GLOBAL MARKETS RESEARCH

Daily Market Outlook

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PMI Watch

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- **USD rates.** UST yields rebounded from intra-day lows to end the NY session mildly higher with the curve steeper. Yields softened back mildly at Asia open. Daly said it is premature to declare victory against inflation while Williams expected policy rate to remain restrictive for quite some time. These comments did not deviate from their usual stance and Fed funds futures were little changed. On the data front, October PCE and core PCE deflators eased as expected; falls in pending home sales narrowed, continuing to support the soft-landing narrative which underlines our base-case for a 100bps of rate cuts in 2024 and the easing cycle to start in Q2-2024. USTs are likely to consolidate near-term, with potential upticks in yields especially at the longer-end between now and year-end – which will then present opportunities to add to bond positions. We have noted that the base effect will exert an upward pressure on headline year-on-year CPI inflation for November and December; although base effect should be well noted, market tends to react to the outcome. In December, there are also upsized supply to be digested with 3Y, 10Y and 30Y coupon bond auctions in the first half of the month. Usage at the Fed's O/N reverse repos fell by USD26.4bn to USD887.8bn yesterday, while net settlement of bills and coupon bonds was at USD96bn. Powell speaks tonight.

- **Bunds** outperformed USTs and Gilts, upon a slew of soft CPI prints. Eurozone CPI fell by 0.5%YoY in November, bringing the YoY inflation down to 2.4% from 2.9% prior; core CPI also eased by more than expected to 3.6%YoY from 4.2%YoY. EUR OIS fully price a 25bp rate cut by the April MPC meeting and more than 100bps of cuts on a one-year horizon, mildly more dovish than our base-case of 75bps of cuts. We expect some stabilization in front-end bond/swap spreads; further dovish adjustment in EUR OIS is unlikely in the near term, but Bunds may still not be able to outperform swaps given lingering QT impact and risk of a quicker QT – potentially via an earlier (partial) end to PEPP reinvestment and/or some active sales under APP.

- **DXY.** ***ISM, Powell Speech in Focus Tonight.*** USD rebounded overnight, tracking the modest rise in UST yields amid continued divergence in Fed's remarks this week. For instance, Waller, Bostic are increasingly confident that inflation is firmly on downward path, giving the impression that they are open to the idea of rate cut if data continues to trend lower but other Fed officials seemed less convinced and are non-committal on rate cuts. Overnight, Daly said that she is not thinking about rate cuts at all now and that it is "too early to know" if Fed is finished raising rates. Williams said that he is not losing much sleep over market forecast for cuts… rate cuts to depend on how economy, inflation evolve. Earlier in the week, Barkin said he isn't yet convinced and argued that Fed should keep the option to hike rates in case inflation proves stubborn. But cutting thru the noise, it just meant that Fed is adopting a patient approach (aka. wait-and-see) on policy pause and that policy decision remains dependent on data. This has not changed. That said, softer US data does give markets the confidence to price in rate cut for 2024. About 114bps of cut are now priced in for 2024 with the first cut in May fully priced in. Disinflation trend remains intact. Overnight, core PCE came in at 3.5% y/y for Oct (vs. 3.7% in Sep). DXY price action resembled a sell on rumor, buy on fact pattern. Focus tonight on ISM manufacturing data (11pm SGT). Softer print could reinvigorate USD bears again. Markets will also be keeping an eye on Fed Chair Powell's comments tonight. We expect him to stick to his recent rhetoric that disinflation trend is making progress, policymakers can afford wait-and-see approach and that policy decision remains highly dependent on data. DXY was last at 103.30 levels. Bearish momentum on daily chart is fading while RSI rose from near oversold conditions. Resistance at 103.50 (50% fibo retracement of Jul low to Oct high) and 104.20 (100 DMA). Support at 102.50 (61.8% fibo), 101.40 (76.4% fibo). Bias remains to sell rallies.

- **EURUSD. *Retracement.*** EUR fell further overnight amid USD rebound while CPI estimate for Euro-area surprised to the downside. Headline and core CPI came in at 2.4%, 3.6%, respectively (vs. 2.7% and 3.9% expected). Softer CPI led to markets pricing in first ECB cut in Apr-2024. Pair was last at 1.0910 levels. Bullish momentum on daily chart faded while RSI fell. Near term risks skewed to the downside. Support at 1.0860 (50% fibo retracement of Jul high to Oct low), 1.0840 (21 DMA). Resistance at 1.0960 (61.8% fibo), 1.1020 levels.

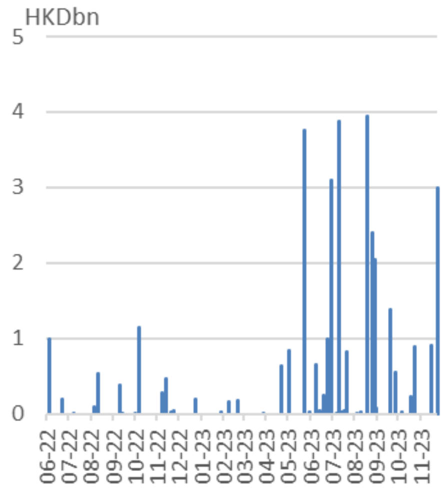
- **NZDUSD. *Bullish but Overbought.*** NZD remains better bid in early trade, riding on China's surprise PMI print and lingering effects of hawkish RBNZ. China Caixin PMI manufacturing surprisingly swung back into expansionary territory lent momentum to Kiwi. Meanwhile Deputy Governor Hawkesby said that RBNZ cannot afford to ignore immigration surge, which is pushing up rents and house prices. He also emphasized on how inflation has been above target for a prolonged period and core inflation pressures are slow in terms of coming back to target. The concern with runaway inflation does heightens the risk of an imminent hike but the next MPC is on 28 Feb 2024. Pair was last at 0.6185 levels. Bullish momentum on daily chart intact while RSI rose into overbought conditions. Bullish cross over observed with 21DMA cutting 100 DMA to the upside. Risks remain skewed to the upside though we are cautious of RSI rising into overbought conditions. Resistance at 0.6210/20 levels before 0.6260 (76.4% fibo retracement of Jul high to Oct low). Support at 0.6170 (61.8% fibo), 0.6090 (50% fibo, 200 DMA). To recap, RBNZ kept OCR on hold at 5.5% at its last MPC meeting for the year but the tone, language, projections in MPS and Governor Orr's press conference were rather hawkish. MPS noted that inflation remains too higher and were of concern; some members have low tolerance for slow CPI moderation and that rates may need to rise if CPI is stronger than expected. At the press conference, Governor Orr said that a rate hike was discussed at the policy meeting, MPC is willing to raise rates if necessary; nervous that inflation has been outside 1 – 3% band for so long that the MPC is showing an upward rate bias not probability. There were upward revisions to cash rate forecasts for 2024 and projections show no rate cut until mid-2025. RBNZ also noted that immigration is starting to boost consumption. Hawkish surprise keeps rate hike bets alive for RBNZ, and this should be supportive of Kiwi upside.

- **USDCNH. *Consolidation.*** USDCNH traded range-bound despite USD bounce overnight while China Caixin mfg PMI surprised to the upside this morning (50.7 vs. 49.6 expected). Daily fix was set higher at 7.1104 (vs 7.1018 yesterday). We are watching if policymakers are nuancing its guidance for a firmer RMB but to keep it stable. Pair was last at 7.1440 levels. Bearish momentum on daily chart faded while RSI shows signs of rising from near oversold conditions. Consolidation likely in absence of fresh catalyst. Support at 7.1120 (38.2% fibo retracement of 2023 low to high), 7.07. Resistance at 7.1340 (200 DMA), 7.18, 7.21 (23.6% fibo).

- **USDSGD. *Bullish Reversal?*** USDSGD sustained another session of uptick overnight, tracking the rise in UST yields and USD. Better than expected China Caixin mfg PMI did not seem to spark much excitement in Asia trade this morning. Focus next on Powell's speech later tonight. Pair was last at 1.3370 levels. Bearish momentum on daily chart shows signs of fading while RSI rose from near oversold conditions. Potential falling wedge formed – typically associated with bullish reversal while bullish divergence maybe forming on MAC. We do not rule out further retracement to the upside. Resistance at 1.34 (61.8% fibo retracement of Jul low to Oct high), 1.3470 (50% fibo, 200 DMA). Support at 1.3310, 1.3280 levels.

- **HKD rates.** HKMA's discount window was tapped at HKD3bn on Thursday – a relatively big amount, just as HIBOR fixings eased. we have noted that given Aggregate Balance (interbank liquidity) is at a low level, front-end HKD rates are sensitive to changing (in particular, additional) funding demand. There will likely be intermittent upticks in front-end HKD rates when liquidity demand hits. Purely as a reference, the spread between 1M HIBOR and 1M term SOFR had widened to 85bps at one point in December 2022; the spread was last at 18bps. Further out, market does not expect 3M HIBOR to stay sustainably high beyond the near-term, as reflected by FRAs and short-end HKD IRS. We hold a similar view in that HIBORs may stay at relatively high levels through to year end but shall embark on a downward trajectory in 2024, premised on our USD rate view.

HKMA Discount Window Usage



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