OCBC TREASURY RESEARCH

Daily Market Outlook

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FX Themes/Strategy

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- Tech sector gains supported US equities, while Asian and EZ bourses are mostly firmer. Global core yield curves steeper as the front-end outperformed – perhaps reflecting a pull-back in excessive rate hike expectations. However, an uptick in FX vols gave a slight risk-off tinge to the sentiment, with the **FX Sentiment Index (FXSI)** reflecting another worsening of risk sentiment.

- The **broad USD** bounced a third time off the 93.50 level on the DXY Index. The **EUR-USD** breached 1.1600 briefly, before rebounding to close above. **USD-JPY** edged higher off, while the **AUD-USD** held onto gains at levels just south of 0.7500.

- The immediate focus will be on the EUR-USD, given the heavy central bank schedule upcoming. Weak German data releases gave the market sufficient reason to take profit on recent gains in the pair. The EUR-USD risk reversals out to 3m are starting to peak and turn lower – the 1w, 2w riskies barely touched favouring calls, but and is now turning to favour puts again. This has typically signalled a sustained run lower in the EUR-USD. The previous support at 1.1620 was punctured through, and the focus will shift towards the 1.1580/00 support. Overall, expect the USD to build base at the 93.50 level on the DXY Index, with some scope to move higher within the 93.50 to 94.50 range during this central bank season.

- **USD-SGD:** The SGD NEER stable at +1.04% above the perceived parity (1.3613) this morning after retreating from a high of +1.20% on Mon. The USD-SGD looks supported at the 1.3410/40 base, and we refrain from looking for excessive downside for this pair, unless there is a broader capitulation in the USD. More likely, with the USD looking supported again, expect USD-SGD upside to remain in play, with 1.3500 the immediate resistance.

Rates Themes/Strategy

- Front-end yields retraced in USTs, Gilts and Bunds, as investors scaled back hawkish monetary pricing, while long-end yield was relatively stable overnight, steepening back the curves. Inflation expectations edged higher. In the bills market, a mild pressure point continues to be observed at the T-bills that mature in December. Treasury's cash balance with the Fed has rebounded upon the pick-up in bill issuances, while the usage at the Fed's o/n reverse repo also eased mildly to USD1.413trn on Monday. There will be USD84bn of net bill issuances this week. Despite some retracement of late, SONIA/front-end GBP rates pricing stays overly hawkish. We continue to expect front-end Gilts to outperform front-end USTs.

- In SGD space, MAS is to sell 28-day and 84-day bills today; market watch if the previous high cut-off of 0.55% was a one-off. Secondary market bill yields have edged up since the start of the month, with the 3M yield trading at around 0.4%. Front-end liquidity appears to be still on the tight side and front-end SORA OIS refused to retrace lower which have stayed high relative to the USD SOFR OIS curve. If today's bill auction comes as a relief, then there may be some easing at the 1Y SORA OIS. Meanwhile the SGS market is preparing for the 5Y SGS auction which shall be readily absorbed.

- In China, the PBoC further injected liquidity via OMOs, with a net CNY190bn each on Monday and this morning. The PBoC cited tax payment and government bond issuances as the reasons for the operations. These operations help soothe the market and may sustain the downward momentum in CNH points. The OMO reverse repo maturity profile gets heavy this Wednesday through Friday, following last week's upsized OMOs and hence market watch closely the OMOs for the rest of the week. Still, these are short-term money while the liquidity tightness is due to longer-term/permanent payment needs. On balance, we remain of the view that the 10Y CGB yield is likely to trade in a range of 2.9-3.1%.

- The KRW rate market has increased monetary tightening pricing aggressively over the past couple of months, and is pricing in almost two full rate hikes on a 3-month horizon. Front-end rate reaction to the softer than expected Q3 GDP print this morning has been muted thus far. Before the GDP report, BoK said the economy moderated to some extent, but is still growing in line with the central bank's 4% projection this year. BoK's Kim sounded optimistic on growth in Q4. It looks like the November MPC meeting is still a live one

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