Daily Market Outlook

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Range-bound Ahead of US Payrolls

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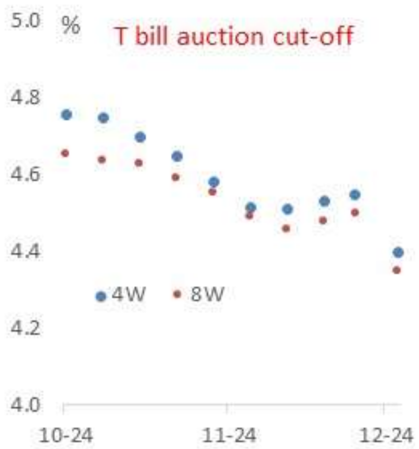
- **USD rates**. USTs traded in ranges ahead of NFP tonight. 4W and 8W T-bills cut off at 4.40% and 4.35% respectively, which were 15bps lower than the cut-offs at previous auction. Fed funds futures priced a 70% chance of a 25bp December cut, and 67bps of cuts in 2025. With 10Y UST yield not as elevated 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 220K with a wide range of estimates; a number that is below 180K may probably be seen as underwhelming.

- **JPY rates**. JGB yields traded a tad higher at the short end to belly upon the October wage data release. Although scheduled full-time pay printed a tad lower than expected, at 2.8%YoY, the fact that it stayed at a level that was near multi-year high added to the conviction that wage growth will be sustained. JPY OIS reloaded rate hike expectation for this month to 15bps, having just pared such expectation earlier, as the latest comments from Nakamura was seen as less dovish – he was quoted as saying he is not objecting a rate hike but will look at the data. Prospect that the virtuous cycle between wage and price continuing to play out is likely to allow the BoJ to continue with monetary policy normalization and our call remains for a hike later this month – we have pencilled in a 15bp hike but note there is a high uncertainty on the magnitude. JPY basis have been on a broad uptrend over the past weeks, which may represent some early preparation for domestic liquidity running into year-end, while some FX hedges for overseas investment might have been reduced. Should both a BoJ hike and a Fed cut materialise this month, there may be a rethink of hedging strategy although the cost is still not low.

- **DXY. *Payrolls in Focus.*** USD fell overnight. Slippage in USD overnight provided a breather for most Asian FX except KRW (due to domestic politics). Focus on payrolls data tonight before CPI data next week. There is a good chance Nov NFP rebounds sharply after hurricanes and major strikes have likely distorted Oct NFP (+12k). Consensus is looking for +220k print. We caution that a



Source: Bloomberg, OCBC Research

lower print could see USD bears gather traction. DXY was last at 105.85. Daily momentum is mild bearish while RSI fell. Head and shoulders pattern appears to have formed with DXY testing the neckline. This is typically a bearish setup. A decisive break below neckline should see bears gather momentum. Support at 105 levels (38.2% fibo retracement of Sep low to Nov high), 104.60 (50 DMA) and 104.10 (200 DMA, 50% fibo). Resistance at 106.20/30 levels (23.6% fibo, 21 DMA), 106.70 (second shoulder). CPI data due next Wed.

- **EURUSD. *Inverted Head & Shoulders.*** EUR drifted higher as political risks come to pass and focus shifts towards US payrolls for now. Many EU-related negatives are already in the price of EUR – slowing growth momentum, political fallout, ECB cut expectations, etc. EUR bears need a new catalyst to continue lower, if not would face a squeeze if US data surprises. A disappointing print may provide the trigger for the EUR short squeeze to gather traction. Pair was last at 1.0570 levels. Daily momentum is mild bullish while RSI rose. Price pattern shows a classic formation of an inverted head & shoulders pattern, which is typically associated with a bullish reversal. Neckline comes in at 1.0600/10 levels. Break-out puts 1.0670 (38.2% fibo) within reach before next resistance comes in at 1.0750/75 levels (50 DMA, 50% fibo). Support at 1.0540/50 levels (23.6% fibo, 21 DMA), 1.0460 levels. On politics, risks remain and it would be complacent to write them off. France is without a budget and a government. President Macron said he will appoint a PM soon. As no legislative elections can be held until 1 year after the last elections (held in July this year), snap legislative election is not possible though there have been calls for President Macron to resign (which he has repeatedly resisted, and presidential election is not due until 2027). Germany will come into focus next week – known risk. 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.

- **USDJPY. *Sell Rallies Preferred.*** USDJPY traded a touch softer after wage data (base pay for full time workers) rose 2.8% YoY in Oct. Data adds to our view that BoJ hike in Dec and into 2025 should continue. Price-related data (Tokyo CPI, PPI, etc.), labour market development (wage growth, 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 149.96. Bearish momentum on daily chart intact while RSI fell. Bias remains to sell rallies. Support at 149.50, 148.80 levels (100 DMA) and 148.20 (38.2% fibo retracement of Sep low to Nov high). Resistance at 150.70, 151.30 (50 DMA), 152 levels (200 DMA).

- **USDCNH. *Trend of Stronger Daily Fix.*** USDCNH continued to drift lower, thanks to softer USD and taking cues from fixing guidance. Policymakers continue to manage the daily fix, setting it lower at 7.1848 vs. 7.1879 (yesterday). 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 7.2650. Daily momentum is flat while RSI fell. Corrective pullback likely. Support at 7.2510 (21 DMA), 7.22 levels. Resistance at 7.32, 7.3450 levels.

- **USDSGD. A*n Interim Top.*** USDSGD continued to inch lower, tracking broader USD slippage. Pair was last seen at 1.3390. Mild bearish momentum on daily chart intact while RSI fell. Consolidation likely with risks skewed to the downside in the near term. Next support at 1.3340 (200 DMA, 23.6% fibo), 1.33, 1.3240 (32.8% fibo retracement of Sep low to Nov high). Resistance at 1.3415 (21 DMA), 1.3490 levels. US payrolls data tonight may provide the directional catalyst for USD while we continue to watch CNY fixing. S$NEER strengthened; last at 1.04% above model-implied mid.

- **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.

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