

## Daily Market Outlook

15 November 2024

### Watching US Data

- **USD rates.** UST yields rebounded from session lows as Powell said there is no hurry to lower rates. He touched on the topic of uncertainty over the level of neutral rate, as recent Fed members have been highlighting. The notion goes that such uncertainty justifies a more careful and gradual approach to monetary easing. Fed funds futures pared back rate cut expectation for December, just one day after adding to such, to a 59% chance. We noted yesterday YoY inflation in September held virtually steady (within 0.02 percentage point changes) for both core goods and core services. We are looking for some mild easing in core services inflation in the October report to give the green light to the FOMC to deliver another 25bp Fed funds rate cut at the December meeting. Long-end UST yields ended the day little changed; 10Y real yield stayed a tad above the 2% level while 10Y breakeven was at the high end of range. There is a small amount of net coupon bond settlement at USD8.6bn tonight, followed by net bills settlement of USD71bn next week. There may be some consolidation at long-end USTs while short-end may trade in relatively wide ranges as market constantly reassesses rate cut prospects.
- **DXY. May Enter Into Consolidation.** USD continued to hover near recent highs amid Trump policy uncertainty, a possible return to US exceptionalism and less dovish Fed speaks. Overnight, Fed chair Powell said that the Fed does not need to be “in a hurry to lower rates” and that the current strength of the economy allows it to approach decisions carefully. On labour market, he said “it is now by many metrics back to more normal levels that are consistent with employment mandate”. On inflation outlook, he spoke about near term fluctuation in recent range and to come down to 2% over time, albeit on a “sometimes bumpy path”. Markets have already scaled back probability of 25bp cut in Dec to 59% chance (vs 71% chance a week ago). Expectations will continue to adjust as US data comes. This puts focus on data tonight – empire manufacturing, retail sales, IP before next Fri’s prelim PMIs, Uni of Michigan sentiment data. Firmer print will add to US exceptionalism narrative, keeping USD rates and USD elevated for longer, until data proves otherwise. DXY was last at 106.80 levels. Daily momentum is bullish while RSI shows tentative signs of slowing near overbought conditions. Near term, DXY may enter into consolidation. Resistance at 107, 107.40 (2023 high). Support

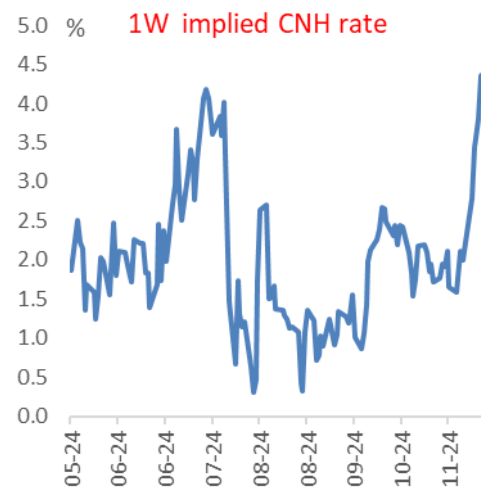
**Frances Cheung, CFA**  
FX and Rates Strategy  
[FrancesCheung@ocbc.com](mailto:FrancesCheung@ocbc.com)

**Christopher Wong**  
FX and Rates Strategy  
[ChristopherWong@ocbc.com](mailto:ChristopherWong@ocbc.com)

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at 106.50, 105.60 (76.4% fibo) and 104.50/60 levels (21DMA, 61.8% fibo retracement of 2023 high to 2024 low).

- EURUSD. Consolidate; Sell Rallies.** EUR fell below 1.05 overnight but the dip was brief. Last seen at 1.0545 levels. Daily momentum is bearish though RSI shows tentative signs of turning from near oversold conditions. Near term consolidation not ruled out but bias to sell rallies. Resistance at 1.06, 1.0740 (76.4% fibo fibo retracement of 2024 low to high), 1.0780 (21 DMA). Support at 1.05, 1.0450/1.05 levels. 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. 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. Elsewhere wide EU-UST yield differentials continued to widen, validating EUR's "fair value" relative to yield differentials.
- USDSGD. Bearish Divergence?** USDSGD's advancement came close to 1.3490 but eased this morning. Last seen at 1.3440 levels. Daily momentum is mild bullish but rise in RSI moderated. Bearish divergence on MACD appears to be forming. We watch price action if USDSGD trades lower, tactically. Support at 1.3340 (200 DMA), 1.3290 (61.8% fibo retracement of Jun high to Oct low). Resistance at 1.3490, 1.3520 levels. S\$NEER was last at 1.30% above model-implied mid.
- CNY rates.** PBoC conducted CNY981bn of 7-day OMO reverse repos this morning, to buffer the CNY1.45trn of MLF maturity and liquidity demand amid the tax seasons; liquidity impact is a net CNY481.2bn withdrawal on the day. The 7-day reverse repo liquidity used to buffer MLF maturity needs to be rolled over soon. Market will still watch whether the short-term liquidity will be replaced by longer-tenor liquidity via outright reverse repos later in the month. In offshore, the FX swap curves stayed bid with implied CNH rates higher especially at the front-end as we have cautioned against a tightening in CNH liquidity. 1W implied CNH rate was trading at 4.35% this morning, versus 3.8% on Thursday. The off-onshore spread in FX swap points have widened back steadily, with the 12M spread last at 905pips wider than the full impact of 20% risk reserve would imply, while not too long ago in October our view was simply limited room for further narrowing.



Source: Bloomberg, OCBC Research

## Macro Research

**Selena Ling**  
Head of Research & Strategy  
[lingssselena@ocbc.com](mailto:lingssselena@ocbc.com)

**Tommy Xie Dongming**  
Head of Asia Macro Research  
[xied@ocbc.com](mailto:xied@ocbc.com)

**Keung Ching (Cindy)**  
Hong Kong & Macau Economist  
[cindyckeung@ocbc.com](mailto:cindyckeung@ocbc.com)

**Herbert Wong**  
Hong Kong & Taiwan Economist  
[herberthtwong@ocbc.com](mailto:herberthtwong@ocbc.com)

**Lavanya Venkateswaran**  
Senior ASEAN Economist  
[lavanyavenkateswaran@ocbc.com](mailto:lavanyavenkateswaran@ocbc.com)

**Ahmad A Enver**  
ASEAN Economist  
[ahmad.enver@ocbc.com](mailto:ahmad.enver@ocbc.com)

**Jonathan Ng**  
ASEAN Economist  
[jonathannq4@ocbc.com](mailto:jonathannq4@ocbc.com)

**Ong Shu Yi**  
ESG Analyst  
[shuyionq1@ocbc.com](mailto:shuyionq1@ocbc.com)

## FX/Rates Strategy

**Frances Cheung, CFA**  
Head of FX & Rates Strategy  
[francescheung@ocbc.com](mailto:francescheung@ocbc.com)

**Christopher Wong**  
FX Strategist  
[christopherwong@ocbc.com](mailto:christopherwong@ocbc.com)

## Credit Research

**Andrew Wong**  
Head of Credit Research  
[wongvkam@ocbc.com](mailto:wongvkam@ocbc.com)

**Ezien Hoo, CFA**  
Credit Research Analyst  
[ezienhoo@ocbc.com](mailto:ezienhoo@ocbc.com)

**Wong Hong Wei, CFA**  
Credit Research Analyst  
[wonghongwei@ocbc.com](mailto:wonghongwei@ocbc.com)

**Chin Meng Tee, CFA**  
Credit Research Analyst  
[mengteechin@ocbc.com](mailto:mengteechin@ocbc.com)

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