OCBC TREASURY RESEARCH

Daily Market Outlook

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Inflation Divergence?

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- UST yields went higher in a steepening manner as front-end yields retraced from session highs after a solid 3Y coupon auction; the uptick in the 10Y yield was mainly driven by higher real yield. The 3Y coupon bond cut off at 3.977%, 2.3bps below WI level; the bid/cover ratio of 2.84x was relatively high while indirect award rose to 69.5%. Upcoming coupon supply include USD32bn of the 10Y note and USD18bn of the 30Y bond. On the bills side, supply appears to be rising, with the US Treasury planning for net issuance of USD21bn next week thus far which will push the debt level nearer the ceiling.

- Ahead of US CPI on Thursday, Japan and Australia released higher-than-expected inflation numbers yesterday and this morning. ACGB yields edged higher and bank bills futures fell upon the release of the higher-than-expected November CPI. Headline CPI picked up to 7.3% YoY and trimmed mean to 5.6% YoY. Inflation in F&B, furnishings/household equipment, health and transport accelerated, while price increase in new dwelling purchases by owner-occupiers slowed. Cash rate futures are pricing in a terminal rate of 3.90% not exceptionally hawkish compared to what was priced days ago. To recap, Tokyo CPI also printed higher, at 4.0% YoY for both the headline and core, and at 2.7% YoY for core. The 20Y JGB yield is extending its uptick from yesterday.

- **DXY. Cautious of Profit-Taking Ahead of CPI**. FX markets were largely caught in a holding pattern. Decline in DXY lacked momentum to push below 103-support. Other FX like EUR, AUD are seeing key resistance at 1.0750 and 0.6920, respectively capping advances. Elsewhere on AxJs, USDCNH and USDSGD seemed to have found support around 6.75/6.76 levels and 1.33 levels, respectively. Run-up in gold may also be seen as a touch over-stretched in the interim. The **US CPI report out tomorrow (930pm SG time) remains the highlight** while data calendar globally is relatively dull this week. 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). This can support risk sentiment while the USD could come under renewed pressure. DXY break fresh lows could trigger another leg higher for EUR, AUD and some AxJs. However, an unexpected uptick may un-nerve sentiments and temporarily lend support to the USD. In any case, we should expect 2-way swings on the USD around CPI release. Some profit-taking on USD shorts ahead of event risk is also not ruled out. DXY last at 103.3 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

Source: Bloomberg, OCBC Research

retracement of 2021 low to 2022 high). Resistance at 104.20 (21 DMA), 105.1 and 106.20/40 (50, 200DMAs death cross).

- **EURUSD. Sideways.** EUR's advance appeared capped at 1.0750 resistance. In absence of key EU data, USD direction will be key and upcoming US CPI is an event risk. Pair was last at 1.0730 levels. Daily momentum is not showing a clear bias while RSI is flat. Sideways trade likely. Resistance at 1.0750 levels (61.8% fibo retracement of 2022 high to low, trend upper bound). Decisive break-out of 1.0750 is needed for EUR bulls to gather traction. Next resistance at 1.0850, 1.0940 levels. Support at 1.0640 (21 DMA), 1.0520/40 (50% fibo) and 1.0460 (50 DMA). On ECB speaks overnight, Centeno said that increases in borrowing costs must persist until inflation is on a sustainable path to 2% target. He said there is no alternative that to carry out the process of normalisation and increasing interest rates that started at end-2021. Schnabel said that rates will still have to rise significantly at a steady pace to reach levels that are sufficiently restrictive to ensure a timely return of inflation to ECB's 2% medium-term target.

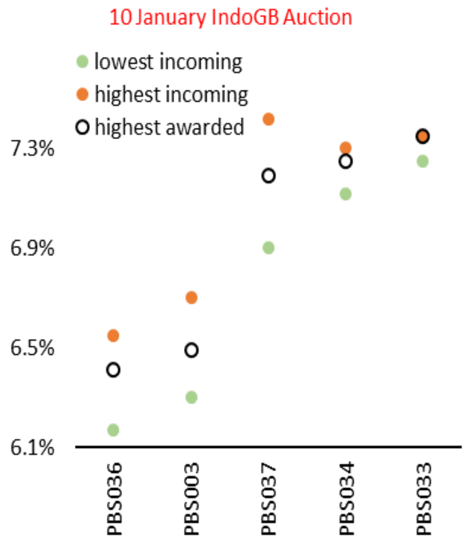
- **GBPUSD. Supported.** GBP's recovery paused overnight as markets likely to have taken partial profit on recent run ahead of key US event risk that could see USD trade choppy. GBP was last at 1.2150 levels. Bearish momentum on daily chart shows waned but rise in RSI moderated. Sideways trade likely. 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). Resistance at 1.2220 levels. Earlier, 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.

- **USDJPY. 2-Way Trades but Bias to Sell Rallies.** USDJPY drifted higher, tracking the rise in UST yields. Pair was last at 132.40 levels. Mild bullish momentum remains intact while RSI rose. Slight risk to the upside. Resistance at 133.20 (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). Meanwhile, US CPI data is a key event risk. An unexpected uptick in data point could pose upward risk for USDJPY. On news this morning, Uniqlo operator Fast Retailing was said to raise Japan salary by up to 40% from March. Similar moves were seen across corporate Japan: Nippon Life Insurance plans to increase salaries of sales reps by ~7% while Suntory will raise wages by 6%. On data release, Tokyo CPI was seen inching higher to 4% YoY, up from 3.8%. This ties in with the view of rising likelihood of policy shift if trend inflation overshoots expectations and stay above its 2% target. Japan's "shunto" wage negotiations between labor unions and employers between Mar and Apr should provide further information of wage increases. Potentially, some options that the BoJ may consider could be a removal of YCC regime and/or even exit from NIRP. Anticipation of further BoJ moves could see a return of JPY strength at some stage.

- **AUDUSD. Retain Buy Dips Bias; Short Term Objective Met.** AUD's recovery stalled as markets await key event risk – US CPI on Thursday. On data release this morning, AU CPI and retail sales came in higher than expected, resulting in a knee jerk move higher in AUD but the move was still relatively modest. Retail sales jumped 1.4% MoM, up from revised 0.4% prior while inflation accelerated to 7.3%, up from 6.9%. AUD was last at 0.6905 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 mild bullish while rise in RSI moderated. Near term pullback not ruled out but bias to buy dips remains. Key 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). 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.

- **USDSGD. Consolidate.** USDSGD continued to trade sideways ahead. 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 1.3320 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 1.33 levels. 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 1.25% above model-implied mid.

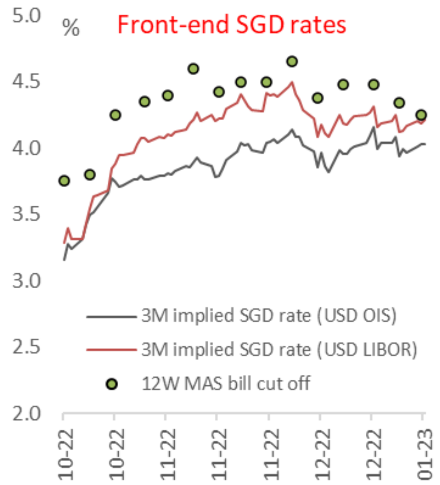
- **IndoGBs** were trading strong on Tuesday with the belly to the long-end outperforming. IDR13.85trn of the sukuk bonds were awarded at Tuesday's auction, near the indicative target of IDR14trn, despite that the incoming bids were not particularly strong at IDR17.44trn. Most of the bids went to bills and the PBS036 (2025 bond). Probably as it is at the start of the year with a desire to front-load financing, some of the cut-offs came in near the highest incoming bid yield levels. 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 Foreign ownership of IndoGBs edged further higher to IDR774.2trn, or 14.54% of outstanding, as of 9 January with YTD inflows at IDR12trn.



Source: DJPPR, OCBC Research

- **CNY rates**. Small clips of liquidity were provided by the PBoC this morning, via both the 7-day and 14-day reverse repos; liquidity injections have been expected. More support is needed as liquidity appears on the tight side – the market 7-day repo is elevated, while onshore 1W CNY implied rate is well above offshore CNH rate. Aggregate financing slowed to CNY1310bn in December; credit demand appears not as weak as the headline suggests. Aggregate financing was dragged by lower government bond issuances (not a surprise) and drops in foreign currency loans and shadow banking items; new yuan loans printed CNY1435bn which was higher than last month and a year ago. On the offshore DF curve, we prefer to stay on the sidelines in view of potential volatility in USD rates around CPI release.

- **SGD rates**. The cut-off at the 12W MAS bills came in at 4.25%, near market implied SGD rate level, as opposed to being some 10-25bps above market levels at previous auction, reflecting supportive SGD liquidity. Further out the curve, we expect SGD-USD rate differentials to turn less negative over the course of this year. Meanwhile, impact of MAS policy on SGD rates may be small, as spot will probably reflect most of the reaction. Near-term though, there is room for the 10Y SGS to outperform UST; next to watch is the first SGS auction of the year with the reopening of the 10Y which will likely draw decent demand given the absence of supply.



Source: MAS, Bloomberg, OCBC Research

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