

Daily Market Outlook

3 December 2024

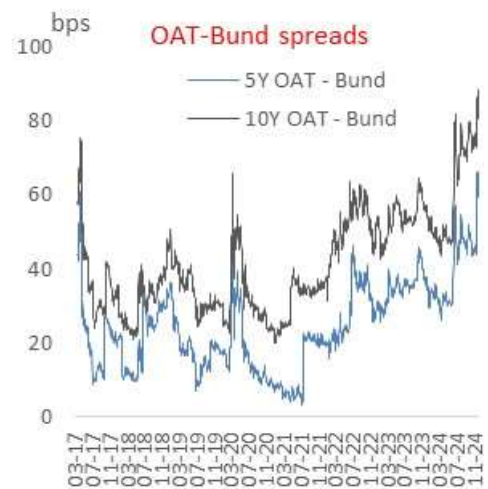
RMB Trading on the Back Foot

- USD rates.** USTs initially weakened as ISM manufacturing printed firmer than expected but pared losses upon some dovish Fed official remarks. Headline ISM manufacturing printed firmer than expected at 48.4 points with higher new orders and employment indices, albeit with the silver lining being the fall in the prices paid index. Separately, Fed Waller commented he “lean[s] toward supporting a cut to the policy rate at our December meeting” in a prepared speech titled “Cut or Skip?”. Some of the other dovish remarks from Waller included: 1/ “while some near-term aspects of the outlook may be a little unclear, something that is clear is the direction for monetary policy and our policy rate over the medium term, which is down”; 2/ “The motivation for continuing to cut the policy rate at the FOMC’s next meeting begins with how restrictive the current setting is...cutting again will only mean that we aren’t pressing on the brake pedal quite as hard” – this is the main rationale behind our interest rate cuts call, together with the current and expected economic backdrop. Granted, monetary policy decision will depend on incoming data between now and the meeting date. Williams and Bostic also support additional rate cuts but didn’t say whether they favour a cut at the December meeting. Market added back slightly to near-term rate cut expectation, with Fed funds futures pricing a 75% chance of a 25bp Fed funds rate cut later this month. USTs are likely to stay sensitive to the heavy data releases throughout the week. On liquidity, usage at the Fed’s o/n reverse repo fell by USD61.8bn to USD135.9bn on Monday, when a net USD100bn of coupon bonds were settled.
- EUR rates.** Bunds continued to outperform, as Eurozone data have been printing on the weak side. While EUR OIS trimmed expectation for a 50bp cut at December MPC meeting, now seeing mostly a 25bp cut - in line with our base-case, overall EUR OIS pricing remains very dovish. The EUR OIS curve is very inverted across the front-end to 2Y with market looking for a terminal rate which is well below the 2% level. The 1Y1Y OIS fell to around 1.58% compared to ESTER at 3.16%. Current pricings reflect more of weak growth/recession driven rate-cutting cycle rather than monetary policy normalization, in our view – which may be justified should the economy weaken further. Against the bullish Bunds, OAT-Bund spreads have been widening, despite that OATs

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Global Markets Research and Strategy



Source: Bloomberg, OCBC Research

themselves actually rallied in most of the recent days. These spreads are unlikely to narrow materially near-term amid domestic politics in France while Bunds stay buoyant.

- **EURUSD. Consolidate Lower.** EUR continued to trade near recent lows amid political uncertainties in Europe. No-confidence vote may come as early as Wed after PM Barnier used rare 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 likely on 23 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. 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 1.0490 levels. Daily momentum turned flat while RSI fell. Risks somewhat skewed to the downside. Support at 1.0450 levels before 1.0330. Resistance at 1.0610 (21 DMA), 1.0670 (38.2% fibo retracement of Oct high to Nov low). Week remaining brings services PMI, PPI (Wed); retail sales (Thu); 3Q GDP, employment (Fri).
- **DXY. Consolidation.** USD eased slight overnight in response to Fed official Waller's comments. He sees more rate cuts likely needed "over time" and inches towards rate cut for Dec while Williams sees overall trend of rates coming down. Implied probability of 25bp rate cut for Dec FOMC has shifted to 75%. DXY was last at 106.50. Daily momentum is mild bearish though RSI rose. Near term rebound not ruled out but likely to see consolidation. Resistance at 106.50, 107.20. Support at 106 (21 DMA), 105.40 levels (38.2% fibo), 104 (50, 200 DMAs).
- **USDJPY. Consolidate; Sell Rallies.** USDJPY fell, tracking the moves in UST yields, post Fed official Waller's comments. Pair was last at 150 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.), labour 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. But near term, in light of US data risks, pair may consolidate for now.

- USDCNH. Upside Risks.** CNH continued to trade under pressure amid expectations for further rate cuts at home while economic recovery remains uneven. US tariffs can further hurt RMB. Yesterday, President Biden fired a parting shot in tightening curbs on China's access to AI memory and chips tools. Recent tariff headlines served as a constant reminder that wider tariffs could soon hit when Trump comes on board officially in Jan-2025. PBoC may continue to restraint the RMB from excessive weakening via daily fix, but likely they may have to also use offshore funding squeeze (not used yet) to ensure more effective transmission. Elsewhere, there may be other stimulus support measures to support the domestic economy, but these are at best mitigating factors only. Path of least resistance for RMB may be skewed towards further weakening. Pair was last at 7.31. Daily momentum shows signs of turning bullish while RSI rose towards overbought conditions. Upside risks intact. Resistance at 7.32, 7.3450 levels. Support at 7.29, 7.2745 levels.
- USDSGD. Consolidate Higher.** USDSGD continued to inch higher, tracking the rise in USDCNH. Pair was last seen at 1.3475. Mild bearish momentum on daily chart faded while RSI rose. Consolidation higher likely in the near term. Resistance at 1.3490, 1.3520 levels. Support at 1.3390 (21 DMA), 1.3340 (200 DMA). S\$NEER was last at 0.86% 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 continued to net withdraw liquidity via daily OMOs which is as expected. Repo-IRS and CGB yields traded a tad higher this morning, after the softening on Monday. NCD rates fell by 8bps or more across 6M and 12M tenors on Monday, following last week's regulatory notice. We wrote yesterday "bias is to the downside for NCD rates with policy intention to better align NCD rates with other funding rates". To recap, starting 1 December, NCD contracts shall add a clause which allows re-set of rates lower if there are adjustments in other relevant deposit rates. NCD rates have been relatively elevated and attracted foreign inflows until September when implied CNY rates went up. 12M AAA NCD rate was last at 1.71% versus 12M implied CNY rate at 1.04%, which still provides some asset swap pick-up (credit risk not hedged) albeit not as wide as it once was. There may be some further downside to NCD rates in general. In offshore, front-end CNH rates have been well anchored despite spot move. We had cited month-end LHS demand as potential factor but now that month-end has passed, we stay cautious against sporadic movements at the front-end of the offshore DF curve.



Source: Bloomberg, OCBC Research

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