520 levels. Support at 1.3340 (200 DMA, 23.6% fibo retracement of Sep low to Nov high), 1.33. Pair should continue to take directional cues from USD and CNY moves in absence of key data. Next set of SG data is NODX (17 Dec) and CPI (23 Dec). S\$NEER was last at 0.98% above model-implied mid.
- USDCNH. Consolidate in Recent Range.** USDCNH stayed bid but largely capped below 7.30. Pair was last at 7.2830 levels. Bearish momentum on daily chart shows signs of fading while RSI rose. Consolidation likely in recent range as PBOC daily fixing suggests policymakers are looking for relative stability. Support at 7.26 (21 DMA), 7.2340 (23.6% fibo retracement of Sep low to Dec high) and 7.2040 (200 DMA). Resistance at 7.2940, 7.3150 levels. 2-day CEWC concluded with President Xi signalling for more borrowing and spending in 2025. Officials also reiterated their pledges to keep the Chinese currency stable at reasonable and equilibrium levels.
- CNY rates.** Repo-IRS were offered down 3-5bps this morning, while CGBs also traded stronger, on expectation for monetary easing. Next focus is the CNY1.45trn of MLF that matures on 16 December – chance remains for a near-term RRR cut but if next week, the MLF is replaced by 7-day reverse repos like last month, before outright reverse repos injection later in the month, this may be seen as a disappointment given how dovish the market has become. On the other hand, an outright interest rate cut may be a trigger for the 1Y repo-IRS to break below 2020 low; the 1Y repo-IRS still appears relatively low compared to 2Y repo-IRS and to bond yields. In offshore, front-end implied CNH rates have been finally rising over the past days, with the 1W rate last at 4.78% this morning, as we opined CNH liquidity remains as a tool to smooth spot movement. Separately, RMB20bn of offshore 6M PBoC bills will be tendered on 18 December; this is of the same size of maturity around that time, i.e. represent roll-over.



Source: Bloomberg, OCBC Research

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