OCBC TREASURY RESEARCH

Daily Market Outlook

17 January 2023

BoJ Event Risk

- It was an uneventful day for Bunds and Gilts despite some central bank commentaries came through. Yields retraced from initial upward moves to end the day little changed. ECB De cos opined that the "it will be necessary to continue raising rates significantly in the coming meetings, at a sustained pace"; while BoE Bailey cited the domestic shortage of labour and China's re-opening as risk factors for inflation. EUR OIS pricing is already hawkish, with the terminal rate expected at around 3.50%; room for further upside to the pricing looks limited. On the GBP front, our view for Gilts to underperform GBP OIS, and to underperform USTs on a multi-month horizon has panned out well thus far. Given our near-term upward bias to UST yields, however, there may be a pause in Gilt underperformance against USTs. UST futures are trading soft in Asia morning.

- **DXY. Mind the Bounce**. DXY briefly traded a fresh 7-month low of 101.78 before reversing losses in quiet trade overnight as markets were closed for Martin Luther King holiday. Nonetheless DXY's decline is showing tentative signs of moderation as markets ponder if the drop (~10%) since October may have been too sharp, too quick especially when Fed is still tightening policy (albeit at slower pace). We do not rule out central banks in the region replenishing their USD reserves given the sharp drop in USD. Potential USD buying can provide temporary support for the USD especially with most USD-Asia crosses sitting at key support levels. That said, the broad thematic of China reopening and Fed policy calibration should favour a conducive environment for risk proxies. DXY was last at 102.44 levels. Daily momentum is mild bearish, but RSI shows signs of rising from near oversold conditions. Near term risks skewed to the upside. Resistance at 103.70 (21 DMA), 105.1 (38.2% fibo, 50DMA) and 106.40 levels (200DMA). Key support here at 102.15 (50% fibo retracement of 2021 low to 2022 high), 101.50.

- **EURUSD. Pullback.** EUR gains paused but still trade near 9-month high. The ECB is scheduled to publish the account of its December 15 meeting on Thursday. At the last meeting in mid-December, ECB hiked rates 50 bps to 2.5% and said that it expected to hike rates further but will decide meeting by meeting. In press conference, Lagarde said it was obvious to expect more 50 bps hikes "for a period of time." She also put an emphasis that the ECB is not pivoting, as the bank wants rates at a sufficiently restrictive level to meet its 2% inflation target. EUR was last at 1.0820 levels. Daily momentum is mild bullish while RSI fell. Risks skewed to downside in the interim. Previous resistance at 1.0750 levels (61.8% fibo retracement of 2022 high to low, trend upper bound) now turned support before 1.0660 (21 DMA), 1.0520 (50% fibo, 50DMA). Next resistance at 1.0870, 1.0940 and 1.1040 (76.4% fibo) levels.

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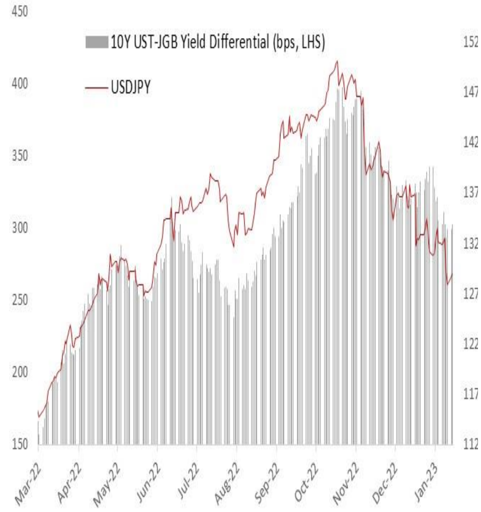
- Upward pressure on the 10Y **JGB** yield has continued with the yield having breached the 0.5% upper limit again on Monday. The rises in JGB futures overnight, on the other hand, simply reflect a correction to the cumulative falls over the past weeks, ahead of BoJ decision on Wednesday. The relatively wide spread at the 10s20s segment of the cash curve, and spread between cash bond and futures prices, all suggest investors are preparing for another tweak to the YCC, although not necessarily an imminent one. A removal of the YCC, instead of another band widening, may be the more likely outcome should the BoJ choose to act, in our view. First, another widening of the YCC band may simply lead to speculation of further tweaks, which is not conducive to improving bond-market functioning. Second, we suspect if the 10Y JGB is allowed to trade according to market forces, a 1% yield cap not binding. The 10s20s yield spread is trading at around 85bps currently, versus a 10Y median of 51bps, providing a rough reference of where the 10Y JGB yield would be although the 20Y yield itself can also move upon a BoJ policy action.

Source: Bloomberg, OCBC Research

- **USDJPY. BoJ in Focus Tomorrow.** Expectations for BoJ move is now running high especially following the Yomiuri report, news of corporate Japan adjusting salaries higher as well as higher Tokyo CPI. The Yomiuri report last week said BoJ will review the side effects of its recent policy changes at its next BoJ MPC. The report also mentioned that BoJ will consider adjusting its bond purchases and make further policy tweaks if it believes they are necessary. It is uncertain where Yomiuri got the news from as it did not make any attribution to any sources. But there seems to be some degree of credibility as there was no denial or push back from officials. We will find out tomorrow. Some options that the BoJ may consider could be another tweak to the trading band of YCC or removal of YCC regime and/or even an exit from NIRP. Nonetheless the BoJ can also do nothing too. Either way, we expect **policy outcome to have impact on JPY**: 1/ With expectations running high, a no move would disappoint JPY bulls and weakness can return. 2/ Another YCC tweak is probably only an interim move. While JPY strength may temporarily dissipate in the interim, speculations would return to spur JPY demand at some point perhaps closer to BoJ's change of guard. 3/ Abandon YCC regime or exit from NIRP would be a bigger move that could see sustained JPY strength possibly testing 125-support. We lean more towards a policy tweak. USDJPY was last at 128.90 levels. Daily momentum is not showing a clear bias while RSI rose. Near term risks skewed to the upside. Bias remains to sell rallies. Resistance at 132.50 (21 DMA), 134.80 levels. Support at 127.30, 126.40 levels.

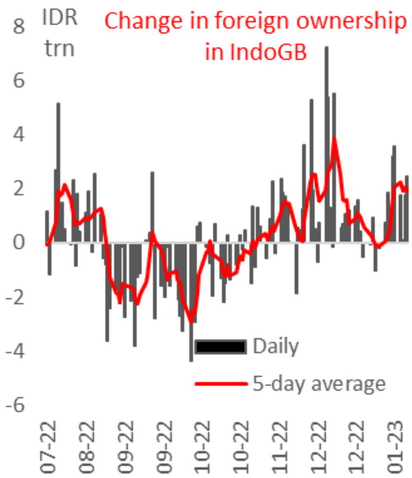


Source: Bloomberg, OCBC Research

- **USDSGD. Near Term Reversal.** USDSGD's decline failed to break past 1.3150/60 key support for now. We expect the pair to take cues from USD moves. Pair was last at 1.3240 levels. Daily momentum is mild bearish, but RSI rose from oversold conditions. Near term risks skewed to the upside. Resistance at 1.3290, 1.3320 and 1.3390 (21 DMA). Support at 1.3210, 1.3150/60 levels. S$NEER is 1.2% above model-implied mid. On data release this morning, our Chief Economist shared that Singapore's NODX slumped 20.6% YoY (-3.3% MoM sa) in its the worst plunge since February 2013. This is lower than the Bloomberg consensus forecast of -16.0% YoY (0.2% mom sa) and our forecast of -13.5% YoY. The main drags came from electronics exports which fell by double-digit again by 17.9% YoY due to weakness in ICs, disk media products and PC parts, while non-electronics exports also contracted 21.3% YoY due to declines in non-monetary gold, specialised machinery and primary chemicals. Looking ahead, 1Q23 NODX outlook remains grim due to rising global recession fears.

- **CNY rates**. The PBoC injected a hefty CNY504bn of liquidity into the market via OMOs this morning. The single-day amount was bigger than those around the Chinese New Year in 2020, 2021 and 2022. As we have highlighted, short-end CNY rates were elevated, with recent inflows into CNY assets having added to the liquidity tightness which would require more support. Front-end CNY and CNH rates eased mildly this morning. Next to watch is LPR on Friday. The unchanged MLF rate provides little clue to LPR decision, as the LPR can still be cut or kept unchanged regardless; we see a chance that the LPR will be cut by 5-10bps, especially the 5Y tenor given the policy focus on the property sector. A cut in the LPR will have limited impact on market RMB rates, where we maintain an upward bias on re-opening and fiscal stimulus.

- **IndoGBs** were subdued on Monday despite the lower USD/IDR, as investors prepared for the auction today. The conventional bond auction has an indicative target of IDR23trn which can be upsized up to IDR34.5trn – we see an upsize at this auction as probable given the recent retracement lower in IndoGB yields and the desire to front-load financing activities. On the curve, investors may be relatively cautious towards the front-end on BI's operation twist and risk of a policy rate hike. Year-to-date (as of 12 January) foreign inflows into IndoGBs amounted to IDR16.3trn.



Source: Bloomberg, OCBC Research

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