Daily Market Outlook

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FOMC, BOE Decision; Await NPC Outcome

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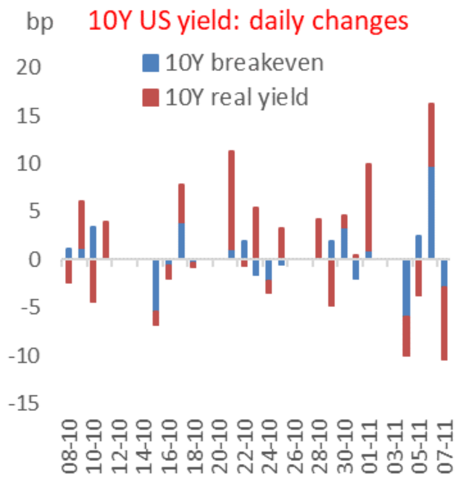
- **USD rates**. USTs rallied during NY session upon the FOMC rate cut decision, while Powell commented that the election will have no near-term effect on monetary policy decisions. Indeed, the timeline of any potential tariffs suggests that the impact on inflation, if any, may only be felt from Q32025 (or later) onwards. It remains more likely than not that there will be another 25bp Fed Funds rate cut at the December FOMC meeting, in our view. We also hold onto our expectation for two 25bp cuts in Q12025, i.e. at both the January and March meetings. We favoured curve steepening trade running into the elections, while curve steepening is also our medium-term view. However, for the days ahead, there may be a mild flattening bias on potential for mid to long end yields to edge further lower while there may be some consolidation in short-end yields. Thursday's fall in the 10Y UST yield was mainly driven by lower real yield; meanwhile, the 10Y term premium (NY Fed ACM model) has eased from last Friday's high, by a cumulative 12bps as of Tuesday. While the timing was not exactly the same, we believe the retracement lower in long-end yield reflects reduced fiscal worries. 10Y real yield at 1.96% still appears somewhat high, while breakeven at 2.37% is fair but near the high end of range. There is no coupon bond auction next week (as opposed to this week's gross supply of USD125bn), and net bills settlement is at a normal USD31bn; this may set a constructive backdrop for a small downside to mid to long end yields.



Source: Bloomberg, OCBC Research

- **GBP rates**. BoE cut Bank Rate by 25bps to 4.75% in line with expectations. The vote was 8-1, with one member (Mann) preferring to keep the Bank Rate unchanged. MPC statement cited "continued progress in disinflation, particularly as previous external shocks have abated" as the reason. Looking ahead, BoE forecast CPI inflation to increase to around 2.5% by year-end, versus 1.7% in September due to the base effect on energy prices. The central bank estimated the impact of the Autumn Budget on inflation at 0.5 percentage point at the peak. A "gradual approach" to removing policy restraint remains appropriate. BoE stance is consistent with our view for a hold at the December meeting, and for one 25bp cut in each quarter in 2025. Notwithstanding the gradual pace, we maintain a steepening bias on the gilt curve as on additional supply in the years ahead. Bond/swap spreads (OIS

– bond yield) have been tightening (more negative) steadily; while there may be some near-term consolidation, a quick reversal in the move is not in sight yet.

- **DXY. *Still 2-Way Trades.*** USD fell, alongside decline in UST yields. FX volatility eased further. AXJ FX also firmed this morning, with THB leading gains. Markets appear to be unwinding Trump trades and re-pricing in optimism of China stimulus as NPC concludes later today. Market chatters of stimuli between RMB10-15tn have been making its rounds but devil may be in the details. Any disappointment here could re-introduce downward pressure to AXJ FX sensitive to RMB. That said, we believe the NPC meeting is likely to factor in US election risk premium and Chinese policymakers should still be determined on delivering support measures to mend the economy and repair sentiment. Larger than expected stimulus may help to support sentiment and partially offset against CNH depreciation. Trump's threat on tariff is clearly one of the biggest risks that markets are concerned about, but we do not know how long it takes for those policies to be in place after all President inauguration only takes place on 20th Jan. Tariff risk and Trump policy uncertainty may keep USD supported on dips but in the event of a delay to implementing tariffs or even in the scenario it doesn't materialise, then further unwinding of Trump trade may also be likely. DXY was last at 104.50 levels. Daily momentum is showing a mild bearish bias while RSI fell. Support at 103.70/80 levels (21, 200 DMAs, 50% fibo retracement of 2023 high to 2024 low). Resistance at 104.60 (61.8% fibo), 105.20 and 105.60 levels (76.4% fibo).

- **EURUSD. *Downside Bias.*** EUR rebounded overnight but continued to trade near recent lows, weighed by fresh concerns of political uncertainty in Germany (Chancellor Scholz dismissed Finance Minister and called for confidence vote on 15 Jan) and ongoing concerns of Trump win on European security and exports to US (due to potential tariffs). Pair was last seen at 1.0780 levels. Momentum turned flat while RSI fell. Risks remain skewed to the downside. Next support at 1.0660/70 levels. Resistance at 1.0740 (76.4% fibo), 1.0830 (61.8% fibo retracement of 2024 low to high).

- **USDJPY. *Bias for Downside Play.*** USDJPY slipped as Trump trades unwind. Near term, election noises in US and Japan may cloud the outlook for JPY but more likely than not, election uncertainty in US and Japan should come to pass. BoJ is expected to uphold central bank independence and Governor Ueda had earlier said that the current political situation in Japan wouldn't stop him from lifting rates if prices and the economy stay in line with BoJ's forecast. On the data front, Recent labour market report also pointed to upward wage pressure in Japan with 1/ jobless rate easing, 2/ job-to-applicant ratio increasing to 1.24; 3/ trade unions calling for another 5-6% wage increase at shunto wage negotiations for 2025. Wage growth pressure remains intact, alongside broadening services inflation and this is supportive of BoJ normalizing rates. We still look for USDJPY to fall into 1H 2025 as Fed and BoJ continue to pursue policy normalisation (which takes on the path of divergence - Fed cut vs. BoJ hike cycle). This should continue to underpin the broad direction of travel to the downside. One risk to watch is potential Trump tariff on the world as that may impact global trade, growth and pose risks to US disinflation journey and Fed policy. Any slowdown or pause in policy divergence between Fed and BoJ can affect USDJPY's direction of travel. Pair was last seen at 153. Daily momentum is mild bearish while RSI eased from near overbought conditions. Consolidation likely for now but bias to fade rallies. Resistance at 153.30 (61.8% fibo retracement of Jul high to Sep low), 154.80 (recent high) and 156.50 (76.4% fibo). Support at 151.70 levels (21, 200 DMAs), 150.70 (50% fibo).

- **USDSGD. *Consolidation with Slight Bias to the Downside.*** USDSGD fell as Trump trade unwound and market reprices hope for China stimulus. Pair was last at 1.3220 levels. Daily momentum remains flat while RSI eased. Consolidation likely with bias skewed to the downside. Support at 1.3190 (50% fibo, 21 DMA), 1.31 (38.2% fibo). Resistance at 1.3290 (61.8% fibo retracement of Jun high to Oct low), 1.3350 (200 DMA). S$NEER was last at 1.59% above model-implied mid.

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