

China Reopening Boosts

- **USTs** pared losses from the initial reaction to the NFP releases and ended the NY session mixed. The 2Y UST yield jumped by 22bp upon the payroll release, but it had since retraced lower to reflect a 10bp move from the intra-day low before payroll; the 10Y UST yield ended lower than pre-payroll low. For now, market may be fixated at slowing inflation (CPI, PCE deflator) which ties in nicely with the calibration narrative; and there might still be some residual short positions to be cleared. While it has also been our view that the calibration narrative is stronger than the higher terminal rate guidance, at current levels the UST market appears too dovish compared to the Fed rate hike prospect. Fed funds futures/USD OIS continue to price in a terminal rate at around 5%. We have shifted our Fed hike profile higher to 50bp-50bp for December/Q1, from the 50bp-25bp previously expected. Our next target for the 2Y yield stays at 4.50/4.60% as the yield is likely to peak below the expected peak effective Fed funds rate given the market appears happy to continue to price in some rate cuts in 2023. On the data front, this week brings US durable goods orders, PMIs, and PPI.
- **Gilts** fell on Friday despite somewhat less hawkish remarks from a BoE official. Incoming MPC member Dhingra opined that the policy rate should peak below 4.50% to avoid deepening and prolonging a recession; and that the UK is “not there at a wage-price-spiral point yet. GBP OIS is pricing in a peak rate of 4.70% while our expectation is 4.25%. Meanwhile, the BoE continued to offload the bonds it bought from the temporary program, accepting all bids, and sold GBP1.41bn of Gilts. Our view remains for Gilt underperformance against OIS, as supply pressure comes from various fronts including the DMO, BoE ongoing QT and sales of Gilts/linkers from temporary purchase.
- **DXY. Heavy Bias.** Payrolls report came in better than expected with NFP at +263k beating expectations of +200k and wage growth at 5.1% (vs. 4.6%). USD saw a knee-jerk ~1% jump post-payrolls report but only to see gains being faded as markets chose to focus on Fed’s policy calibration thematic. Elsewhere, China’s reopening thematic continues to gather traction, lending a boost to sentiments. Shanghai and Hangzhou were the latest to join Guangzhou, Shenzhen, Urumqi and others in easing covid-related restrictions. PCR tests will no longer be required to enter outdoor public venues such as parks and to ride public transport. While easing of restrictions may seem like baby steps, they are nonetheless a strong sign of China taking calibrated steps in the direction of reopening, rather than status quo/ further tightening. Anticipation of further easing of measures in China should continue to favor RMB, RMB-linked assets and broad sentiments. This should also benefit risk proxy FX, including AXJs, AUD while the counter-cyclical USD stays on the back foot. Taken together, the change in market

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dynamics of Fed policy calibration and China reopening should continue to see a rebalancing of portfolio flows to Asia especially when allocations in Asia may have been lower than usual amid the sell-off seen in most parts of 2022. DXY was last at 104.45 levels. Daily momentum is bearish while RSI fell towards near oversold conditions. Bias for downside play remains. Next support at 103.80. Resistance at 105.50 (200 DMA), 107 (76.4% fibo) and 108.50 (61.6% fibo retracement of Aug low to Sep high). Bias remains to sell rallies. Fed speaks have now entered into blackout period until the next FOMC (15 Dec).

- **EURUSD. Trending Higher.** EUR continued to trade higher at the expense of a softer USD and supported risk appetite. Pair was last at 1.0560 levels. Daily momentum is mild bullish but rise in RSI moderated near overbought conditions. Risks remain skewed to the upside. Potential bullish crossover with 21DMA cutting 200DMA for the first time in 18 months. Next resistance at 1.0610 before 1.0750 (61.8% fibo). Support at 1.0520 levels (50% fibo retracement of 2022 high to low), 1.0360 (200 DMA) and 1.0295/1.0320 (21DMA, 38.2% fibo). Looking ahead we would monitor how the cold spell in Europe may affect energy demand. A significant drawdown from storage, sharp rise in prices may undermine sentiments and put pressure on businesses. That may restraint EUR gains.
- **GBPUSD. Momentum Buying.** GBP's rally continued, riding on USD softness. GBP was last at 1.2330 levels. Mild bullish momentum remains intact while rise in RSI is near overbought conditions. Resistance at 1.24. Support at 1.2260, 1.2150 (200 DMA), 1.2050 levels.
- **USDJPY. Sell Rallies.** USDJPY continued to trade with a heavy bias. Softer USD, 10Y UST yields on the back of Fed policy calibration thematic and recent BoJ remarks were the key factors underpinning the move. Recent BoJ's comments seem to suggest rising likelihood of potential withdrawal of monetary stimulus if trend inflation overshoots expectations and stay above its 2% target. Last week, BoJ member Noguchi told a news conference that chance of Japan experiencing a positive cycle in which wages rise in tandem with inflation has clearly heightened compared with pre-pandemic and he highlighted there's a chance the BoJ will act pre-emptively. This is somewhat a hawkish shift. Another new member Naoki Tamura said that the right time for BoJ to conduct a policy assessment would be soon or a little later. Some options the BoJ may consider is an exit from its NIRP - shifts Japan cash rate to par, from current -0.1% and or tweaks to its YCC. Further unwinding of massive JPY shorts and a moderate-to-softer USD profile can lead to further downside in USDJPY. Pair was last at 134.30 levels. Bearish momentum on daily chart intact while RSI fell. Risks are to the downside. Decisive close below key support at 134.50 (200 DMA) could see further downside

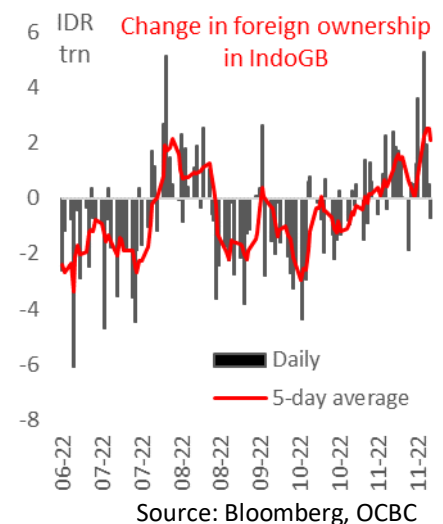
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play out. Next support at 132, 130.40. Resistance at 135.50 (76.4% fibo retracement of Aug low to Oct high), 137.50 and 138.65 (61.8% fibo). Bias remains to sell rallies.

- USDSGD. Bias Remains to Sell Rallies.** USDSGD fell further amid supported risk appetite, fuelled by hopes of China reopening and a softer USD profile. Pair was last at 1.3470 levels. Daily momentum is showing a bearish bias while RSI dipped into oversold conditions. Bearish crossover observed – 21DMA cuts 200DMA to the downside. Bias remains to sell rallies. Resistance at 1.3510, 1.3660. Support at 1.3410. S\$NEER is trading ~1.2% above model-implied mid.
- IndoGBs** traded firm on Friday with most of the bond rally happening in the morning while the bonds faced some profit-taking flows in the afternoon as investors prepared for Tuesday's auction which has a mildly higher indicative target of IDR15trn and is the last auction of the year. We see chance of an upsize given the construction market condition. There were bond inflows in most of the recent days, with foreign holding of IndoGBs standing at IDR736.24trn as of 1 December, or 14.24% of outstanding; inflows in November amounted to IDR23.7trn. Our base case is for Bank Indonesia to hike its policy 7-day repo rate by 25bp at the MPC meeting later this month.

CNY rates. Repo-IRS are trading on the firm side this morning amid some relaxation in covid measures on local levels. Back-end CNH points traded soft as nevertheless front-end USD rates rose. We hesitate to call a (reversed) divergence in monetary policy between China and US, as the Fed is to hike rates further while in China monetary policy is somewhat balanced. Bias is to the upside for CNY rates attributable to growth support measure and re-opening hope with potentially subsequent asset re-allocation flows. Still, we will probably see USD rates going higher before CNY rates do so on a more significant scale. As such, we prefer to wait for better levels to buy on dips at the back end of the DF curve.



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