

Markets Push Back on Aggressive Rate Cut Expectations

- DXY. Watching CPI Next.** USD traded choppy around the release of US payrolls last Fri. Both headline job gains, wage growth exceeded expectations. But excluding the effects of autoworker strikes, job gains was about 158k, instead of 199k. But nonetheless the jobs report saw markets pare back some of its aggressive rate cut expectations. Markets are now pricing in about 111bps of cut for 2024 (vs. 124bps earlier). Timing of first cut has also been pushed back to May, instead of March. Focus next on US CPI (Tue) ahead of Dec FoMC. Consensus expects headline to come in at 3.1% for Nov, (slightly lower than 3.2% previously) and for core to come in steady at 4%. Further upside surprise to data may continue to see markets pare back their bets on aggressive cuts. FoMC on Thu (3am SGT) will be closely watched for its dot plot as that will provide the first point of validation for markets' bets. We expect status quo and messaging to be similar to last FoMC - to "proceed carefully" on future interest rate moves and base any tightening on progress towards their inflation goal. Potentially, we would be keeping a look out for any push back against rate cut prospects. Absence of such a message could see USD bears return. DXY was last at 104 levels. Daily momentum is mild bullish while RSI eased. Sideways trade likely intra-day. Resistance at 104.50 (100 DMA). Support here at 103.50 (50% fibo retracement of Jul low to Oct high) and 102.50 (61.8% fibo). We look for better levels to sell rallies.

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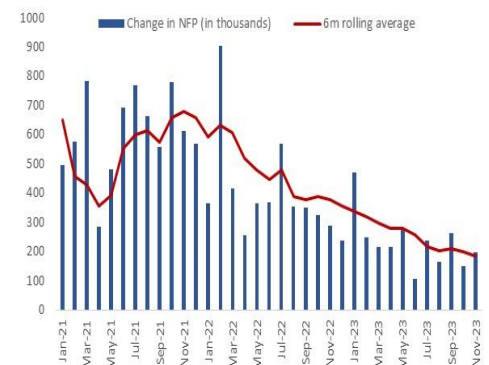
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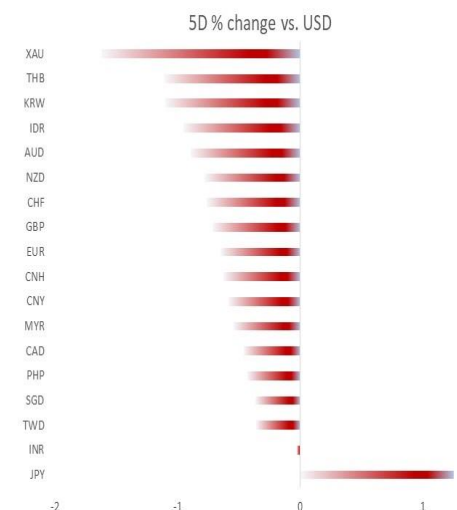
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Increase due to resolution of UAW strikes



Source: Bloomberg, OCBC Research

- EURUSD. Is There Too Much Dovish Expectations on ECB.** EUR traded a touch softer into Fri close. Markets are pricing in for about 5-6 cuts, with the first cut >50% priced in for Mar meeting after recent ECBspeak turned less hawkish and CPI fell rapidly. While ECB is expected to maintain status quo (on Thu) on policy rates, the focus is on Lagarde's press conference – if she would sound more hawkish than her fellow ECB colleagues. Any paring-back in extreme dovish expectations on ECB may see a sharp snapback for EUR. But should Lagarde adopts a less-hawkish stance, then we may see EUR bears find further momentum. EUR was last at 1.0770 levels. Daily momentum is bearish while RSI is near oversold conditions. Near term risks skewed to the downside but watch out for potential reversal. Falling wedge pattern appears to be forming – this is typically associated with bullish reversal. Support here at 1.0770 (38.2% fibo), 1.0710 (50 DMA). Resistance at 1.0820 (200 DMA), 1.0860 (50% fibo retracement of Jul high to Oct low) and 1.0960 (61.8% fibo).
- USDJPY. Reality Check.** USDJPY traded higher, partially retracing its sharp decline last week. Markets took stock if the recent positioning for an end to NIRP may have gone too far. Recall last week, comments from Deputy Governor Himino and Governor Ueda triggered the selloff. In particular, Himino outlined various potential impacts that would follow an exit and he pointed out that households would



Source: Bloomberg, OCBC Research

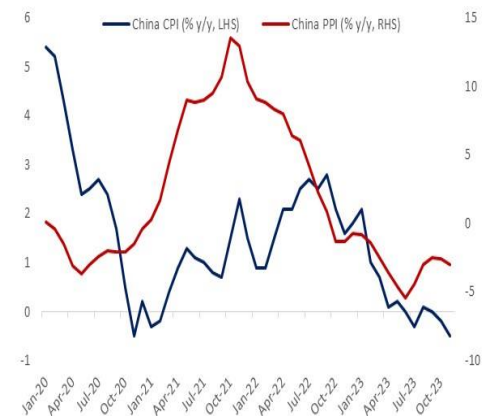
Daily Market Outlook

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probably benefit from improved net income if rates moved to positive territory and the impact on the corporate sector would likely be limited while Governor Ueda also told PM Kishida similar. He spoke about how the BoJ has several options on which interest rates to target once it pulls short-term borrowing costs out of negative territory. That said, expectations have somewhat shifted for BoJ to end NIRP earlier. Our long-standing house view is that we expect both the YCC and negative interest rate regimes to be removed as inflationary pressures are broadening; growth outlook was improving and upward pressure on wage growth remains intact. It was also reported that Japan's largest union will seek 5% pay increase at the shunto wage negotiation next year, following the near 4% increase this year. Our recent worry was that BoJ may miss the window to normalise if they do not act fast as inflation has already started to trend lower, as seen from recent Tokyo CPI. Perhaps officials may be seeing similar and are paving the way for potential move in due course. USDJPY was last seen at 145.40 levels. Bearish momentum on daily chart intact while RSI rose from oversold conditions. Resistance at 146.20 (38.2% fibo retracement of Jul low to Nov double-top), 147.50 (100 DMA). Support at 144.50 (50% fibo), 142.80 (61.8% fibo) and 142.40 (200 DMA).

- **USDCNH. *Upside Risks.*** USDCNH continued to trade higher amid USD rebound and worries of slowing growth. Focus next on China activity data (Fri) after the sharp decline in CPI, PP (data release over the weekend) fuelled deflation fears. That said, decline in Nov CPI was largely led by falling food prices, in particular pork as well as fading tourism price inflation. Pair was last at 7.1975 levels. Daily momentum is bullish while RSI rose. Upside risks ahead. Resistance at 7.21 (38.2% fibo retracement of Sep high to Nov low), 7.24 (50% fibo). Support at 7.18 (21 DMA), 7.1720 (23.6% fibo).
- **USDSGD. *Sell Rallies.*** USDSGD continued to inch higher this morning, tracking moves in broad USD and USDCNH. Pair was last at 1.3425 levels. Bullish momentum on daily chart intact while RSI rose. Risks skewed to the upside. Resistance at 1.3430, 1.3470 (50% fibo, 200 DMA). Support at 1.34 (61.8% fibo retracement of Jul low to Oct high), 1.3360.

Deflation Fears



Source: Bloomberg, OCBC Research

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