OCBC TREASURY RESEARCH

Daily Market Outlook

9 December 2022

Key event risks next week

- USTs were trading without a clear direction ahead of next week's FOMC meeting; yields ended the day 5-8bp higher across the 2-10Y segment while longer end bonds were little changed. Tonight's economic releases include November PPI and the December University of Michigan survey which include inflation expectations. These inflation expectations have not had a material impact on market breakeven levels but given the release is before the next CPI, the survey may attract slightly more attention than usual. The 4W and 8W T-bill sales drew strong demand, with the cut-offs coming in at 3.65% and 3.94. The cut-off at the 4W was 30bp below the one at the last auction and its spread below the 8W cut-off widened, probably as liquidity preparation for year-end has been mostly done and there was allocation requirement for residual funds to the shortest tenor, despite the looming December FOMC meeting. Light supply could have been another factor. US Treasury's cash balance at the Fed (TGA) has been falling recently as current debt level is not far away from the debt ceiling; TGA balance is set to fall further on bills paydown: after the USD54bn of paydown this week, paydown is planned at USD19bn next week.

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- Market pricings for the December MPC meetings at the Fed, BoE and ECB look fair, expecting a 50bp hike at each of the central bank. Key would be the rhetoric, including via the FOMC's updated dot-plot, the votes at the BoE, and any discussion of potential QT at the ECB. If QT is to start in Q2-2023 at the ECB, then the potential amount through redemptions is estimated at EUR200bn plus for 2023 (not including PEPP); but we expect there will be monthly caps which are binding. As for the pricing of the terminal policy rates, we still see GBP OIS as overly hawkish but outright receive positions are not preferred.

Source: Bloomberg, OCBC

- **DXY. Sideways.** USD traded a touch softer overnight but still within recent range, pivoting around 105 in absence of fresh catalyst. PPI and UoM sentiment, inflation expectations data are due tonight. That may provide some directional cues but key focus still on CPI report next Tue and FOMC next Thu. Expect positions to lighten-up ahead of key event risks. There are essentially 3 key drivers for markets: 1/ fed policy calibration; 2/ recession concerns; 3/ China reopening. The China reopening theme is a big one. Not only is there a scale-down in covid restrictions, support measures for the economy, property market are coming onstream. China growth story can help to partially mitigate against global growth concerns and is supportive of sentiments. Elsewhere we continue to view the slippage in oil prices as a benefit to net oil importer AxJs, including THB, PHP, JPY. KRW. DXY was a touch softer. Last at 104.77 levels. Daily momentum is not showing a clear bias while RSI fell. Consolidation expected but bias to lean against strength. Resistance at 105.70 (200 DMA), 106.20 (21 DMA) and

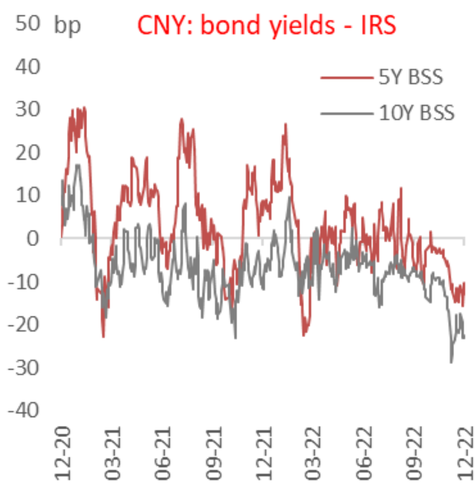
106.60 (23.6% fibo retracement of Sep high to Dec low). Support at 104.60, 104.1 (recent low).

- **EURUSD. Sideways.** EUR was a touch firmer overnight as risk sentiment improved while USD slipped. But EUR still largely trades within recent range. EUR was last at 1.0575 levels. Mild bullish momentum faded while RSI is flat. Sideways trade likely. Resistance at 1.0610 before 1.0750 (61.8% fibo). Support at 1.0520 levels (50% fibo retracement of 2022 high to low), 1.0450 and 1.0390 (21 DMA).

- **USDJPY. Range.** USDJPY was a touch softer amid USD softness. Last at 136.20 levels. Bearish momentum on daily chart shows tentative signs of fading while RSI shows signs of falling. Range-bound trade likely in the near term though bias remains to sell rally. Resistance at 138.65 (61.8% fibo retracement of Aug low to Oct high), 139.50 (50 DMA) and 141.20 (50% fibo). Support at 135.50 (76.4% fibo), 134.70 (200 DMA) before 133.70. Retain bias to sell rally. We reiterate BoJ watcher, Prof of Economics Takeo Hoshi at Tokyo University said that even as BoJ maintains its ultra-loose policy, the central bank can still abandon its 10y YCC cap. BoJ will then reduce the size of its balance sheet by slowing or ending asset purchases, before moving onto raising short-term interest rates. This is consistent with some BoJ members who have started to comment more about how monetary policy may shift.

- **USDCNH. RSI Near Oversold but Bias to Sell Rallies.** USDCNH continued to trade lower on hopes of China reopening. Bloomberg reported that Chinese authorities may further announce property cooling measures at its annual Central Economic Work Conference. We reiterate that though easing of restrictions may seem like baby, localised steps, they are nonetheless a strong sign of China taking calibrated steps in the direction of reopening. And there are support measures for the economy and property sector as well. We are still cautiously optimistic for RMB, RMB-linked assets and risk proxies. USDCNH was last at 6.9525 levels. Bearish momentum on daily chart intact though RSI is near oversold conditions. Price action continued to exhibit a triangle pattern, which is typically a continuation pattern in the direction of the prior trend (in this case was a down-move). Breakout of the triangle to the downside could see decline accelerate. Area of support at 6.93 – 6.95. A decisive break puts next "textbook" objective around 6.67-6.70 levels. Resistance at 6.99, 7.0280 (100 DMA). Bias to sell rallies.

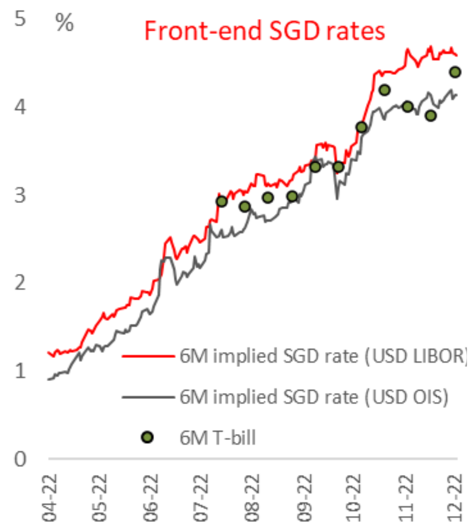
- **CNY rates**. Repo-IRS were trading on the firm side this morning while CGB yields rose across the curve, despite CPI was confirmed to have slowed in November to 1.6% YoY from 2.1% YoY prior. Factors that have led to the recent upward moves in rates and yields are beyond re-opening hopes, and these include additional growth support measures and a more balanced (instead of easing) monetary policy



Source: Bloomberg, OCBC

stance. The uptrend in CNY rates has been established, and we see any retracement lower as short-term corrections. Despite our upward bias to CNY rates, we prefer to wait for better levels to buy back-end CNH points, as we probably will see USD rates rebound near-term before CNY rates move up materially. Next data releases to watch are November aggregate financing/new yuan loans/money aggregates, in addition to the CNY850bn of MLF that matures on 15 December.

- **SGD rates**. The 6M T-bill cut off at 4.40% shall be considered high versus implied SGD rate at around 4.10/12% (from SOFR) and 4.58/60% (from LIBOR); whereas at the previous auction on 24 November the cut-off was below the lower end of implied. Percentage of non-competitive allotted is 100% vs 77.78% prior. The higher cut-off could be due to lower demand towards year-end, or as the retail segment has gathered more understanding of the market. Instead, there are signs the market may be looking for a peaking in SGD rates. Apart from the wide cut-off spreads at the recent FRN auctions, the implied 6M6M SGD rate has started to trade below the implied spot 6M SGD rate since mid-November. Our base-case is for front-end SGD rates to peak some time in Q2-2023.



Source: MAS, Bloomberg, OCBC

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