Daily Market Outlook

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Political Noise

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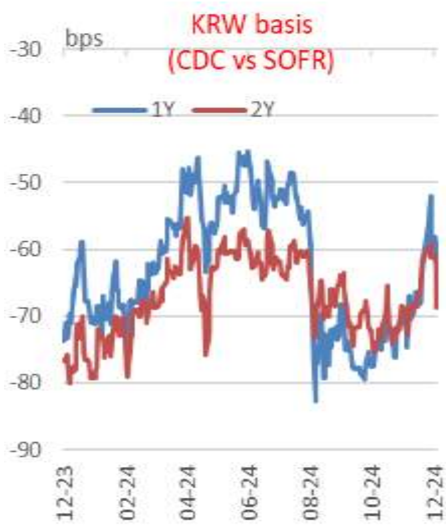
- **USD rates**. USTs rallied during early trading; it appeared DM bonds benefited from some safe haven flows from last night's incident in Korea. UST yields rebounded from session lows upon JOLTS job data which rose by more than expected to 7744K; most job gains were in the professional and business services sector, followed by leisure and hospitality sector. Separately, Fed commentaries coming through overnight were largely consistent with the stance that additional rate cuts are on the cards, but whether the next cut will come at the December FOMC meeting is to be discussed. Dalys opined that the FOMC have "to continue to recalibrate policy" but whether it is Dec or later the Committee will debate; Goolsbee expects interest rates will come down "a fair amount from where they are now" over the next year – on this market will watch the updated dot-plot. USTs are likely to stay responsive to the heavy data releases through the week. With 10Y yield not as elevated as before the recent retracement, downside room to long end yields is likely to be relatively limited. Short-end yields might have more room to fall should nonfarm payroll underwhelm, given current market pricing is not particularly dovish. Market essentially looking for some normalization in payrolls after the one-off factors in October; consensus is looking for 200K with a wide range of estimates; a number that is below 180K may probably be seen as underwhelming.

- **KRW rates.** KRW basis opened 5-10bps lower in reaction to domestic politics, amid precautionary demand for USD liquidity; the reaction in the basis market appears contained. While potential FX intervention may also result in LHS flows depending on how the FX operations are done, BoK also said to provide FX liquidity. Hence net-net, we believe liquidity will be supported. KRW IRS opened on the firm side with limited price action while KTB performances were mixed. On a more positive note, asset swap pick-up improved somewhat. Looking ahead, we are constructive on KTBs on a favourable monetary policy backdrop and expected index-induced passive inflows. However, KTBs are likely to lag USTS on rally, just as KTBs stayed resilient in the face of UST sell offs; KTB-UST yield differentials have been further compressed. On BoK outlook, our base-case remains for additional rate cuts to bring the policy Base Rate to 2.5% by end-



Source: Bloomberg, OCBC Research

2025. KRW IRS last priced around 75bps of cuts on a 6-month horizon.

- **USDKRW. *Retracement May Find Support.*** USDKRW saw a sharp run up towards 1444 after President Yoon surprisingly declared martial law. The pair subsequently fell after martial law was rescinded (all in the same night). Domestic political uncertainty is the main issue as opposition leaders are now calling for President Yoon to resign or face impeachment. Political uncertainty at home may temporarily weigh on KRW and should fade once we get more clarity. That said, Korea economy is facing a double whammy of sluggish domestic activity and slowing exports. KRW is typically a highly sensitive currency to market developments. The threat of US tariffs, fears of Fed slowing rate cut cycle, RMB trading weaker, alongside domestic political uncertainties may continue to weigh on KRW. USDKRW was last at 1415 levels. Daily momentum is mild bullish while RSI turned lower from overbought conditions. Pair may retrace in the interim. Support at 1410, 1400 (21DMA) and 1385 levels. Resistance at 1425, 1445 levels.

Spike Overnight Partially Retraced

Source: Bloomberg, OCBC Research

- **DXY. *Consolidation.*** USD traded little changed as markets mulled political risks in France and Korea. US data remains the key focus this week – ISM services (Wed); initial jobless claims (Thu); payrolls (Fri). There is a good chance Nov NFP rebound sharply after hurricanes and major strikes may have distorted Oct NFP. Consensus is looking for +218k print while 6m average is at 131k. We caution that a lower print could see USD bears return. DXY was last at 106.50. Daily momentum is mild bearish though RSI is flat. Consolidation likely intra-day. Key support at 106.20 (21 DMA) if broken may see bearish momentum gather traction. Next support at 105.40 levels (38.2% fibo), 104.00/40 (50, 200 DMAs). Resistance at 106.50, 107.20.

- **EURUSD. *No Confidence Motion in France.*** EUR traded a subdued range, waffling around 1.05 levels. French's minority government faces a real risk of falling apart after far-right and left-wing parties submitted no-confidence motions. Debate is expected to start 4pm local time (11pm SGT) and the voting will commence shortly thereafter. No-confidence motion requires more than half of the lower house votes (i.e. 288 votes) to succeed. No single party or bloc has sufficient votes to pass a no-confidence motion on its own. Right wing (or Marine Le pen's bloc) has 140 seats, left wing (or New Popular Front) has 192 seats and the remaining coalition or centrists (who support PM Barnier) has about 210 seats. In the event of a successful no-confidence vote, PM Barnier and cabinet will likely have to resign and the government goes into caretaker mode (to be appointed by President Macron). No legislative elections can be held until 1 year after the last elections that was held in July. In the interim, Macron will need to appoint a new

Prime minister. Political uncertainties did not stop at France, In Germany, 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. 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 (there is an explicit language here to quit EU unlike its manifesto ahead of the European parliament elections). Political uncertainties may continue to drag on EUR. But given the bout of uncertainties so far, the EUR has also refused to test much lower. Price action suggests that short EUR trades may be at stretched levels. A flush out of stale EUR shorts cannot be ruled out and that can come of any upside data surprise out of Europe or downside surprise in US data. Pair was last at 1.0505. Daily momentum is mild bullish while RSI is flat. Sideways trade likely. Support at 1.0450 levels before 1.0330. Resistance at 1.0570 (21 DMA), 1.0610 and 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).

- **USDJPY. *An Interim Bottom? Sell Rallies.*** USDJPY traded a low of 148.65 overnight on safe-haven demand. Korean President Yoon declared martial laws overnight caught markets by surprise. USDJPY was last at 149.70 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, 148.90 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 Bo J is likely to proceed with another hike, sooner rather than later. But near term, pair may consolidate for now in light of US data risks this Fri.

- **USDCNH. *PBoC Shows Determination.*** USDCNH eased as policymakers continued to keep the daily fix under 7.20. In fact, the CNY fix was even set stronger at 7.1934 than the day before (at 7.1996). Fixing pattern suggests that PBoC is doing whatever it takes to restraint the RMB from over-weakening after the initial round of knee-jerk depreciation post-US election outcome. That said, 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 deploy offshore funding squeeze (if need arises) to ensure more effective transmission. On net, CNH may still trade under pressure expectations for further rate cuts at home while economic recovery remains uneven. Caixin services PMI was weaker than expected while manufacturing PMI was stronger than expected. Housing market has also showed very mixed signs of stabilisation. While there may be other stimulus support measures to support the domestic economy, these are at best mitigating factors only. We would keep a look out for the CEWC meeting on 11-12 Dec. Meantime the bias for RMB may be skewed towards further weakening (notwithstanding some short-term technical correction). Pair was last at 7.2930. Daily momentum is mild bullish while RSI shows signs of turning from near-overbought conditions. Corrective pullback not ruled out. Support at 7.29, 7.2745 and 7.2440 (21 DMA). Resistance at 7.32, 7.3450 levels.

- **USDSGD. *Awaits Catalyst.*** USDSGD continued to trade near recent highs; last seen at 1.3460. Mild bearish momentum on daily chart intact for now while RSI is flat. Consolidation likely in the near term. Resistance at 1.3490, 1.3520 levels. Support at 1.3390 (21 DMA), 1.3340 (200 DMA). US payrolls data on Fri may provide the directional catalyst for USD while we continue to watch CNY fixing. S$NEER was last at 0.93% 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).

- **SGD rates**. 12W MAS bills cut off at 3.20%, 4bps below previous auction’s cut-off which was within expected range. 4W MAS bills cut off at 3.47%, 20bps higher than previous auction’s cut-off, as the 4W tenor covers year end and as such a wider premium above implied rate was required; bid/cover was relatively low at 1.63x for the 4W bills. 6M implied SGD rates traded at around 2.76% this morning, which was 8bps lower than the level at the time of the 21 November 6M T-bills auction where the cut-off was 3.08%. For tomorrow’s 6M T-bills auction, cut-off may come in around the 3% level.

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