Daily Market Outlook

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Short-end CNY rates anchored; USD forming an interim top?

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- **USD rates**. USTs rallied overnight as data printed on the soft side while Powell's commentaries did not deviate from the usual stance, i.e. no hawkish surprise. December Beige Book also pointed to a marginally softer labour market. UST curve shifted lower largely in a parallel manner; 10Y real yield edged further lower to just below 1.9%. November ADP employment change was 146K a tad lower than consensus while previous month's number was revised downward; November PMIs were revised downward in final readings; November ISM service index printed 52.1 points versus 56 points prior. December Beige Book pointed to a marginally softer labour market: 1/ "employment levels were flat or up only slightly across Districts" versus "employment increased slightly" prior; 2/ "wage growth softened to a modest pace…as did expectations for wage growth in coming months" versus "wages generally continued to rise at a modest to moderate pace". 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. December FOMC decision remains a close call; Fed funds futures last price a 74% chance of a 25bp cut at that meeting.

- **DXY. *Consolidation.*** USD slipped modestly after ISM services data underwhelmed expectations. Focus is still on labour market related data, initial jobless claims tonight and more importantly, payrolls tomorrow. There is a good chance Nov NFP rebounds sharply after hurricanes and major strikes have likely distorted Oct NFP. Consensus is looking for +215k print. We caution that a lower print could see USD bears return. DXY was last at 106.32. 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. *Interim Bottoming?*** French lawmakers have voted. Both the left and right wings united to reach a combined vote of 331, well above the 288 simple majority needed. PM Barnier has lost a vote of no-confidence. Mr Barnier and cabinet will likely have to resign, and the government goes into caretaker mode (to be appointed by President Macron). As no legislative elections can be held until 1 year after the last elections (held in July this year), snap election is not possible. The next focus is on 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. And despite the political uncertainties, the EUR has refused to trade much lower. We believe a lot of known negatives are already in the price of EUR – slowing growth momentum, political fallout, ECB cut expectations, etc. EUR bears need a new catalyst to break lower, failing which, shorts could be frustrated. We still caution for the risk of short squeeze on any Euro-area positive news or poor US data catalyst. EUR still holds above its lows. Last at 1.0510. Daily momentum is mild bullish while RSI remains flat. Consolidation likely. Resistance at 1.0570 (21 DMA), 1.0610 and 1.0670 (38.2% fibo retracement of Oct high to Nov low). Support at 1.0450 levels before 1.0330. Week remaining brings retail sales (Thu); 3Q GDP, employment (Fri).

- **AUDUSD.** ***Heavy Bias.*** AUD traded lower. 3Q GDP missing estimate was the trigger. Markets have moved to fully price in a 25bp rate cut at Apr meeting and there were also light chatters that RBA may even need to move earlier at the Feb meeting. Tariff worries, slowing global growth concerns and anticipation for earlier RBA cuts are some factors that may undermine AUD in the short term, unless USD reverses lower. Pair was last at 0.6430 levels. Mild bullish momentum faded while RSI fell. Risks remain skewed to the downside. Support at 0.64, 0.6350 (2024 low). AUD would need to reclaim above 0.6510 to nullify AUD bears for now.

- **USDJPY*. Sell Rallies Preferred.*** USDJPY traded firmer, in line with our caution for *rebound risks not ruled out in the near term.* BoJ Nakamura said it is important for BoJ to exercise care when it makes adjustments to policy aimed at rolling back the degree of monetary easing. Probability of BoJ hike in Dec MPC dropped to 36.3% from 57.3% a week ago. We are still looking for BoJ to hike. 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) continue to reinforce the view that BoJ is likely to proceed with another hike, sooner rather than later. Direction of travel for USDJPY remains skewed towards the downside as Fed cuts and BoJ hikes. The risk is a slowdown in pace of respective policy normalisation. Pair was last at 150.33. Bearish momentum on daily chart shows signs of fading while RSI shows rose from near oversold conditions. Still see some rebound risks in the near term. Bias to sell rallies. Resistance at 150.70, 151.20 (50 DMA), 152 levels (200 DMA). Support at 149.50, 148.80 levels (100 DMA).

- **USDCNH.** ***PBoC Muscles With Daily Fix.*** USDCNH continued to ease away from recent high as policymakers keep a strong grip on the daily fix, setting it even lower at 7.1879 vs. 7.1934 (yesterday). This is despite USD trading largely rangebound. Fixing pattern continues to suggest that PBoC is doing whatever it takes to not only restraint the RMB from over-weakening but also to guide its bias and direction. Tariff may hurt RMB when it happens but that may be a story for 2025 after Trump inauguration. Meantime, we would keep a look out for the CEWC meeting on 11-12 Dec. Pair was last at 7.28. Daily momentum is flat while RSI shows signs of turning from near-overbought conditions. Corrective pullback not ruled out. Support here at 7.29, 7.2745 and 7.2460 (21 DMA). Resistance at 7.32, 7.3450 levels.

- **USDSGD.** ***Forming an Interim Top.*** USDSGD slipped, tracking broader USDAXJs lower. Pair was last seen at 1.3430. Mild bearish momentum on daily chart intact while RSI fell. Consolidation likely with risks skewed to the downside in the near term. Support at 1.3405 (21 DMA), 1.3340 (200 DMA). Resistance at 1.3490, 1.3520 levels. US payrolls data on Fri may provide the directional catalyst for USD while we continue to watch CNY fixing. S$NEER was last at 0.95% 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 withdraw short-term liquidity via daily OMOs, in line with expectation; there is likely to be one more day of withdrawal on Friday and thereafter the reverse repo maturity turns much lighter. Repo-IRS and CGB yields traded a tad higher this morning, but short-end CNY rates are likely to stay anchored on monetary easing expectations. Near-term supply risk is seen as low despite the upcoming Economic Work Conference. NCD rates stabilised after earlier falls; 12M AAA NCD rate was last at above 1.7% level and bias remains to the downside with policy intention to better align NCD rates with other funding costs. In offshore, CNH DF curve and implied CNH rates have been moving lower. At the back end, we have highlighted that the off-onshore spreads were wider than the full impact of 20% FX risk reserve would imply and hence some LHS flows on the CNH DF curve could not be ruled out. Now the gap was partially close but as not all entities are subject to the 20% requirement, the onshore curve may remain as a pull factor. At the front end, the falls in CNH rates may be due to demand for USD liquidity running into year end. However, we continue to caution against sporadic tightening in CNH liquidity as this remains as a tool to smooth spot movement if need be.

Source: Bloomberg, OCBC Research

*esitmaiton of full impact of 20% FX risk reserve

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