Daily Market Outlook

9 December 2024

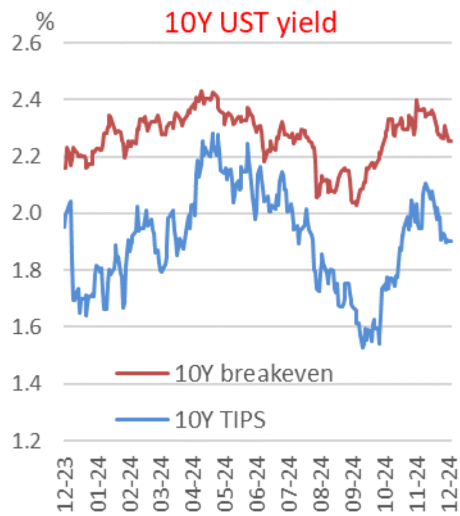
Focus Shifts to US CPI

Frances Cheung, CFA
FX and Rates Strategy
FrancesCheung@ocbc.com

Christopher Wong
FX and Rates Strategy
ChristopherWong@ocbc.com

Global Markets Research and Strategy

- **USD rates**. UST yields slid on the labour market report and ended NY session 4-7bps lower from intra-day highs with the curve mildly flatter. Fed funds futures increased pricing of a December 25bp cut to 85%, moving towards our call. November nonfarm payrolls printed 227K in line with expectations while the net revision to previous two months was a positive 56K – not exactly weak. Market instead chose to focus on the household report which saw the unemployment rate 0.1 percentage point higher to 4.2%; the underemployment rate was also a tad higher at 7.8% versus 7.7% prior. November CPI to be released later this week is the next important input in FOMC's decision-making. Headline CPI may have ticked up partly because of base effect; we look for a steady core CPI or ideally some mild disinflation in core services to give the greenlight for a rate cut next week. Further ahead, recent Fed commentaries point to an intention to slow the pace of rate cuts come 2025, while we have been expecting a slower pace starting 2Q2025. As such, the risk is a pause may come earlier than our base-case – as early as January; we will review the Fed funds rate outlook upon the December FOMC outcome together with SEP and updated dot-plot. 1Y inflation expectation as per University of Michigan survey went up to 2.9% versus 2.6% prior. Precisely, we opined the "uptick in 2Y breakeven suggest that at least part of the potential inflation impact is in the price" of the 2Y bond. We maintain a downward bias to short-end yields. Room for long-end UST yields to fall appears more limited; 10Y breakeven at 2.25% and 10Y real yield at 1.90% are not particularly elevated.



Source: Bloomberg, OCBC Research

- **DXY. *Consolidation.*** USD traded lower last Fri post-release of payrolls, unemployment report. But subsequently traded higher into NY close. There were a handful of Fedspeaks last Fri post-NFP, and officials like Bowman, reiterated gradualism in pace of lowering rates but she also said that it is hard to think interest rates are restrictive right now. Another FOMC member, Hammack believes that Fed is "at or near" the point where Fed should slow rate cut. Goolsbee also echoed the view that pace of rate cuts will probably slow next year. Fedspeaks go into blackout so that puts the focus on data before FOMC next Thu (19 Dec). This week, we have CPI on Wed and PPI on Thu. A 25bp cut is more or less a done deal for Dec meeting unless US CPI unexpectedly surprises a lot to the upside. We would be keen to see the dot plot guidance for 2025. Fed fund futures are implying about 3 cuts for 2025, slightly less than the previous dot plot of 4 cuts that was penciled in for 2025. DXY was last at 106 levels. Daily momentum is mild bearish while RSI fell. Head and shoulders pattern appears to have formed with DXY testing the neckline (which was respected on Fri). 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).

- **EURUSD.** ***ECB, German Politics Take CenterStage This Week.*** ECB meets on Thu. Markets have already reduced bets of 50bp cut and is now pricing just a 25bp cut. But politics may steal the show from ECB. Germany will come into focus this week. Chancellor Scholz is expected to call for a vote of confidence on 11 Dec (Wed) and the Bundestag will vote next Monday 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. Political risks in Europe may still weigh on EUR, but we had also flagged that many EUR negatives, such as slowing growth momentum, political fallout, ECB cut expectations, etc. are already in the price. We still do not rule out the risk of EUR short squeeze in the short term. Pair was last at 1.0555 levels. Daily momentum is mild bullish but rise in RSI slowed. Price pattern shows a classic formation of an inverted head & shoulders pattern, which is typically associated with a bullish reversal. Neckline comes in at 1.0610/20 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.

- **AUDUSD.** ***RBA in Focus Tomorrow (1130am SGT).*** This is the last meeting for the year and the next meeting is not due until 18 Feb. We expect cash rate to remain on hold at 4.35% as services inflation remains sticky and labour market is fairly tight. The risk is an earlier than expected dovish pivot as softer than expected 3Q GDP print last week saw markets shifted expectations to fully price in a cut at Apr's meeting. There were also light chatters if RBA may even need to cut earlier at the Feb meeting. Tariff worries, slowing growth momentum and anticipation for earlier RBA cuts are some factors that may continue to undermine AUD in the short term, unless AU labour market report on Thu comes in hotter or USD reverses lower. AUD was last at 0.6395. Daily momentum is mild bearish while RSI fell. Risks remain skewed to the downside. Support at 0.6380, 0.6350 (2024 low). Break out risks a sharp move towards 0.6270 (2023 low). Resistance at 0.6440, 0.6485 (21 DMA).

- **USDJPY*.*** ***Better 3Q GDP Adds to BoJ Hike Story.*** USDJPY waffled around 150 levels. Bearish momentum on daily chart intact while

RSI is flat. 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). In terms of data, there is a few to keep a look out for this week, including PPI on Wed and Tankan survey on Fri before BoJ MPC (19 Dec). But largely, we are looking for BoJ to carry on with policy normalization with a hike next week and into 2025. Recent uptick in base pay supports the view about positive development in labor market, alongside still elevated services inflation, better 3Q GDP (that was just released this morning) and expectations for 5-6% wage increases for 2025. For USDJPY, it is not just Japan or BoJ in the equation but the Fed and US data also matters. While we are of the view that broader direction of travel for USDJPY is skewed towards the downside as Fed cuts and BoJ hikes. The risk is a slowdown in pace of respective policy normalisation, especially if Fed slows pace on return of US exceptionalism. Then USDJPY moves may even face intermittent upward pressure.

- **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. *Turning?*** USDSGD consolidated. Pair was last seen at 1.3420. Mild bearish momentum on daily chart intact while RSI was flat. Consolidation likely. Resistance here at 1.3420 (21 DMA), 1.3490 levels. Support at 1.3340 (200 DMA, 23.6% fibo), 1.33, 1.3240 (32.8% fibo retracement of Sep low to Nov high). Pair should continue to take directional cues from USD and CNY fix in absence of key data. Next set of SG data is NODX (17 Dec) and CPI (23 Dec). S$NEER strengthened; last at 0.98% above model-implied mid.

- **CNY rates**. Repo-IRS and CGBs were little changed at open, as market awaits outcome of the Central Economic Working Conference. Stimulus announced recently do not point to heightened bond supply risk and expectation is not high either out of the CEWC on the fiscal front. Still, we maintain a mild steepening bias on the CGB curve on a multi-month/quarter horizon as the prospects remain for supply to increase over coming years, while at the short end monetary policy is likely to stay supportive. Reverse repo maturity is light this week, but the focus will quickly shift to the CNY1.45trn of MLF that matures on

16 December. Chance remains for a near-term RRR cut. On rates, given the recent fine-tuning and guidance on NCDs, bias to NCD rates is to the downside. Front-end CNY rates are likely to stay anchored. Further downside to 1Y and 2Y repo-IRS below 1.50% may be constrained for now by the higher funding costs via some other instruments. Still, 1Y repo-IRS appears high compared to short-end CGB yields with bond/swap spreads (OIS – yield) more elevated than other tenors; 1Y repo-IRS appears high compared to 2Y repo-IRS with the 1s2s segment slightly inverted. Materialization of interest rate cuts is a potential trigger for short-end repo-IRS to break lower.

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
mengteechin@ocbc.com