

Daily Market Outlook

9 January 2025

FOMC Minutes; PBOC Offshore Bills

- **USD rates.** UST yields initially rose taking cue from the Gilt market, but the bond sell-off were pared back as the 30Y coupon bond auction went smoothly and dovish comments from Waller hit the wire while the FOMC minutes tone was somewhat balanced not providing much additional information that had not been communicated earlier. Fed funds futures pricing was little changed to a tad more dovish, at 41bps of cuts for this year. USTs found further support at Asia open this morning. Overnight, the 30Y coupon bond cut off at 4.913% slightly below WI level; bid/cover ratio was higher at 2.52x versus 2.39x prior; the bond sales had been expected to benefit from the recent cheapening. While the rising term premium worths monitoring, given how market has been set up, any downside surprises to the data may be able to lend some support to USTs. December ADP employment printed lower than expected; next to watch are payrolls on Friday.
- **FOMC minutes:** 1/ the Committee's assessment on the economy remained pretty much the same, in that disinflation continued but inflation was still somewhat elevated and labour market eased further but remained solid; 2/ it was at or near the point at which it would be appropriate to slow the pace of policy easing; 3/ the higher 2025 inflation forecasts made at the December meeting have incorporated placeholder assumptions – about potential changes to trade, immigration, fiscal and regulatory policies - to some extent; 4/ A majority of participants noted that their judgements about the December meeting's appropriate policy action had been finely balanced. 1/ and 2/ were similar to what had been communicated. 3/ was somewhat dovish in that latest forecasts already incorporated some expected tariff impact. 4/ was somewhat hawkish as the Dec rate cut appears to have been more of a close call than the one dissenting vote suggested.
- **DXY. Market Closure Today; Focus on NFP Tomorrow.** USD remains better bid as latest set of data, including initial jobless claims, ISM services, prices paid added to US exceptionalism narrative. And coupled with yield differentials favouring USD, the greenback remains king until proven otherwise. EMs that take on a more dovish stance may see their FX come under pressure. Some of which include RMB, PHP, INR and to some extent, IDR. With US

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

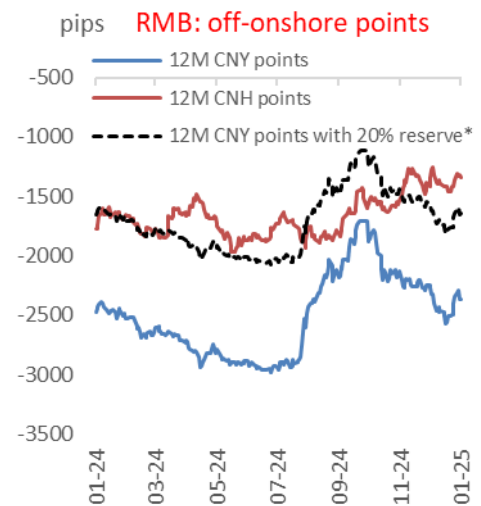
Christopher Wong
FX and Rates Strategy
ChristopherWong@ocbc.com

Global Markets Research and Strategy

markets closed today, the focus next is on US payrolls. Consensus looks for a 165k print for Dec, following a 227k print in Nov. 6-month average comes in around 143k. A slower than expected print should help to apply the brakes on the USD. While there have been headlines on tariff plans and expectations of tariffs, the truth is there is still substantial uncertainty around the timing, magnitude and the scope of implementation. Congress seems determined to pass one powerful bill on tax policy, border security and energy policy by May. New administration would likely be determined to spend more efforts on domestic-focused policies and perhaps only focus on tariffs, protectionism policies at some point later. If indeed we do not see many details but only noises on tariffs, then it is plausible that some of the USD strength may ease slightly. This also depends on how US data and Fed narrative pan out. DXY was last at 108.98. Mild bullish momentum on daily chart intact while RSI fell. Potential bearish divergence on daily RSI observed though price action requires further monitoring. Pullback risk still not ruled out. Support at 108 levels (21 DMA), 106.70 (50DMA). Resistance at 109.50 levels (recent high), 110.10 levels.

- **USDJPY. Signs of Pullback.** USDJPY remains supported, tracking the rise in UST yields. But the pace of gain in USDJPY has started to moderate slightly after Tue's jawboning from Finance Minister Kato. We reiterate that verbal intervention in the face of strong USD trend and policy inaction can only be at best in slowing JPY's depreciation pressure. Moreover, markets do not expect Japan to intervene in a big way until 160 levels is breached. What can stop JPY from further weakening in the near term would be a less dovish BoJ, some guidance in expectations for BoJ hike in due course and/or UST yields to correct lower. Pair was last seen at 158.10. Bullish momentum on daily chart was flat while RSI fell. Pair may consolidation for now until a new catalyst (or hint) comes along. Resistance at 158.90 levels. Support at 156.60/67 levels (21 DMA, 76.4% fibo retracement of Jul high to Sep low), 154.40 (50 DMA).
- **USDSGD. 2-Way Trades.** USDSGD was last at 1.3670 levels. Mild bullish momentum on daily chart faded while RSI fell. 2-way trades likely after the recent pullback. Support at 1.36 (21 DMA). Resistance at 1.3760 levels, 1.38. The focus next is on upcoming MAS MPC (no later than 31 Jan). We have looking for MAS to ease policy at the upcoming MPC by reducing the policy slope slightly but still maintain a mild appreciation stance. Given that the disinflation journey has made good progress, we believe MAS now has optionality to ease especially if it takes on a pre-emptive stance in the face of policy transmission lag. S\$NEER was last at 0.60% above model-implied mid.

- USDCNY. Relative Stability.** USDCNH started to drift slightly lower. And so far, the daily CNY fixing pattern continues to show that the policymakers are determined to maintain that so-called “relative stability” in keeping the daily fix below 7.20. With USDCNY fix somewhere sub-7.19, the +2% upper bound for onshore USDCNY is around 7.3320/40 levels. And USDCNY spot trades very close to the upper bound over the last few days. On the other hand, USDCNH trades much higher, above the upbound bound (as offshore is not constraint by that). As such, we should continue to expect funding squeeze in offshore CNH. With reference to CNH forward implied yields, the levels today may be high over the past 1y, but looking back, there were periods in 2023, or even back in 2018, 2017 when there was even larger funding squeeze being engineered to force away CNH shorts. On net, we should expect the upside for USDCNH to be restraint for now as the messaging for policymakers is clear. USDCNH last seen at 7.3455. Daily momentum is flat while RSI fell. Corrective pullback not ruled out. Support at 7.32 levels (21 DMA), 7.27 (50 DMA). Resistance at 7.37 levels.
- CNY rates.** CGB yields continue to hover around low levels but did not fall further in recent days. Both the bond and IRS markets have priced in rate cuts to a certain extent, and before the materialization of any outright easing, the market may undergo a period of consolidation. Daily OMO operations were minimal, with the next focus being the CNY995mn of MLF that matures on 15 January. In offshore, the size of this month’s auction of offshore PBoC bills has been announced at RMB60bn, all of 6M tenor. Offshore PBoC bills have not normally been issued in January; there is no maturity this month and hence the gross is the net amount, which is record high. Still, the amount is unlikely big enough to push up CNH rates materially to the extent that will have an impact on spot; and the tenor of 6M does not appear to target the liquidity which is of concern currently. The offshore bills issuances may indeed be there to meet demand as the official reasons go. Front-part of the FX swap curve may remain as the main tool if the aim is to tighten CNH liquidity. At the back end, offshore CNH points are elevated, with the offshore-onshore spread between the 12M points last at around 1000pips, versus the estimated 720pips as implied by the full impact of onshore 20% FX risk reserve requirement.



Source: Bloomberg, OCBC Research

*estimation of full impact of 20% FX risk reserve

Macro Research

Selena Ling
Head of Research & Strategy
lingsselena@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
herberhtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

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

Jonathan Ng
ASEAN Economist
jonathannq4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyionq1@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

This report is solely for information purposes and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein or to participate in any particular trading or investment strategy. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this report is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this report may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This report may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, it should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. In the event that you choose not to seek advice from a financial adviser, you should consider whether the investment product mentioned herein is suitable for you. Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), Bank of Singapore Limited ("BOS"), OCBC Investment Research Private Limited ("OIR"), OCBC Securities Private Limited ("OSPL") and their respective related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future, interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial or securities related services to such issuers as well as other parties generally. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. There may be conflicts of interest between OCBC Bank, BOS, OIR, OSPL or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OCBC Bank and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

The information provided herein may contain projections or other forward looking statements regarding future events or future performance of countries, assets, markets or companies. Actual events or results may differ materially. Past performance figures are not necessarily indicative of future or likely performance.

Privileged / confidential information may be contained in this report. If you are not the addressee indicated in the message enclosing the report (or responsible for delivery of the message to such person), you may not copy or deliver the message and/or report to anyone. Opinions, conclusions and other information in this document that do not relate to the official business of OCBC Bank, BOS, OIR, OSPL and their respective connected and associated corporations shall be understood as neither given nor endorsed.