Daily Market Outlook

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Payrolls in Focus

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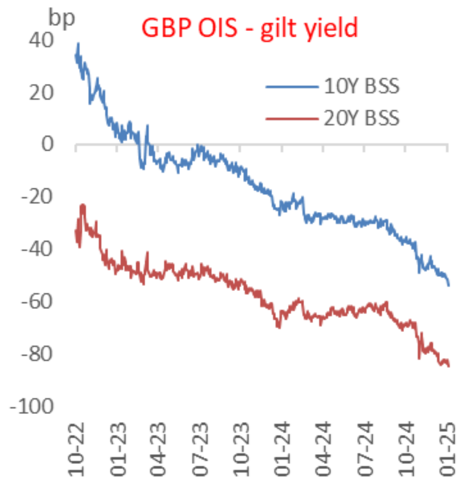
- **DXY. *NFP in Focus.*** USD traded subdued overnight as US markets were closed. Focus today on US payrolls (930pm SGT). Consensus looks for a 165k print for Dec, following a 227k print in Nov. 6-month average comes in around 143k. A slower than expected print should help to apply the brakes on the 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.

- **DM rates**. Thursday saw some stabilization in Gilts after the bond sell-off in the previous day. Gilt yields opened higher on Thursday but retraced lower through the session to end the day little changed. Bond/swap spreads especially at the long end had fallen further to very negative levels. As we earlier opined, while there may be some interim consolidation in bond/swap spreads, a quick reversal in the spread move is not in sight yet given the expansionary budget. USTs opened in Asia morning little changed, after US holiday overnight. Fed funds futures last priced a total of 43bps of rate cuts this year. Consensus for tonight's payroll is 165K but as usual the range of estimates is wide, at 100K-268K. Six-month average of payroll was 143K; an in-line payroll print is likely to reinforce current market pricing of Fed funds rate while a print nearer 140K may be seen as a downside surprise. After payroll, there are CPI and PPI next week; these pending releases may limit market reaction to payroll itself.



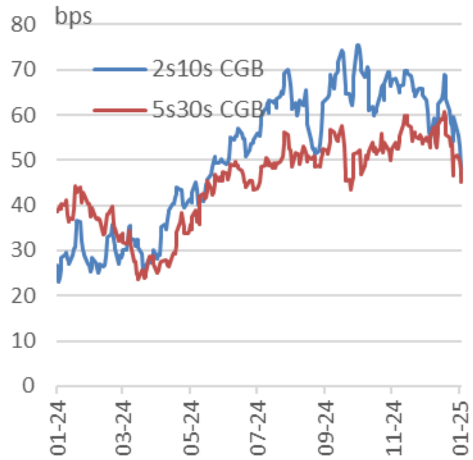
Source: Bloomberg, OCBC Research

- **USDSGD. *Rising Wedge Pattern.*** USDSGD was last at 1.3680 levels. Mild bullish momentum on daily chart faded while RSI fell.

Price action shows a potential rising wedge pattern in the making. This is typically associated with a bearish reversal. Risks somewhat skewed to the downside. 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 are 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 0.54% above model-implied mid.

- **USDCNY. *To Maintain Relative Stability.*** USDCNH eased slightly this morning, following headlines around PBOC temporarily suspending its purchase of government bonds while there was also focus on a PBOC-backed report that quoted comments from a chief economist of big local bank - markets should not over-interpret the easing scope under a moderately loose monetary policy and avoid placing bets. CGB yields rose across the curve, helping to narrow slightly the UST-CGB yield differentials (10y differentials at 300bps vs. 308bps). USDCNH reacted, falling slightly. So far, a combination of steady onshore fix, offshore PBoC bills and PBoC halting its purchase of government bonds send a strong signal that authorities are doing whatever it takes to maintain the relative stability in RMB. USDCNH last seen at 7.3460 levels. 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**. PBoC said it will halt bond purchases under open market operations, as bond supply falls short of demand. Indeed, when bond demand is already overwhelming, pausing bond purchases is the right decision to be made. When the PBoC first started the bond purchases and sales program in August, one would have expected the focus would be squarely on selling long-end bonds given PBoC concerns about market participants loading too much duration risks. Instead, there were monthly net purchases (presumably bought short-end sold long-end) from August through December. PBoC purchases of short-end bonds in previous months should be seen as more of a liquidity measure and there is no need for such at this juncture. The CGB curve may flatten further as initial reaction when short-end bonds also appear to be running too much ahead of the curve in terms of pricing in monetary easing – we have been highlighting the wide short-end bond/swap spreads. The curve has bullish flattened across various segments over past weeks; looking further ahead, we maintain our CGB curve steepening view as long-end supply is likely to stay on the heavy side while continued PBoC bond sales under open market operations at the long end cannot be ruled out.



Source: Bloomberg, OCBC Research

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