GLOBAL MARKETS RESEARCH

Daily Market Outlook

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Data-Heavy Week

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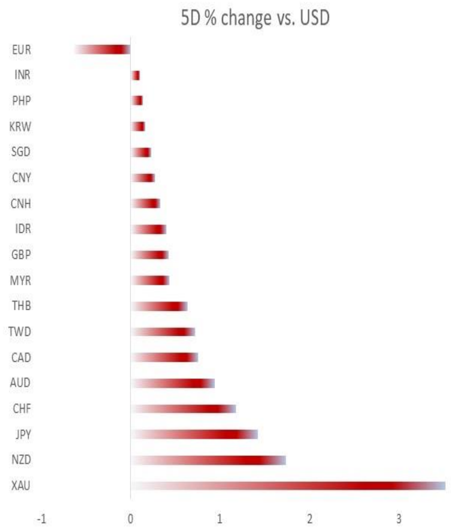
- **USD rates.** USTs rallied as market added to rate cut expectations, despite Powell tried to push back on rate cuts. Fed funds futures now price 129bps of rate cuts in 2024 (even more at one point on Friday), with a 25bp cut by the March FOMC meeting priced at a chance of 75%. UST futures extended the rally at Asia open this morning. Powell commented that the Committee is “prepared to tighten policy further if it becomes appropriate to do so” and “it would be premature to conclude with confidence that we have achieved a sufficiently restrictive stance”. Market however ignored his comments – or dismissed the comments as not strong as a pushback on easing expectations. Data released on Friday were mixed; ISM manufacturing stayed subdued at 46.7 points in November with employment weaker at 45.8 points; but prices paid and new orders ticked up. More data are coming up, including ISM services index, JOLT jobs opening, ADP employment change, payroll, and the labour market report. The latest bout of rallies at the 5Y and 10Y segments could be partly attributable to positioning; speculators (5Y, 10Y), leveraged funds (5Y, 10Y) and asset managers (10Y) added a lot to short positions in the four weeks to 21 November. After the recent rallies, risk is for some upticks in yields especially at the longer end as the fiscal outlook has not changed – there are still upsized auctions to be digested this month and in Q1. On a multi-month horizon, we expect short-end Treasuries to outperform, i.e., the curve to steepen.

- **DXY. *Plenty of Data This Week.*** USD traded lower, tracking UST yields lower. ISM manufacturing came in softer, alongside ISM employment. Though Fed Chair Powell said it would be ‘premature’ to conclude with confidence that we have achieved a sufficiently restrictive stance or to speculate when policy might ease, markets appeared to shrug off those remarks. Fed fund futures noted an increase in expectations for Fed rate cut trajectory – now expecting the Fed to cut 125bps for 2024 (vs. 114bps the day before) and a 25bp cut in Mar is now >50% priced in. Markets may have gotten ahead of itself and could potentially be setup for a correction this week should US data surprise to the upside. This week is heavy on the calendar, with durable goods orders (today); ISM services data, JOLTS job openings (Tue); ADP employment, unit labour costs (Wed) and payrolls report, Uni. of Michigan sentiment, inflation expectations (Fri). DXY was last at 103.25 levels. Bearish momentum on daily chart is fading but rise in RSI moderated. Resistance at 103.50 (50% fibo retracement of Jul low to Oct high) and 104.20 (100 DMA). Support at 102.50 (61.8% fibo), 101.40 (76.4% fibo). Bias remains to sell rallies.



Source: Bloomberg, OCBC Research

- **EURUSD. *Retracement Underway.*** EUR traded under pressure as markets continue to position for an earlier than expected ECB pivot, following the rapid deceleration of Euro-area CPI. Markets are pricing in >60% chance of first cut as early as in Mar while a total of 120bps of cut has been priced in for the first 9 months of 2024. Pair was last at 1.0880 levels. Daily momentum turned bearish while RSI fell. Near term risks skewed to the downside. Support at 1.0860 (50% fibo retracement of Jul high to Oct low), 1.0840 (21 DMA). Resistance at 1.0960 (61.8% fibo), 1.1020 levels.

- **AUD rates.** ACGB yields fell this morning taking cue from the global market. We expect the RBA to keep its Cash Rate unchanged at 4.35% on Tuesday. Cash rate futures have almost priced out rate hikes – 20% priced versus 62% priced before the October CPI release. This morning, home loans value printed strong, at 5.4% MoM but company operating profit fell by 1.3% QoQ. While base-case is for no more hike in this cycle, the RBA is probably among the slowest major central banks in terms of rate cuts. 3M BBSW looks fairly priced; there may be a mild upside bias if historical spread with the OCR is any guide.

- **NZDUSD. *Overbought.*** NZD has rallied ~7.8% MTD from its low in late-Oct and the run-up can largely be attributed to softer USD on expectations of Fed pivot, gains in RMB and more importantly, a hawkish RBNZ at its last MPC. Policymakers were concerned of how inflation has been above target for a prolonged period, core inflation pressures are slow in terms of coming back to target and that immigration surge in NZ is pushing up rents and house prices. Pair was last seen at 0.6210 levels. Bullish momentum on daily chart intact while RSI rose into overbought conditions. Bullish cross over observed with 21 DMA cutting 100 DMA to the upside. Risks remain skewed to the upside, but we are cautious of the recent sharp run higher in short period of time. We do not rule out retracement risks. Resistance at 0.6210/20 levels before 0.6260 (76.4% fibo retracement of Jul high to Oct low). Support at 0.6170 (61.8% fibo), 0.6090 (50% fibo, 200 DMA). Favor to buy dips instead.

- **USDSGD. *Bullish Reversal?*** USDSGD slipped, tracking the broader move lower in USD but decline did not make fresh lows. Pair was last at 1.3340 levels. Bearish momentum on daily chart shows signs of fading while RSI rose from near oversold conditions. Potential falling wedge formed – typically associated with bullish reversal while bullish divergence maybe forming on MACD. We do not rule out further retracement to the upside. Resistance at 1.34 (61.8% fibo retracement of Jul low to Oct high), 1.3470 (50% fibo, 200 DMA). Support at 1.3310, 1.3280 levels.

- **CNY rates**. Repo rates fell on Friday especially at the 3-4W tenors as month end passed; repo-IRS also traded soft despite Caixin manufacturing PMIs printed better than expected, as market pay more attention to the weaker official PMIs which were released a day ago. NCD rates also finally eased somewhat. However, as bond issuances appear to be behind schedule, renewed liquidity tightness cannot be ruled out. After hefty inflows into onshore equities at RMB13.5bn via Northbound Stock Connect on Thursday, there were outflows of RMB2.4bn on Friday. Back-end CNH points went higher on the lower USD rates; multi-month bias is to the upside for back-end points on expected widening (less negative) in RMB-USD rates differentials.

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