Daily Market Outlook

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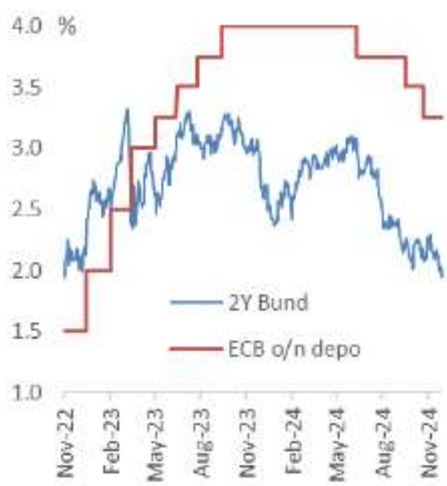
Heavy Data Week

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

Christopher Wong
FX and Rates Strategy
ChristopherWong@ocbc.com

Global Markets Research and Strategy

- **DM rates**. UST rallied mildly during NY session, but yields opened higher in Asia this morning. The US data calendar is heavy leading to potential bond market reaction throughout the week. Before Friday's payroll, there are ISM indices, JOLTS job openings, ADP employment change, jobless claims, among others. On the liquidity front, there is net coupon bond settlement of USD100bn this week following from last week's auctions, while net bill settlement is minimal at USD6bn. After the cumulative 21bps rally since around mid-November in line with our constructive view, near-term downside to 10Y yield appears more limited now. 10Y real yield at 1.94% and 10Y breakeven at 2.28% no longer look elevated compared to current economic fundamentals. Elsewhere, Bund yields fell on Friday as Eurozone CPI printed softer than expected. Eurozone headline CPI picked up to 2.3%YoY in November as expected, but core CPI stayed at 2.7%YoY against consensus for 2.8% while CPI fell by a more than expected 0.3%MoM. EUR OIS pricing was little changed, still seeing some 30% chance of a 50bp cut at this month's MPC meeting versus our base-case of a 25bp cut.



Source: Bloomberg, OCBC Research

- **JPY rates**. Short-end JGB yields jumped by 3-4bps at open. In a Nikkei interview published on Saturday, Ueda was quoted as saying next interest rate hikes are nearing/approaching in the sense that the data is on track. Earlier on Friday morning, Tokyo CPI printed firmer than expected, accelerating to 2.6%YoY in November versus 1.8%YoY in October, with notable pick-up in food prices and fuel & utilities inflation; Tokyo core CPI also printed higher than expected, at 2.2%YoY, while Tokyo core core CPI picked up to 1.9%YoY in line with expectations. JPY OIS now price around 17bps of a rate hike for December. Our long-end view has been for a rate hike at the December meeting where we have pencilled in a 15bp hike but do note there is a high uncertainty on the magnitude of a policy rate move should a hike be delivered. Before December BoJ meeting, key releases include October labour cash/real cash earnings, and Q4 Tankan survey. Prospects remain for the virtuous cycle between wage and prices continuing to play out.

- **DXY.** ***Short Squeeze Over?*** USD rebounded this week in early trade as markets speculate for a bounce back in Nov payrolls data (to be released on Fri) after hurricanes, major strike may have distorted Oct NFP (recall that the last print was a low +12k). Consensus is looking for +200k print. We cautioned that a print lower than expectations may see USD bears return. Elsewhere over the weekend, there were reports that Trump threatened to impose 100% tariff on countries that shift away from using the dollar. Separately, US trade officials announced a new round of tariffs of up to 271% on solar panel imports from Cambodia, Malaysia, Thailand and Vietnam. Tariff news serve as a constant reminder that wider tariff could soon hit when Trump comes on board officially. DXY was last at 106.30. Daily momentum is mild bearish while RSI shows signs of rising from. Near term rebound not ruled out. Resistance at 106.50, 107.20. Support at 106 (21 DMA), 105.40 levels (38.2% fibo), 104 (50, 200 DMAs).

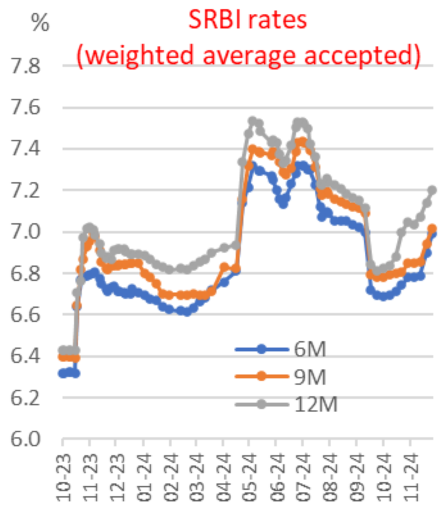
- **EURUSD.** ***Dragged Down by Politics.*** EUR bulls were stopped in its track as 1.06 resistance proved challenging to break. Renewed focus on political concerns in Germany and France may drag EUR lower in the near term. France's minority government may face a no-confidence vote this week due to budget clashes. French far-right leader Marine Le Pen was said to have given PM Barnier until Monday to negotiation new concessions such as raising pensions in line with inflation, cancel the initial plan to cut medical reimbursement, reduce France's contribution to EU's budget, etc. The risk of no-confidence vote may come today if PM Barnier uses constitutional powers to force a social security bill through. On Germany, 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 (there is an explicit language here to quit EU unlike its manifesto ahead of the European parliament elections). Bear in mind that Chancellor Scholz is expected to call for a vote of confidence on 11 Dec and the Bundestag will vote on 16 Dec. It serves 2 purposes – either to stabilise the government or to initiate new elections. The purpose of the vote this time is to give members of Bundestag an opportunity to decide whether to withdraw support for current Chancellor and to pave the way for early elections on 23 Feb 2025. To survive the vote, Scholz would need to receive the support of an absolute majority of 367 votes. Political uncertainties in Germany and France may re-assert on EUR in the interim. Pair was last at 1.0520 levels. Daily momentum turned flat while RSI fell. Risks may be skewed to the downside again. Support at 1.0490/1.05, 1.0450 levels before 1.03. Resistance at 1.0610 (21 DMA), 1.0670 (38.2% fibo retracement of Oct high to Nov low). This week brings manufacturing PMI, unemployment rate (today); services PMI, PPI (Wed); retail sales (Thu); 3Q GDP, employment (Fri).

- **USDJPY. *Technical Bounce; Sell Rallies.*** USDJPY rebounded this morning in early trade, tracking the moves in UST yields, USD as markets speculate for a bounce back in Nov payrolls data (to be released on Fri) after hurricanes, major strike may have distorted Oct NFP. Elsewhere over the weekend, Governor Ueda told Nikkei in an interview that next rate hikes are nearing in the sense that economic data are on track. He also expressed caution about timing on raising rates and insisted on watching domestic wage trends, political and economic situation in US. He also said "if the yen weakens further when the rate of inflation starts to rise above 2%, the central bank might have to resort to countermeasures, if necessary, to the movement posing great risks to us". Pair was last at 150.50 levels. Bearish momentum on daily chart intact while RSI shows signs of turning higher from near oversold conditions. Rebound risks not ruled out in the near term. Resistance at 151.20, 152 (200 DMA), 153.30/70 levels (61.8% fibo retracement of 2024 high to low, 21DMA). Support at 149.50, 149 levels (100 DMA). Broader bias remains to lean against strength. Price-related data (Tokyo CPI, PPI, etc.), labor market development (jobless rate easing, job-to-applicant ratio increasing, etc.), wage growth expectations (PM Ishiba and trade unions calling for another 5-6% wage increase at shunto wage negotiations for 2025) and Ueda's recent comments on Nikkei over the weekend continue to reinforce the view that BoJ is likely to proceed with another hike, sooner rather than later. Question perhaps is on the magnitude of rate increase. Fed-BoJ policy normalisation should continue and UST-JGB yields can narrow further (as Fed cut and BoJ hikes). This supports the bias for USDJPY downside.

- **USDSGD. *Consolidate Higher.*** USDSGD rose, alongside the rise in UST yields, broad USD. Pair was last seen at 1.3450. Mild bearish momentum on daily chart intact while RSI rose. Consolidation likely in the near term. Support at 1.3380 (21 DMA), 1.3340 (200 DMA) and 1.3290 (61.8% fibo retracement of Jun high to Oct low). Resistance at 1.3460, 1.3520 levels. S$NEER was last at 0.9% above model-implied mid. This still shows that SGD remains firmer vs. peers in the trade basket but it is less firm today (vs. than for most of the year).

- **CNY rates.** PBoC did CNY800bn of outright reverse repo on Friday, of 3-month tenor. The amount is not surprisingly big given the under-rollover of MLF earlier. Meanwhile, the three-month tenor can cover year-end and the Chinese New Year period, which is likely to help smooth money market rates upon potential fluctuations in liquidity demand. Official manufacturing PMI printed a tad firmer at 50.3 points, but non-manufacturing PMI was mildly softer at 50.0 points; Caixin manufacturing PMI also printed stronger at 51.5points. These may suggest recent stimulus is working. Market expectation remains high for additional easing and continued liquidity support. To buffer bond supply, an RRR cut is probably needed. On the offshore DF curve, implied CNH rates are higher at the 1M to 3M tenors, probably reflecting some funding needs, when front-end rates stabilised. At the back end, offshore-onshore spreads in the points also stopped widening and stabilised. With onshore rates moving to and hovering around low levels, asset swap pickup is not particularly appealing. For example, 2Y CGB yield was last at 1.30%, versus 1Y implied CNY rate at 1.14% and 1Y implied CNH rate at 2.31%. NCDs still provide some pick-up for now, but bias is to the downside for NCD rates with policy intention to better align NCD rates with other funding rates.

- **IndoGBs** were supported on Friday afternoon with yields 3-5bps lower taking cue from USTs, despite domestic yields were already lower than recent auction cut-offs. On the other hand, SRBI rates came in at 6.99332%, 7.01853% and 7.20042% for the 6M, 9M and 12M tenors, respectively. These SRBI rates were up by 9.6bps, 7.4bps and 5.9bps compared to the rates at the auction on 22 Nov, when implied IDR rates were little changed to a tad lower over this period. These latest rates render the instruments more appealing to foreign investors, supportive of inflows. Looking ahead, indicative target of this Tuesday's sukuk auction has been set at IDR9trn which is the usual amount. Thereafter, there is only one more conventional bond auction left for the year, to be held on 17 December. The domestic bonds may consolidate around current levels through to year-end.



Source: CEIC, 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