Daily Market Outlook

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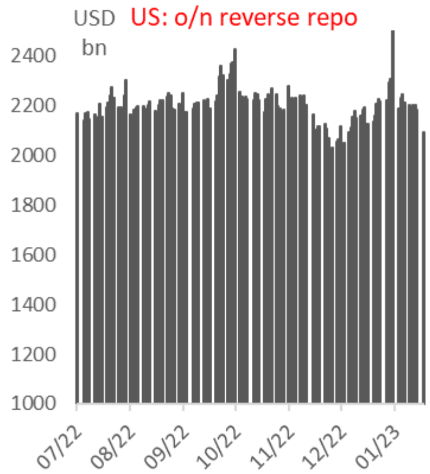
- **USTs** pared initial losses and ended the NY session mixed in a steepening manner. The 2Y yield retraced from session high upon the Empire manufacturing data which printed a weaker-than-expected -32.9 being deep into contraction; most of the subcomponents saw marked drops including new orders and number of employees. The rallies in the Treasuries went further inspired by Bunds performance upon a media report which cited some dovish remarks – that the central bank might slow the pace of rate hike – from unidentified ECB officials. We caution against reading too much into such media report citing "officials with knowledge of the discussions" especially when MPC members have been vocal about their opinions. Regardless, the lowered EUR OIS pricing with the terminal rate expected at 3.29% looks fairer to us. Fed funds futures price a terminal rate of 5.08% which is near our call for 5.00%.

- Usage at the Fed's o/n reverse repo facility fell by USD86.5bn to USD2.09trn on Tuesday, as funds have probably been diverted to the bills market. As we have highlighted, funds parked at the reverse repo facility can potentially be a buffer to liquidity tightening on other fronts. Bills supply is heavy this week and next week, with net issuances of USD90bn this week and USD101bn planned for next week thus far. US Treasury's extraordinary measures allow for the heavier bills supply. Market appears to be able to absorb the supply. The 3M T-bill auction garnered a bid/cover ratio of 2.69x with the cut-off staying at 4.56%; bid-cover for the 6M bills was higher at 2.38x with cut-off a tad lower at 4.685% compared to the previous auction.

- **DXY. More US Data tonight**. USD traded mixed-to-a-touch firmer overnight Gains were however uneven with USD gains were more pronounced against most AxJs, including IDR, PHP and CNH (these currencies had earlier appreciated sharply) but USD was modestly softer vs. NZD and KRW. DXY is still consolidating near recent lows following the drop (~10%) since October. We do not rule out funds or sovereign flows 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. DXY was last at 102.47 levels. Daily momentum is mild bearish, but RSI shows signs of rising from near oversold conditions. Near term risks modestly 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. On data release overnight, empire manufacturing fell sharply to -32.9 in January, from -11.2. Today brings more US data: IP, retail sales and PPI.



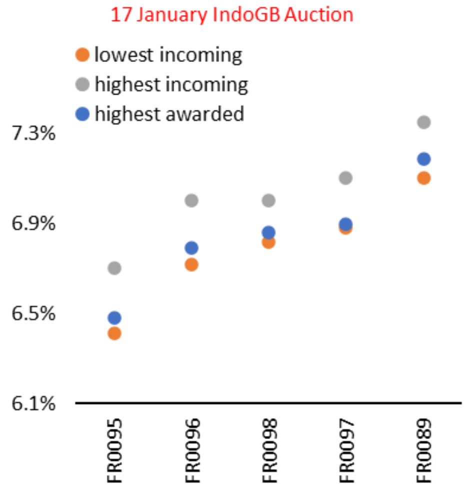
Source: Bloomberg, OCBC

- **EURUSD. Slight Downside Risks.** EUR fell overnight, in line with our caution for risks skewed to the downside. Move came amid Bloomberg report that ECB officials are starting to consider a slower pace of hike. Report attributed the source to "according to people with knowledge of their discussions" and there were no further details. We opine it is still early to jump to conclusion based on this report but the likelihood of a step-down in pace of hike is not ruled out at some stage, given how the sharp decline in gas prices (30% YTD and is now trading at more than 1Y low) could translate into falling prices pressures overall. EUR was last at 1.0790 levels. Daily momentum is mild bullish while RSI fell. Risks modestly 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 1.0680 (21 DMA), 1.0520/50 levels (50% fibo, 50DMA). Resistance at 1.0870, 1.0940 and 1.1040 (76.4% fibo) levels. ECB is scheduled to publish the account of its December 15 meeting on Thursday.

- **GBPUSD. Supported.** GBP continued to inch higher this week. Hawkish BoE, better than expected November GDP and softer USD (owing to deceleration in US CPI, dovish Fed speaks) were the main drivers lingering from last week. On BoE speaks, Catherine Mann had earlier said that underlying inflation is pretty robust, in contrast to earlier comments from BoE chief economist who said that inflationary pressures in UK may be easing as labor market weakens and the economy heads into recession. GBP was last at 1.2275 levels. Daily momentum is bullish while RSI rose. Golden cross formed earlier, with 50DMA cutting 200DMA to the upside. Risk modestly skewed to the upside. Next resistance at 1.2340, 1.2450 (61.8% fibo retracement of 2022 high to low). Support at 1.2220/50 levels, 1.21 (21 DMA), 1.2040/50 (50% fibo).

- **USDSGD. Near Term Reversal.** USDSGD inched higher, tracking broad USDAXJs higher. Pair likely to take cues from RMB swings, JPY (BOJ decision) and broad USD sentiments in the interim. Pair was last at 1.3220 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 1.3380 (21 DMA). Support at 1.3210, 1.3150/60 levels. S$NEER is 1.28% above model-implied mid.

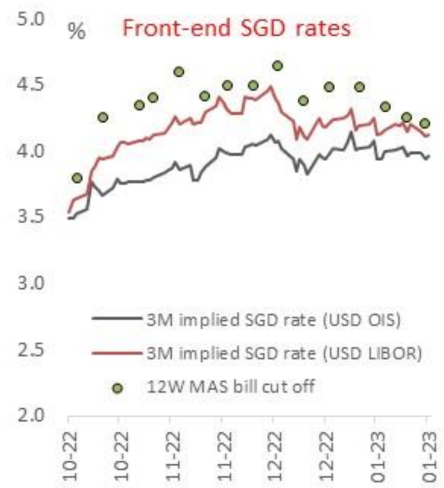
- **IndoGBs** traded firmer after the conventional bond auction, as there was no upsize despite the strong demand. The bond sales attracted incoming bid of IDR59trn, most of which went to FR95 (5Y) and FR96 (10Y); awarded amount was IDR23trn same as the indicative target. With incoming bids already lower across compared to the previous auction on 4 January, cut-offs came in near the lowest incoming bid yield levels. The desire to front-load financing was balanced with cost consideration. The auction result, together with the prospect of another policy rate hike, is likely to lead to a mild flattening bias for the IndoGB curve. Foreign bond inflows continued, with year-to-date



Source: DJPPR, OCBC Research

(16 January) inflows amounting to IDR24.22trn; foreign holdings of IndoGBs rose to IDR786.4trn, or 14.73% of outstanding, as of 16 January.

- **SGD rates.** The 4W and 12W MAS bills cut off at 4.20% and 4.21% respectively, a few bps lower than those at the previous auctions. The lower 12W cut-off was in line with the fall in the corresponding implied SGD rate; the 4W cut-off was 9bps lower than at the previous auction while the 1M implied SGD rate was little changed during the period. Overall, the MAS bill auction results reflect supportive, if not flush, SGD liquidity. Today brings the auction of USD5bn of 6M T-bills; we expect the cut-off at somewhere between 4.00% and 4.20%. The size of the reopening of the 10Y bond will also be announced; the amount of the bond sales aside, demand is likely decent after a period of absence of supply.



Source: MAS, Bloomberg, OCBC

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