Daily Market Outlook

19 January 2023

China Flows Data

- **USTs** rallied upon the releases of soft US data for December, including retail sales, PPI and production. Yields fell by 13-19bps across in flattening manner as market mostly traded on the dimmer economic prospect. The fall in the 10Y yield was primarily driven by lower real yield while breakeven also edged lower. As market continues to react to single data prints, we expect yields to trade in wide ranges near-term. On the other hand, the change in market pricing of policy rate was more muted, with a terminal rate of around 5% seen, which agrees with our call (a 25bps hike each at the February and March FOMC meetings); but we see the chance of rate cuts within this year as slim. On Fed comments: Bullard, the usual hawk, reiterated his preference to raise rate to above 5% as soon as possible; Logan believed it is appropriate to gradually raise rates and that the committee should not lock in on a peak interest rate or precise path.

- **Gilts** underperformed overnight. UK headline CPI inflation edged lower to 10.5% YoY in line with expectations, but core CPI stayed at 6.3% YoY. The slower core goods inflation and quicker core services inflation are in line with the global phenomenon. Services inflation is arguably more driven by domestic demand. The inflation outcome shall support the case for the Bank of England to deliver a 50bps hike at the February MPC. Our view for Gilts to underperform GBP OIS has panned out well; given OIS appear to be fairly priced for the rate hike prospect, and Gilt supply stays on the high side, we hold onto this view for now. That said, this underperformance may not be as rapid as that was observed over the past couple of months. To recap, The BoE completed its sales of the GBP19.3bn portfolio of temporary holdings of bonds, removing one source of supply.

- **CNY rates**. The PBoC injected CNY467bn of liquidity into the market this morning, mainly via 14-day reverse repos to cover the holiday period. Repo rates are stable while repo-IRS traded on the soft side taking cue from the global market. Implied CNY and CNH rates also fell on the lower USD rates. Still, CNY rates underperformed USD rates, and the forward points rose as a result. Next to watch is LPR on Friday. 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.

- **China flow data**. Bond inflows are encouraging, and we expect more to come, while the latest set of FX settlement data shall be seen as mostly reflecting balanced inflows versus outflows pressure. Onshore CNY bonds saw inflows of CNY16.4bn (excluding NCDs) in December, the first monthly inflows since January 2022. Inflows into CGBs amounted to CNY23.56bn, while there were small outflows from PFBs

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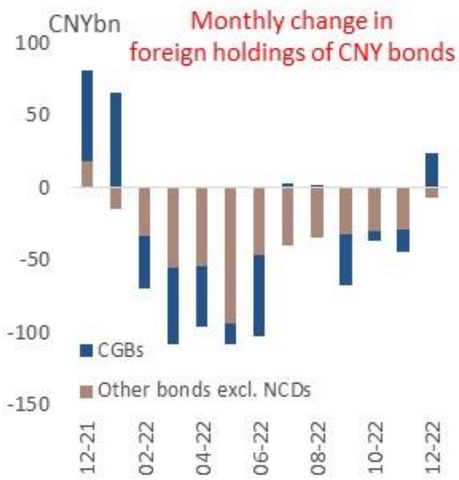
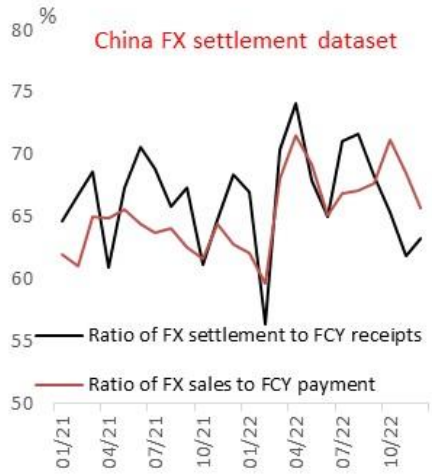


Source: CEIC, OCBC Research

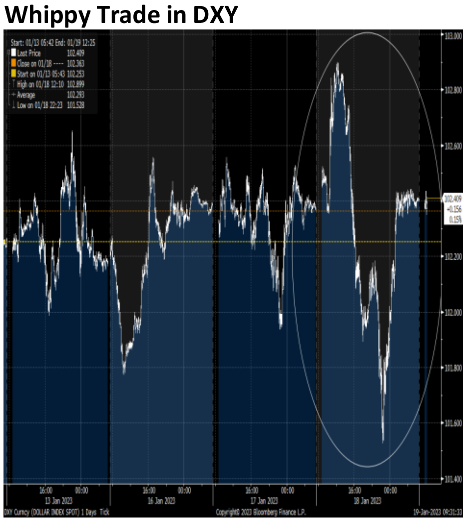
(policy financial bonds) and LGBs (local government bonds). For 2022, hefty outflows of CNY631bn were registered – this was despite the index inclusion starting October 2021 which could have meant passive inflows at the tune of CNY20-25bn per month. Prospect is for further inflows on asset allocation needs, potentially up to CNY50-75bn per month. By investment channels, net buying of onshore bonds rose via both CIBM and Bond Connect. Meanwhile, net FX settlement and sales (by banks, and by banks on behalf of clients) turned to small positives in December. Net FX settlement and sales in forwards by banks on behalf of clients stayed positive at USD28bn. Willingness to convert foreign currency receipts into RMB edged higher to 63.2%; intention to convert RMB for foreign currency payment fell to 65.7%; these ratios were within ranges.



Source: CEIC, OCBC Research

- **DXY. Decline Shows Signs of Pause**. US data overnight continued to point to a coherent story of lagged effects of Fed monetary policy transmission hitting the US economy. Retail sales, IP fell more than expected while softer PPI suggests that more disinflationary pressure is in the pipeline. Breakdown of PPI report shows core goods PPI, services and finished goods PPI all decelerated. This adds to the story that disinflation trend is increasingly more entrenched in US and that can lead to Fed slowing its pace of hike and ultimately supports the case for a moderate-to-soft USD profile. But the slowdown in activity indicators somewhat reinforced global growth concerns led by DM nations. USD was whippy overnight - traded down to multi-month low of 101.50/55 levels before reversing losses to close about flat for the session. We do not rule out funds or sovereign flows replenishing their USD reserves (or rebalancing portfolio) given the sharp drop in USD (~10% since October). Potential USD buying can provide temporary support for the USD especially with most USD-Asia crosses sitting at key support levels. Antipodeans AUD and NZD could also see some correction on recent gains in the near term, given softer than expected labor market report (AU) and news of PM Ardern's shock resignation (NZ). 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.

Whippy Trade in DXY


Source: Bloomberg, OCBC

- **EURUSD. Downside Risks.** EUR rose to intra-day high of near-1.0890 on ECB Villeroy's comments but gains were subsequently reversed into NY close. In particular, he said that guidance from Lagarde on rate hikes in clips of 50bps for some time remains valid. We opine a 50bps hike at February meeting is very close to a done deal if not done. He also emphasized that it is too soon to speculate about March decision. This is largely in line with the stance from other ECB officials such as

Rehn that it is still too early to assess rate path. ECB minutes are due today with a handful of officials such as Lagarde, Knot, and Schnabel are scheduled to speak today. While Nagel, Villeroy, and Lagarde are scheduled to speak on Friday. Price action suggests that 1.0890/1.09 may serve as a decent resistance in the interim. EUR was last at 1.0790 levels. Mild bullish momentum on daily chart faded while RSI fell. Risks skewed to downside in the interim. Support at 1.0750 levels (61.8% fibo retracement of 2022 high to low, trend upper bound), 1.0690 (21 DMA), 1.0520/600 levels (50% fibo, 50DMA). Resistance at 1.0890, 1.0940 and 1.1040 (76.4% fibo) levels. ECB is scheduled to publish the account of its December 15 meeting today.

- **USDJPY. Consolidative.** BoJ surprised markets, by making no changes to policy. Markets were somewhat hoping for another tweak to YCC cap. Inaction puts focus on BoJ's next MPC on 10 March, which also happens to be Kuroda's last meeting. Market chatters are that the man who started YCC back in September 2016 could well end it with his departure. If not, attention will shift to 28 April MPC, when the new BoJ governor chairs his first MPC. With 10Y JGB yields testing the upper bound of YCC every alternate day and somewhat sustained and broadening inflationary pressures, we believe the abolishment of YCC and or exit from NIRP should be on the cards. JPY weakness post-BoJ decision was short-lived and that was largely due to Governor Kuroda’s comments at the press conference. In particular he mentioned "won’t deny possibility of change in future". This basically revived JPY bulls. We keep in view Japan’s December CPI report tomorrow. Elsewhere, Japan’s “shunto” wage negotiations between labor unions and employers between March and April should provide further information of wage increases. USDJPY was last at 128.50 levels. Daily momentum is not showing a clear bias. Consolidative pattern likely in the interim as next BoJ meeting is more than a month away. USDJPY likely to take cues from yield differentials and overall USD direction. Support at 127.30 (50% fibo retracement of 2021 low to 2022 high). Resistance at 131.40 (21 DMA).

- **USDSGD. Near Term Reversal.** USDSGD continued to trade higher, tracking broad USDAXJs higher. Pair likely to take cues from extent of RMB, JPY swings and broad USD sentiments in the interim. Pair was last at 1.3240 levels. Mild bearish momentum on daily chart faded while RSI rose from oversold conditions. Near term risks skewed to the upside. Resistance at 1.3290, 1.3320 and 1.3370 (21 DMA). Support at 1.3210, 1.3150/60 levels. S$NEER is 1.18% above model-implied mid.

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