OCBC TREASURY RESEARCH

Daily Market Outlook

10 January 2023

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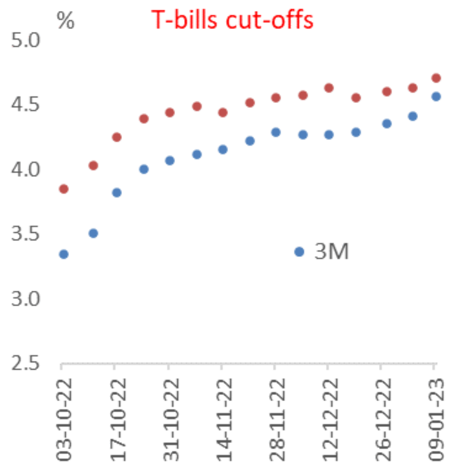
Supply watch – US T-bills, China LGBs, IndoGBs

- **USTs** ended the NY session stronger after opening mildly on the soft side. Comments from a couple of non-voting Fed officials did not alter market expectations ahead of the CPI release. Fed Funds futures price a terminal rate (upper end of the target range) of around 5.1%. and rate cuts of 50bps by year-end from expected peak. We remain of the view that the rate cut expectation is unrealistic. The Federal Reserve Bank of Atlanta's Wage Growth Tracker has the wage growth for job switcher continuing to pick up, at 7.7% YoY in December versus the overall wage growth of 6.4%, pointing to upward momentum. On Monday, the ECB noted they expect wage growth over the next few quarters to be "very strong".

- The gap between the cut-offs at the 3M and 6M bills narrowed to 15bps from 22.5bps at the last auction, as the 3M cut-off increased more albeit it was 0.5bps below WI level. Meanwhile, the demand at the 6M bill has turned softer, with a bid/cover ratio of 2.48x from 2.78x prior. Investors might have turned a bit cautious amid the debt ceiling issue. Debt subject to the debt ceiling stood at USD31312.6bn as of 6 January, a meagre USD69bn away from the ceiling. That said, outstanding debt nearing the ceiling constrains bills supply at the same time. The near-term scenario is more likely one where a lack of bills supply meets the still flush liquidity. Funds parked at the Fed's o/n reverse repo stayed high, at USD2.2trn on Monday, while US Treasury has planned to pay down a small USD1bn of bills this week. The TGA balance was at USD375.694bn as of 6 January; versus the previously set target of USD700bn/USD500bn for Q42022/Q12023.

- **DXY. Data Matters but Cautious of Profit Taking**. USD continued to trade with a heavy bias despite hawkish Fed speaks overnight. This underscores our view how US data matters more. For instance, USD saw a sharp sell-off last Friday post softer US data. This week's CPI data (Thu) would be key for near term USD directional cues. Consensus expects headline CPI to slow to 6.5% YoY, down from 7.1% and core CPI to slow to 5.7% YoY, down from 6%. Another deceleration in price pressures would add to speculations that the Fed could again cut back on its pace of hike to 25bps (from 50bps hike at Dec FoMC) at the upcoming FoMC (1 Feb). And this could boost appetite for risk assets while the USD could come under renewed pressure. However, an unexpected uptick may un-nerve sentiments and lend support to the USD. In any case, we should expect volatility to pick up and more 2-way swings on the USD this week. Some profit-taking on USD shorts ahead of event risk could be in the cards. On Fed speaks overnight, Bostic said that the Fed was committed to tackling high inflation and this warrants raising interest rates into a 5% - 5.25% range to squeeze excess demand out of the economy. But he later added that the case for reducing the size of Fed hike to 25bps would be boosted if CPI data



Source: Bloomberg, OCBC Research

shows prices cooling. Another Fed official Mary Daly also expects the Fed to raise interest rates to somewhere near 5%. We note that neither Bostic nor Daly are voters this year. DXY last at 103.1 levels. Mild bullish momentum on daily chart faded while RSI turned lower. Risks remain skewed to the downside, but we are cautious if USD shorts could unwind ahead of key US event risk – CPI. Next support comes in at 102.15 (50% fibo retracement of 2021 low to 2022 high). Resistance at 104.20 (21 DMA), 105.1 and 106.20/40 (50, 200DMAs death cross).

- **CNY rates.** China is reportedly considering raising the quota for LGB (local government bonds) issuance this year, to CNY3.8trn; this would be above the quota of CNY3.65trn each for 2022 and 2021. Note the actual new LGB issuance last year already surpassed CNY4trn hence the ultimate outcome may not necessarily be an increase in supply. Still, taking into account a potentially higher LGB issuance quota to start with, the relatively long duration of LGBs (average duration of new LGBs in Jan-Nov 2022 was 13.3Y; 8Y for general LGBs and 15.6Y for special LGBs), and the stimulus to the economy, we maintain our steepening bias to the CGB curve. On the liquidity front, the PBoC net withdrew CNY62bn – the remaining liquidity injected before year-end – from the market via OMOs this morning. Next focus is the CNY700bn of MLF maturity on 17 January, and likely liquidity provisions ahead of the Chinese New Year. Back-end CNH points were paid up further on USD rates movement, while some asset flows might have also pushed up the points in general although liquidity has not come back as a major driver when US yields stay volatile. We stay cautious ahead of the US CPI release.

- **IndoGBs** saw some profit-taking in the PM session on Monday after the morning gains. On the day, yields were 5-10bp lower. Today's sukuk bonds have an indicative target of IDR14trn; below-target award cannot be ruled out – while the global bond market environment appears to be somewhat constructive, investors may be mindful of the risk running into US CPI release. To recap, Q1 issuance target has been set at IDR245trn, corresponding to indicative targets of IDR23trn for individual conventional bond auction and of IDR14trn for individual sukuk bond auction. Supply appears to be mildly front-loaded compared to the 2023 budget deficit of IDR598.2trn. Meanwhile, surplus financing left over from 2022 is IDR119.2trn, providing a partial buffer to 2023 financing need at a time when BI is no longer buying bonds directly from the MoF – BI bought IDR224bn worth of bonds in 2022 under SKB III. Foreign ownership of IndoGBs edged higher to IDR768.86trn, or 14.44% of outstanding, as of 5 January after a few days of inflows.

- **EURUSD. Nearing Key Resistance.** EUR built on momentum and extended gains above 1.07-handle amid climate of broad USD softness. Pair was last at 1.0730 levels. Mild bearish momentum on daily chart is fading while RSI rose. Bullish trend channel (formed since Nov) still holds. Golden cross was formed (50DMA cuts 200 DMA to the upside). Most signals pointed to upward pressure. Resistance at 1.0750 levels (61.8% fibo retracement of 2022 high to low, trend upper bound). Break-out of 1.0750 is needed for EUR bulls to follow through. Next resistance at 1.0850, 1.0940 levels. Support at 1.0630 (21 DMA), 1.0520/40 (50% fibo) and 1.0440 (50 DMA).

- **GBPUSD. Supported.** GBP continued to inch higher amid broad USD softness. Overnight, BoE Chief Economist Huw Pill said that inflationary pressures in UK may be easing as labor market weakens and the economy heads into recession. He added that "should economic slack emerge and unemployment rise as latest MPC projected, that will weigh against domestic inflationary pressure and ease the threat of inflation persistence." GBP was last at 1.2170 levels. Bearish momentum on daily chart shows signs of waning while RSI rose. A bullish engulfing was observed on Friday's session while weekly chart suggests potential of rebound. The initial near-term caution that we had been calling for may have ran its course with support at 1.1850 met (low traded on Fri at 1.1842). Next resistance at 1.2220 levels. Failure to recapture key levels could see GBP re-attempt downside. Support at 1.2110 (21 DMA), 1.2050 (50% fibo retracement of 2022 high to low), 1.1960 (50 DMA) and 1.1840 levels (recent low).

- **USDJPY. 2-Way Trades but Bias to Sell Rallies.** USDJPY continued to trade lower, tracking decline in USD. Pair was last at 131.80 levels. Mild bullish momentum remains intact but RSI fell. 2-way trades likely. Resistance at 133.35 (21 DMA), 134.80 (23.6% fibo retracement of Oct high to Jan low). Support at 131, 130.60 and 129.50. On the weekly chart, bearish momentum remains intact. Price action exhibits a head and shoulders pattern – bearish reversal. A break below 130 support could see losses accelerate towards 127.30 (50% fibo). Meantime, US CPI data is a key event risk. An unexpected uptick in data point could pose upward risk for USDJPY.

- **AUDUSD. Retain Buy Dips Bias; Short Term Objective Met.** AUD gains shows some signs of moderation this morning. We caution the risk of profit-taking ahead of key event risks this week – Australia CPI (Wed) and US CPI (Thu). But medium term, we stick to buying dips. Softer US data (raising hopes for Fed policy calibration) and positive development out of China should keep AUD supported. Of interest, China indicated this morning that Australia-China relationship had a 'turnaround' in 2022. We noted earlier that China is discussing plans to resume partial coal imports from Australia and we opined that this potential easing of import ban may imply the beginning of more to come. Tourism, education and property sectors in Australia could benefit if relations between China and Australia start to warm up. AUD was last at 0.69 levels. Bullish momentum on weekly chart intact while

RSI rose. A potential cup and handle pattern is observed on weekly chart, and this is typically a bullish formation. Completion of pattern puts textbook objective at around 0.75/0.76 levels. On the daily chart, daily momentum is showing tentative signs of turning mild bullish while RSI rose. We continue to favor a long bias. Next resistance at 0.6920 (76.4% fibo), 0.7020 before 0.7150 (Aug high). Support at 0.6840 (200 DMA), 0.6760/70 levels (21 DMA, 61.8% fibo retracement of Aug high to Oct low) and 0.6680 (50 DMA).

- **USDSGD. Consolidate.** USDSGD consolidated after hitting 19-month low of 1.3277 overnight. US CPI this Thursday is a key event risk and we do not rule out profit taking ahead of data release. Pair was last at 1.3315 levels. Daily momentum is mild bullish while RSI is flat. Bias still for downside play but the move down from here could be a slow grind, given the sharp pullback of ~8% since Oct peak. Support here at 1.3320/40 levels (recent low). Decisive break puts next support at 1.3270, 1.3220 levels. Resistance at 1.3480 (21 DMA, 76.4% fibo), 1.3670 (50 DMA, 61.8% fibo retracement of 2020 low to 2022 high). S$NEER is 1.27% above model-implied mid.

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