Daily Market Outlook

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US CPI in Focus

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

Christopher Wong
FX and Rates Strategy
ChristopherWong@ocbc.com

Global Markets Research and Strategy

- **USD rates**. USTs were sold off as market reopened on Tuesday, as investors braced for October CPI. Market further pared back rate cuts expectation, to a 59% chance seen for a 25bp cut in December, and a total of 54bps of cuts in 2025. Consensus looks for headline CPI to have picked up to 2.6% from 2.4% primarily due to base effect, while core inflation is expected to be steady. YoY disinflation in core services inflation should have continued, but the fall in core goods prices may have narrowed further, in our view. Overall, the inflation backdrop shall still be conducive to a few more rate cuts down the road. That said, given the current environment and concerns over inflation implication of potential tariffs together with fiscal worries, market will be sensitive to any upside surprise to CPI. Should CPI surprise to the upside, swap spreads may try to move further towards 2016 levels, as bonds may still bear more of the brunt in the current leg of sell-off.

- **GBP rates**. Gilt curve bearish flattened despite labour market statistics printed soft, as we opined continued easing in the labour market "is unlikely to be enough to trigger a rate cut in December", when BoE expect inflation to pick up towards year end on base effect and has also estimated the impact of the Autumn Budget on inflation at 0.5 percentage point at the peak. GBP OIS has priced out a December rate cut, in line with our base-case. DMO plans three gilt syndications in Q1-2025, subsequent to the outcome of the Autumn Budget which requires higher gilt supply including those via syndication. Bond/swap spreads stabilized somewhat, with GBP OIS playing some catch-up.

- **DXY. *Stays Bid.*** USD continued its march higher. As Trump nomination started to make its way to newswires, markets are also starting to adjust their expectations, believing that Trump may hit the ground running in Jan 2025, unlike in 2016 when he was less prepared. This is helping to lend a boost to Trump trade (i.e. long USD, short CNH). Elsewhere, USD's move higher was also likely in anticipation of Fedspeaks (Powell speaks on Fri morning), US data (CPI tonight and PPI tomorrow). Consensus expects core CPI to hold steady at 3.3% while headline CPI may come in higher at 2.6%. The uptick may raise doubts if Fed will still cut rates in Dec, adding to USD upward pressure. Tariff risk and Trump policy uncertainty may continue to keep USD supported on dips. DXY was last at 105.95 levels. Daily momentum is bullish while RSI rose. Near term risks skewed to the upside. Resistance here at 106.20, 106.50 levels (2024 high). Support at 104.60 (61.8% fibo), 103.70/80 levels (200 DMAs, 50% fibo retracement of 2023 high to 2024 low).

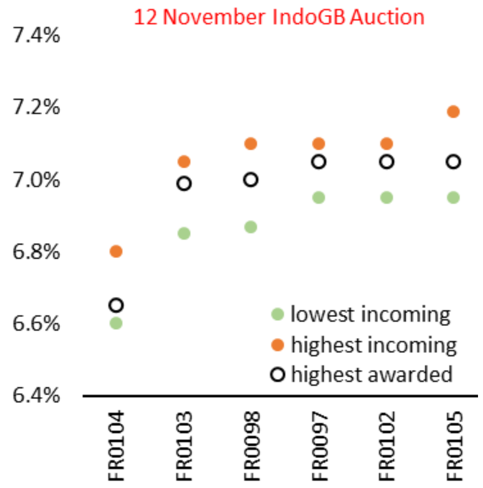
- **EURUSD. *Heavy Bias.*** EUR continued to trade lower amid political uncertainties in Germany. Minority government faces economic and diplomatic challenges. PM Scholz is seeking confidence vote earlier on 16 Dec instead of 15 Jan – but is expected to lose. Snap elections likely planned for 23 Feb. Elsewhere, EUR is likely to bear the brunt of the US election outcome. Trump presidency will result in shifts in US foreign, trade policies. The potential 20% tariff (if implemented) can hurt Europe where growth is already slowing, and that US is EU's top export destination. EU-UST yield differentials have already widened and may widen further as markets speculate on a dovish ECB, with chatters of 50bp cut at Dec meeting. EUR was last seen at 1.0625 levels. Daily momentum is bearish while RSI fell. Support at 1.06 levels (2024 low). Breach below this support will open way for further downside towards 1.0450/1.05 levels. Resistance at 1.0740 (76.4% fibo), 1.0810/30 levels (21 DMA, 61.8% fibo retracement of 2024 low to high).

- **USDCNH. *Policymakers Attempt to Slow Pace of Depreciation.*** USDCNH traded higher but eased post CNY fix. CNY fix came in much stronger than expected this morning - "conveys" a message that recent spot USDCNH move may be coming close to testing policymakers' threshold of tolerance for CNH weakness. On one hand, it may serve as a deterrence against further weakening in RMB but on the other, trump trade momentum may mean that USDCNH remains better bid on dips. Given a strong USD trend, policymakers can only slow pace of RMB depreciation at best. For USDCNH to reverse trend, the USD needs to ease. Pair was last at 7.23. Bullish momentum on daily chart intact while RSI is near overbought conditions. Resistance at 7.25, 7.2750 levels. Support at 7.22, 7.20 (200 DMA).

- **USDSGD. *Consolidation.*** USDSGD inched higher, tracking moves in broad USD. Pair was last at 1.3380 levels. Daily momentum is mild bullish while RSI rose. Consolidation likely with slight risk to the upside. Resistance here at 1.3410 levels (76.4% fibo). Support at 1.3340 (200 DMA), 1.3290 (61.8% fibo retracement of Jun high to Oct low). S$NEER was last at 1.38% above model-implied mid.

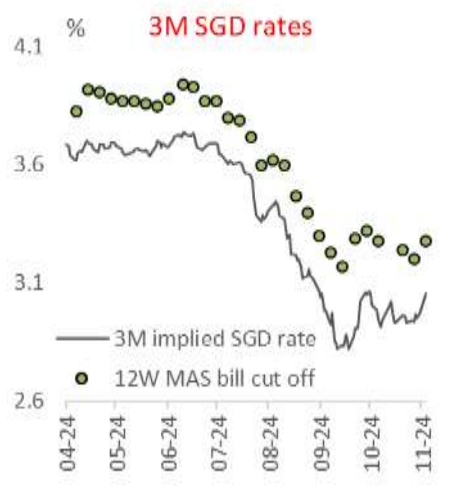
- **USDTHB. *Bullish but Overbought.*** USDTHB traded sharply higher, in part due to stronger USD, softer gold prices and in part, due to concerns over central bank autonomy. There were reports of former Finance Minister being appointed as BoT Chairman. According to various media outlets, he had previously pressured BoT to lower rates and raise inflation target. The appointment is still pending approval (likely after 19 Nov). BoT board can issue regulations on reserves management, but it doesn't have the authority to directly manage the reserves. Market interpretation is that his appointment may lead to a dovish BoT. USDTHB was last at 34.725. Bullish momentum intact though RSI is rising into overbought conditions. Inverted head & shoulders pattern is typically associated with bullish reversal setup. Next resistance at 35.10, 35.40 (200 DMA). Support at 34.50 (100 DMA).

- **IndoGBs** traded on the soft side on Tuesday running into the auction. The conventional bond auction yesterday drew incoming bids of IDR37.4trn, while IDR22trn of bonds were awarded as per indicative target, against our expectation for a small upsize. Tuesday's cut-offs were nearer the highest incoming bid levels for FR0103 (2035 bond), FR0098 (2038 bond), FR0097 (2043 bond), and FR0102 (2054 bond), but nearer the lowest incoming bid level for FR0104 (2030 bond). IndoGBs stayed weak post auction with the relatively high cut-offs while USTs were also sold during Asia/Europe hours. Nevertheless, incoming bids were bigger compared to the previous conventional bond auction on 29 Oct which garnered incoming bids of IDR29.6trn with IDT18.9trn of bonds awarded.



Source: Bloomberg, OCBC Research

- **SGD rates**. Front-end liquidity got a tad tighter with forward bid and implied SGD rates higher. 4W and 12W MAS bills cut off at 3.33% and 3.28%, respectively. The 12W cut-off was 8bps higher than that at the 5 November auction, in line with the movement in the 3M implied SGD rate during the period. The 5bp uptick in the 4W cut-off lagged the upward move in the 1M implied SGD rate, but the 4W cut-off at the 5 November was high as a comparison. Overall, the trend in MAS bills cut-offs remained consistent with the trend in implied SGD rates. Next to watch is 2025 SGS calendar, which is expected to be announced within this month. Focus will be on MAS' intended growth in outstanding SGS, and the tenor breakdown. Outstanding SGS increased by 3.04% in 2024 (as of end October which shall represent the full year as there is no more SGS issuance or maturity for the rest of the year) which was at the low end. A 3-5% growth in outstanding SGS will translate into gross issuances of SGD25.3-28.7bn in 2025 – we will wait for MAS press release for any guidance. On the tenors, the external environment may be more constructive for short end bonds.



Source: MAS, Bloomberg, OCBC Research

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
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

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

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@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