Daily Market Outlook

14 November 2024

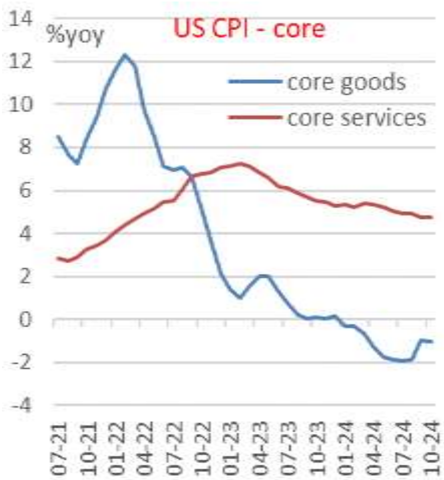
USD momentum and curve steepening continues

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**. UST yields initially fell across the curve as CPI printed in line, while the market had been set up for a potential upside surprise. Long-end yields however rebounded shortly after to end the day mildly higher, i.e. the steepening bias continued. At the front end, market added back to rate cut expectations, with Fed funds futures pricing in an 83% chance of a 25bp cut at the December FOMC meeting while keeping pricing for 2025 at around 55bps. Investors are sceptical as to how much rate cuts Fed could deliver further down the road. A few Fed members have also been flagging this uncertainty on the rate cut trajectory; Schmid commented "it remains to be seen how much further interest rates will decline…", while Logan opined the uncertainty about the neutral rate has risen. Price of shelter accounted for over half of the monthly increase in headline CPI; YoY inflation held virtually steady (0.02 percentage point changes) for both core goods and core services. There is one more CPI report before 18 December FOMC and we would be looking for some mild easing in core services inflation to give the green light to the FOMC to deliver another 25bp Fed funds rate cut.



Source: CEIC, OCBC Research

- **DXY. *Momentum Trade.*** USD dipped post-CPI (which came in largely in line with estimates) but the dip was short-lived. Bullish momentum eventually saw USD trading fresh highs for the year. Price action demonstrates how markets are still adjusting their expectations with regards to Fed cycle (as more Fedspeaks come), inflation in light of Red sweep outcome and Trump's policies. More nomination is coming through and the narrative is that Trump may hit the ground running in Jan 2025, unlike in 2016 when he was less prepared. Tariff risk and Trump policy uncertainty may continue to keep Trump trade (i.e. long USD, short CNH) supported in the interim. On Fedspeaks overnight, Logan calls that policymakers should more at a slow pace (with regards to cutting rates) given uncertainties about how restrictive monetary policy is. Schmid also sounded a note of caution saying that it remains to be seen how much further interest rates will decline or where they might eventually settle. He also warned about higher government debt may weigh on growth and drive rates up and depth of eventual Fed cut remains undetermined. More Fedspeaks are lined up this week, including Powell (Fri). DXY was last at 106.50 levels. Daily momentum is bullish while RSI rose. Near term risks skewed to the upside. Resistance here at 106.50

levels (2024 high) before 107, 107.40 (2023 high). Support at 105.60 (76.4% fibo), 104.50/60 levels (21DMA, 61.8% fibo retracement of 2023 high to 2024 low). For the day, PPI is due.

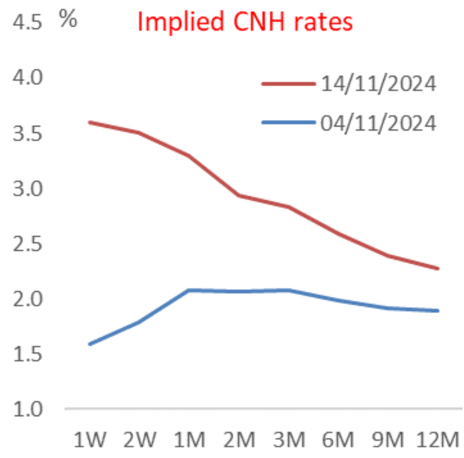
- **EURUSD. *Trend is Your Friend.*** EUR extended its move lower amid broad USD strength while political uncertainties in Germany is not helping. Elsewhere EU-UST yield differentials continued to widen, validating EUR's "fair value" relative to yield differentials. EUR was last seen at 1.0560 levels. Daily momentum is bearish while RSI fell. Risks remain skewed to the downside. Next support at 1.0530, 1.0450/1.05 levels. Resistance at 1.06, 1.0740 (76.4% fibo fibo retracement of 2024 low to high), 1.0780 (21 DMA). On German politics, the 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. Overall, EUR should continue 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.

- **USDCNH. *Attempt to Slow Pace of Depreciation.*** For the second day in a row, CNY fix came in much stronger than expected. Policymakers attempt to convey a message that recent spot USDCNH move is close to testing policymakers' threshold of tolerance for CNH weakness. On one hand, the strong fix 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 7.24. 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. *Upside Risk.*** USDSGD extended its bull run, tracking moves in broad USD. Trend is your friend and trump trade is the trend for now. Risks remain skewed to the upside. Pair was last at 1.3435 levels. Daily momentum is mild bullish while RSI rose. Risk skewed to the upside. Resistance at 1.3470, 1.3520 levels. Support at 1.3340 (200 DMA), 1.3290 (61.8% fibo retracement of Jun high to Oct low). S$NEER was last at 1.25% above model-implied mid.

- **CNY rates**. PBoC net injected liquidity via daily OMOs for a fourth day in a row, at CNY309bn this morning. Repo-IRS traded on the soft side at open. Focus is instead on the CNY1.45trn of MLF that mature tomorrow Friday. MLF, if any, shall be granted later in the month according to recent timeline. In the interim, market will watch if there is any liquidity injection via outright OMO reverse repos. In offshore, the CNH DF curve have been bid in recent days.

Implied CNH rates went higher especially at the front-end. 1W implied CNH rate was last at 3.60% versus as low as 1.60% earlier this month, as we had cautioned against sporadic tightening in CNH liquidity should spot move become disorderly. While some of the upward pressure on the offshore FX swap curve might be due to outright buying, the higher front-end implied CNH rates together with the yuan fixings nevertheless suggest some spot smoothing activities. Separately, RMB30bn of 3M offshore PBoC bills and RMB15bn of 12M offshore PBoC bills are to be tendered on 20 November; these represents rollover of maturing bills and shall have minimum impact on CNH liquidity.



Source: 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