GLOBAL MARKETS RESEARCH

Daily Market Outlook

6 January 2025

Watching US Data This Week

- **USD rates**. UST yields opened lower in London hours on Friday but rose during NY session to end the day around 4bps higher. Daly and Kugler commented that the Fed's fight against inflation is not over and there is more work to be done, and also said the central bank must be mindful of the labour market. On this, there are JOLTS Job report on Tuesday and ADP employment change on Wednesday, before Friday's payroll and labour market report. Fed funds futures pricing remained subdued, at 39bps of rate cuts in 2025. It appears overly hawkish to us but at this juncture investors are reluctant to be ahead of the curve. The bond market faces a number of challenges including less dovish Fed officials, the debt ceiling issue, and ongoing coupon bond auctions. The **debt ceiling** has been re-instated since 2 January. TGA balance was last at USD677bn on Thursday. US Treasury expects to reach the new limit of USD36.1trn between 14 and 23 January, at which time US Treasury will have to start taking extra-ordinary measures. Net bills settlement is at a small USD4bn this week; meanwhile, there are 3Y, 10Y and 30Y coupon bond auctions this week, totalling a gross USD119bn. 10Y real yield at 2.25% 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 48.65bps, having risen by a cumulative 44bps from the low in early December. Upside to 10Y UST 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 move back to near the 2% level.

- **DXY. *Watching US Data This Week.*** USD eased slightly from the year's high after while FX flows gradually normalised post-holiday liquidity. On Fedspeaks, Barkin said they would *keep interest rates restrictive for longer if inflation gets stuck but so far the path has been towards 2%. After a 100-basis point recalibration of the benchmark rate in 2024 it would be sensible to cut again if new data show inflation has sustainably fallen to 2% or if weak demand ensured inflation would fall too.* Daly and Kugler stressed that the Fed must continue to battle against post-pandemic price surges while noting progress in lowering price pressures over the past 2 years. Markets are largely expecting Fed to pause at the upcoming FOMC (29 Jan). For the year, markets have already adjusted their expectations – now expecting only 38bp cut in total (less than 2 cuts). There is a slew of data this week, including JOLTS job

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Global Markets Research and Strategy

DXY Started the Year on a Stronger Footing; Will DXY Slump (like a déjà vu 2017)

Source: Bloomberg, OCBC Research

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. DXY was last at 108.88. Daily momentum is mild bullish while RSI eased lower from overbought conditions. Potential bearish divergence on daily RSI observed. Pullback lower not ruled out. Support at 108.60, 107.60 (21 DMA). Resistance at 109.50 levels (recent high), 110.10 levels.

- **EURUSD. *Dead Cat Bounce?*** EUR fell to a low of 1.0225 (2 Jan) before rebounding. The large slippage was likely due to poor market liquidity. Pair was last at 1.0310 levels. Mild bearish momentum on daily chart shows tentative signs of moderating while RSI rose. Rebound not ruled out. Focus this week on services PMI (today) and more importantly, CPI estimate (Tue). In the event CPI comes in firmer, then dovish expectation on ECB cut trajectory may unwound. And that can add to EUR's rebound momentum.

- **USDJPY. *Consolidation.*** USDJPY continued to hover near recent highs. BOJ Governor Ueda reiterated that BOJ will raise policy rate if economic conditions continue to improve this year. He added that timing of rate adjustments will depend on the economy, inflation and financial conditions. He also highlighted that the momentum for wage hike is a key point when considering rate hikes. He has been putting a lot of focus on wages but avoided to hint at timing and pace of rate cut. Chance of hike at the next MPC (24 Jan) is probably still live. But for now, the reluctance of BOJ and the guidance for Fed pause suggests that USDJPY may continue to face intermittent upward pressure. Pair was last seen at 157.70. Bullish momentum on daily chart has faded but dip in RSI also moderated. Pair may consolidation for now until a new catalyst (or hint) comes along. Resistance at 158, 158.90 levels. Support at 156.67 (76.4% fibo retracement of Jul high to Sep low), 155.70 (21 DMA).

- **USDSGD. *Corrective Pullback.*** USDSGD traded higher into the new year amid broad USD strength and poor market liquidity. But pair traded a touch softer this morning, tracking USD softness while market liquidity is gradually normalising. Pair was last at 1.3690 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). There is little need for MAS to rush to ease policy but 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. MAS can afford to begin with reducing slope of policy band while still maintaining a mild appreciation stance overall. S$NEER was last at 0.40% above model-implied mid.

- **CNY rates.** Repo IRS were paid up and CGB yields also traded on the firm side this morning, after the 2Y yield fell below 1% on Friday. To recap, PBoC conducted CNY1.4trn of outright reverse repos (3M and 6M) on 31 December; this, together with the earlier CNY300bn of MLF granted, were more than enough to cover the CNY1.4trn of MLF that matured in December; net injection was CNY250bn. Adding in net bond buying of CNY300bn, net injection was CNY550bn. There was no RRR cut yet but given official rhetoric on additional interest rate and RRR cuts, the outright reverse repos may well be taken as additional liquidity. Front-end bond swap spreads are wide as rate cut is yet to materialise and some funding costs are still relatively high (e.g. FR007 last at 1.83%), and the 1Y and 2Y repo-IRS have incorporated some rate cut expectation already. In offshore, there were some upticks in front-end implied CNH rates on Friday upon the breach of 7.3000 level in spot USD/CNY. CNY rates went further up this morning, with 1W CNH rate last at 5.35%. With the gap between fixing and spot wide, other tools such as offshore liquidity is likely to be deployed in due course.

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