Daily Market Outlook

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Central Bank Week

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- **USD rates**. UST yields rose steadily on Friday with the curve mildly steeper, ahead of FOMC this week. A December Fed funds rate cut is almost fully priced, but market pared back 2025 pricing to 51bps with near term debate on a potential January pause. The dot-plot will be in focus as the current pricing of 51bps of cuts in 2025 is more hawkish than the September dot-plot which had the median dot pointing to 100bps of rate cuts for 2025. It would require five individual dots to move up by 25bp to push the median dot up by the same magnitude, hence the bar is not particularly low. Market appears positioned for a higher median dot already; 25bp higher may probably be seen as neutral; 50bp higher will be taken as hawkish and is likely to push market to further pare back rate cut expectation; and an unchanged median dot will be a dovish outcome. In addition, a 5bp cut in the o/n reverse repo rate has been flagged by FOMC minutes, to align with the bottom of the target range for the Fed funds rate; if a 25bp Fed funds rate is delivered that may mean a 30bp cut in the o/n reserve repo rate. At the longer end, the uptick in the 10Y UST yield on Friday was mainly driven by higher real yield; after a week of mixed US data the 10Y real yield rose back to above the 2% level which looks a bit elevated. There is net coupon bond settlement of USD65bn this week 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 this week. Overall, the liquidity condition looks neutral.

- **DXY. *Mixed.*** USD traded mixed this morning ahead of the much-anticipated FOMC meeting this Thu (3am SGT). A 25bp cut is more or less a done deal (markets pricing ~93% probability of a cut) but the focus is on the refreshed dot plot, which will provide guidance on Fed members' expectation on rate cut trajectory into 2025 - 26. The previous dot plot back in Sep guided for 4 cuts and markets are now pricing in about 3 cuts. DXY was last at 106.82 levels. Bearish momentum on daily chart faded while RSI fell. Head and shoulders (H&S) pattern remains intact with DXY trading near second shoulder. A rise in DXY back above the "head" would nullify the H&S pattern. But at point of writing, DXY is respecting the second shoulder. We watch price action. A play-out of the H&S pattern requires a decisive break below neckline support. Next 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). Resistance at 107.20 (both shoulders), 108 (2024 high). This week brings empire manufacturing, prelim PMIs (Mon); retail sales, IP (Tue); housing starts, building permits (Wed); FOMC, GDP, existing home sales (Thu); core PCE, personal spending, income, Kansas City Fed manufacturing index (Fri).

- **EURUSD. *Germany's Turn to Vote.*** Chancellor Scholz had called for a vote of confidence on Wed and the Bundestag will vote later today. 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. EUR was a touch firmer, despite Moody's downgrade of French rating. President Macron has appointed François Bayrou as the new PM of France. The far-left party La France Insoumise has announced it will launch a no-confidence vote to bring down PM Bayrou while other parties appear less aggressive and have laid down conditions for their support. Ongoing political uncertainties in France, Germany may weigh on EUR but like we had flagged, these are already known unknowns (to some extent) and for EUR to push lower, a new catalyst is required (i.e. a hawkish Fed, etc.). EUR was at 1.0520 levels. Mild bullish momentum on daily chart is intact while RSI rose. Risks are modestly skewed to the upside. Resistance here at 1.0540 (21 DMA, 23.6% fibo retracement of Oct high to Nov low), 1.0610 and 1.0670 (38.2% fibo). Support at 1.0460, 1.0410 levels. Today brings prelim PMIs, labour cost; ZEW survey expectations, trade (Tue); final CPI, construction output (Wed); current account (Thu); consumer confidence (Fri).

- **JPY rates**. We continue to see this week's BoJ meeting a live one with members considering a rate hike. Economic fundamentals, notably the wage-price virtuous cycle, argue for continued monetary policy normalization; but it is a matter of when the next hike comes. Consensus is looking for a hold on 19 December but with a significant minority calling for a hike. Our base-case is a 15bp hike in the BoJ target rate; while the exact timing of each hike is uncertain, we expect additional rate hikes which will bring the BoJ target rate to 0.85% by end-2025. Market has pared back expectation for a December hike as recent media reports citing sources pointing to an opinion that members can afford to wait. JPY OIS last priced a 4bp hike and as such, risk to market reaction is asymmetric. At the longer end, 10Y JGB yield has been hovering below the lower end of our expected range of 1.05-1.15%; a more hawkish BoJ would be a trigger to push yields onto a higher range.

- **USDJPY. *Driven by Higher UST Yields and Receding Bets.*** USDJPY rose as bets on BOJ hike this week was scaled back significantly while USTs saw a sell-off last Fri (i.e. UST yields rose sharply). USDJPY's breakout was well anticipated in our technical scan when we first highlighted about moving averages compression (MAC) last week. We noted that this pattern typically precedes a break-out trade. Pair was last at 153.95. Daily momentum turned mild bullish while RSI rose to near overbought conditions. Resistance at 154.80, 155.90 levels. Support at 152.70, 152.10 (21, 100, 200 DMAs). A decline back below the MA "convergence level" would nullify the bullish break-out. This week, BoJ MPC (19 Dec) matters for USDJPY. We are looking for BoJ to carry on with policy normalization with a hike this week and into 2025. Recent uptick in base pay supports the view about positive development in labour market, alongside still elevated services inflation, better 3Q GDP and expectations for 5-6% wage increases for 2025 should pace the room for BoJ policy normalisation. That said, the risk is a slowdown in Fed and/or BoJ's pace of policy normalisation would affect USDJPY's moves.

- **USDSGD. *Consolidation.*** USDSGD resumed its rise, tracking the move higher in UST yield while weaker JPY and RMB saw negative spillover effects. Pair was last at 1.3486. Mild bearish momentum on daily chart faded while RSI rose. Consolidation likely. Resistance at 1.3490, 1.3520 levels. Support at 1.3340 (200 DMA, 23.6% fibo retracement of Sep low to Nov high), 1.3310 (50 DMA). Pair should continue to take directional cues from USD and CNY moves ahead of FOMC event risk later this week. Next set of SG data is NODX (Tue) and CPI (next Mon). S$NEER was last at 0.91% above model-implied mid.

- **USDCNH. *Consolidate in Recent Range.*** USDCNH firmed but levels remain within recent range. Pair was last at 7.2850 levels. Bearish momentum on daily chart shows signs of fading while RSI rose. Consolidation likely in recent range as steady PBoC daily fixing (under 7.20) suggests policymakers are looking for relative stability. Resistance at 7.2940, 7.3150 levels. Support at 7.2640 (21 DMA), 7.2340 (23.6% fibo retracement of Sep low to Dec high) and 7.2040 (200 DMA). 2-day CEWC had concluded last week, with little signs of stimulus support measures. FOMC event risk this week may have influence on USD's directional bias. But in the interim, we expect policymakers will continue to keep the RMB contained.

  CNY rates. PBoC net injected CNY706bn via 7-day reverse repo, while CNY1.45trn of MLF matures today. Hence the playbook repeats in that 7-day liquidity is given upon MLF maturity, which may be followed by outright reverse repo of multi-month tenor later in the month. This morning's operation is a disappointment to the dovish CNY rates market. The broader CEWC outcome did not excite the market either. But with economic data printing weak, rates and yields continued to trade soft. In offshore, front-end implied CNH rates have stayed at relatively high levels, as we opined CNH liquidity remains as a tool to smooth spot movement. Counteracting will be year-end demand for USD. 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.

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