

Daily Market Outlook

7 January 2025

Rising US Term Premium; Japan Jawboning

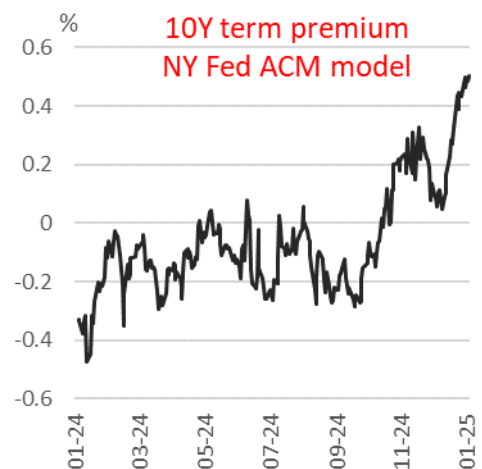
- USD rates.** UST trading was choppy during NY session amid tariff news and a somewhat lukewarm coupon bond auction. Yields ended the day little changed; Fed funds futures pricing was little changed as well, at 40bps of cuts for 2025. Yields rebounded from session lows as Trump denied a Washington Post about imposing tariffs on critical imports only. Meanwhile, demand at the 3Y coupon bond auction which tailed by around 1bp was considered soft; bid/cover ratio of 2.62x was similar to the 2.58x prior, but indirect accepted was lower at 61.0% versus 64.2% prior. The rest of the week brings the auctions of 10Y and 30Y coupon bonds, with gross issuance totalling USD119bn this week. Nevertheless, maturing amount is similar, resulting in a negligible net bond paydown of USD274mn next week. 10Y real yield at 2.26% appears elevated but part of it may be due to a wider term premium reflecting fiscal concerns; 10Y term premium was last estimated by the Fed’s ACM model at 50bps, having risen by a cumulative 45.5bps from the low in early December. The rising term premium has contributed to the steepening of the UST curve, when front-end pricing was not dovish. While the rise in term premium has been rapid, the absolute level is not particularly elevated in historical context, which worths monitoring. Curve steepening is one of our key calls, where we have a more sanguine outlook on short-end bonds. Near term, upside to 10Y UST yield is April 2024 high of 4.735% while downside is seen at 4.46% and then 4.37% which can be achieved by 10Y real yield moving back to near the 2% level.

- DXY. JOLTS Job Openings, ISM Services.** USD traded choppy overnight. Washington Post article on Trump and team exploring a universal tariff but only to cover critical imports initially brought relief to markets. But this was quickly denied by Trump as he said he was not looking to pare back tariff policy. And the DXY trimmed some of those losses. More 2-way trades are expected amid uncertainty and anxiety over tariff plans. Recent Washington post article and subsequent denial also highlighted the fluidity of tariff developments in terms of scope. Less drastic/ targeted tariff plans may bring relief to risk assets while blanket tariffs may undermine sentiments. DXY was last at 108.35. Mild bullish momentum on daily chart is fading while RSI fell. Potential bearish divergence on daily RSI observed though price action requires further monitoring. Pullback lower not ruled out. Support at 107.50 (21

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Source: Bloomberg, OCBC Research

DMA), 106.40 (50DMA). Resistance at 109.50 levels (recent high), 110.10 levels. There is a slew of data this week, including JOLTS job openings, ISM services (Tue); ADP employment (Wed); FOMC minutes (Thu) and payrolls report (Fri). Given that USD has enjoyed a significant run-up, we caution that downside surprise to US data, in particular payrolls report, may dent USD's momentum.

- **EURUSD. CPI Estimate in Focus.** EUR started the week on a firmer footing amid better print on services PMIs for the region while higher German CPI suggests that ECB job on fighting is not done. While there are many negative factors underpinning EUR's bearish bias, we cautioned that EUR shorts may be stretched and that EUR short appears to be an overcrowded trade. These technicalities warrant caution of a EUR short squeeze, especially if European data start to come in better than expected and dovish ECB bets adjust. Focus on CPI estimate later today (6pm SGT). Outside of Euro-area, if US data were to turn sour, it can also be another catalyst for EUR to rebound. Pair was last at 1.0380 levels. Daily momentum shows signs of turning mild bullish while RSI rose. Near term rebound not ruled out but weak fundamentals may restrain the magnitude of the bounce. Resistance at 1.0420 (21 DMA), 1.0460 (23.6% fibo retracement of 2024 high to 2025 low) and 1.0540 (50 DMA). Support at 1.03, 1.0200/20 levels (recent low).
- **USDJPY. Verbal Jawboning.** USDJPY continued to drift higher, tracking UST yields. The rise in USDJPY above 158 levels has also seen verbal jawboning from Finance Minister Kato this morning. He said that he saw one-sided and rapid moves in the market and is deeply concerned about such moves. Any verbal intervention in the face of strong USD trend and policy inaction can only be at best in slowing JPY's bout of depreciation pressure. 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 USD to correct lower. Pair was last seen at 158.10. Bullish momentum on daily chart has faded but dip in RSI also moderated. Pair may consolidate for now until a new catalyst (or hint) comes along. Resistance at 158.90 levels. Support at 156.67 (76.4% fibo retracement of Jul high to Sep low), 155.70 (21 DMA) and 154 levels (50 DMA).
- **USDSGD. Corrective Pullback.** USDSGD traded lower, tracking the pullback in USD this week. Pair was last at 1.3645 levels. Mild bullish momentum on daily chart intact while RSI shows signs of easing from overbought conditions. Short term bias skewed towards corrective pullback lower. Support at 1.36, 1.3560 (21 DMA). Resistance at 1.3760 levels, 1.38. The focus next is on upcoming MAS MPC (no later than 31 Jan). We have changed our house call – now 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 0.56% above model-implied mid.

- **CNY rates.** Repo IRS traded mixed while CGB yields were a tad firmer this morning. PBoC continued to net withdraw liquidity via daily OMOs, which is not unusual at the start of a year. Focus is another relatively heavy MLF maturity, of CNY995bn on 15 January. Given official comments on cutting interest rate and RRR in a timely manner, investors continue to hold high hope for easing. There may however be some consolidation in CGB yields: CGBs are supported by domestic asset allocation which may well keep yields at low levels; but the bond market is already running ahead of policy, with short-end bond yields well below repo rates and IRS. In offshore, we finally see some intra-day spikes in front-end CNH rates. We opined that with the gap between RMB fixing and spot wide, other tools such as offshore liquidity is likely to be deployed in due course. Apart from elevated front-end CNH rates, a local media reported official intention to issue more offshore PBoC bills. Offshore PBoC bills have not normally been issued in January; there is no maturity this month and hence net (i.e. additional) issuances can easily add up to CNY20-30bn or more. The amount may need to be materially more if the aim is to push up CNH rates via additional issuances, as offshore CNH deposits stood at above RMB1trn. Operations on the FX swap curve may be more effective, but providing more offshore RMB investible instruments has its own merit.

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