OCBC TREASURY RESEARCH

Daily Market Outlook

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Risk Appetite Curtailed

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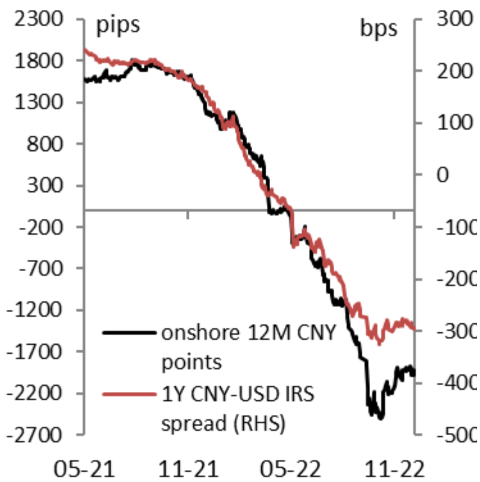
- The **UST** curve bullish flattened in a risk-off session amid growth worries, with the fall in the 10Y yield mainly driven by lower real yield although breakeven edged down as well. Market pricing of terminal rate was little changed, at around 5.15% to be followed by 44bp of rate cuts meaning the market is not convinced by the Fed's dot-plot. If the Fed delivers, then front-end yields are subject to upward adjustment – we maintain our expectation for the 2Y yield to peak at around 4.60% in this cycle. However, the risk sentiment may stay subdued near-term supporting bonds for now.

- Usage at the Fed's o/n reverse repo facility fell back to around the levels seen during most of December passing year-end; market shall not read too much into this one-day change. That said, reverse repo usage together with TGA (US Treasury's cash balance) being on the liability side of the Fed's balance sheet are ones of those factors driving the liquidity situation. For some months in 2022, the falls in these items allowed bank reserves to go up despite the shrinking Fed balance sheet. Looking ahead, reduction in the TGA will likely turn slower with potential for a re-build later assuming the debt ceiling issue will be resolved as it had been. Reverse repo may remain the only buffer for QT impact. For this week, a small cash paydown of USD4bn is scheduled by the Treasury.

- **CNY rates**. The PBoC net withdrew CNY534bn of liquidity from the market via OMOs on Tuesday and another CNY327bn this morning, which represent the usual practice of taking back the liquidity provided to cover year-end. Expect further net withdrawals as the reverse repo maturity profile stays heavy on Thursday and Friday totaling CNY744trn. Nevertheless, before long, there is likely another bout of liquidity provisions as the Chinese New Year is coming while CNY700bn of MLF matures on 17 January. A full roll-over of MLF, or even a combination of partial MLF rollover and another RRR cut, can be potential policy actions. Front-end CNY rates shall be anchored near-term as uncertainty is high regarding the domestic situation which may continue to weigh on the risk sentiment. Back-end CNH points have rebounded from the lows seen in November and our medium-term bias is buy on dips, as a catch-up to the earlier moves in CNY-USD rates differentials and as back-end CNH points are low compared to onshore, and further ahead on potential asset swap flows.

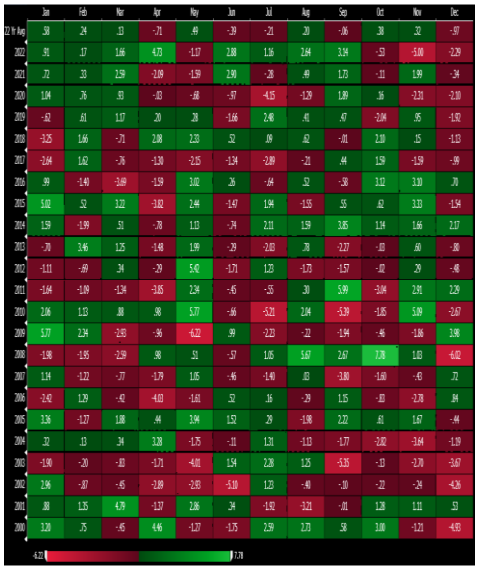


Source: Bloomberg, OCBC

- **DXY. Near Term Rebound Risks but Bias to Fade**. USD rebounded against most currencies amid risk-off sentiment overnight. Oil prices, US equities were down while Treasuries and gold firmed. On FX, risk-proxy major FX including AUD and NZD led declines while in the AXJ space, KRW underperformed. Mfg PMIs from most countries including

US, China, Malaysia, Taiwan remains in contractionary territories for Dec. For remainder of the week, focus is on ISM mfg, prices (Wed); ADP employment, services PMI (Thu); payrolls report, ISM services (Fri). Softer data print will continue to cast a gloomy outlook on global growth prospects but China reopening story and potentially slower pace of Fed hikes can mitigate against negative sentiments. DXY was last at 104.5. Mild bullish momentum on daily chart intact while RSI rose. Falling wedge pattern appears to be playing out. This is typically associated with a bullish reversal in the near term. Resistance at 105.1, 106.2 (200 DMA). Support at 103.45 (interim double bottom – lows in Dec and Jan). Bearing near term noises, we retain the overarching view that the upside for USD may be limited as pace of Fed tightening slows and goes into late cycle. Broad trend of USD for 2023 remains skewed to the downside. On risk sentiments, we are slightly more optimistic as a case of slower pace of tightening seen across most central banks and China reopening, support measures should help to partially mitigate against global growth concerns. A less severe global growth slowdown can also be supportive of cyclical FX, including AXJs while counter-cyclical USD stays on the back foot. That said, it is not a one-way street for the USD. There will be instances of intermittent and sporadic USD upticks as USD still retain a yield advantage and the Fed is still tightening (but at slower pace). Bear in mind that Jan is seasonally a strong month for DXY (based on monthly calendar returns since 2000, USD rose on 14 Januarys out of 22 and was on average +0.58%, the highest amongst the 12 calendar months).

January a Seasonally Strong Month for DXY



Source: MAS, Bloomberg, OCBC

- **USDJPY. Stay Short.** USDJPY jumped above 131-handle from under 130-handle amid broad USD buying. But the move has eased this morning. Bloomberg news ran a story that PM Kishida will discuss BOJ accord with new governor – whether to amend the government-BoJ's joint statement targeting 2% inflation. This appeared to be a pre-recorded radio interview with Nippon Cultural Broadcasting and was known explicitly know when it was done but it was reported that Kyodo record shows PM Kishida spoke with them on 19 Dec. We opined the YCC tweak could just be the beginning of more to come. The past few sessions have seen markets testing the new upper bound and the BoJ coming in to do more unscheduled bond purchases for the 4th consecutive day. It is probably a matter of time the BoJ surprises again and this puts focus on 18th Jan's BoJ MPC. USDJPY was last at 131.10 levels. Daily momentum is not showing a clear bias while RSI rose. Rebound risks not ruled out in the near term but bias to fade remains. Immediate resistance at 131.45, 133 and 134.15 (21 DMA). Support at 129.50, 127.30 (50% fibo retracement of 2021 low to 2022 high).

- **EURUSD. Bullish Trend Channel Should Hold.** EUR fell amid broad USD strength. Pair was last at 1.0570 levels. Daily momentum is showing a mild bearish bias while RSI fell. Near term risks skewed to the downside. Support at 1.0520 (50% fibo, lower bound of bullish trend channel) and 1.0380 (50 DMA). Resistance at 1.0610 (21 DMA), 1.07 and 1.0750 levels (61.8% fibo retracement of 2022 high to low). While recession fears in Euro-area, energy woes and geopolitical concerns remain, we believe the bulk of the risks have been baked into the price (i.e., mild recession priced). Hawkish ECB rhetoric mitigates against further worsening in EU-UST yield differentials and that should continue to provide some support for EUR. But on the other hand, an overly hawkish ECB risks spooking equity markets, of which EUR has a strong correction to (coefficient of 0.81). Key risks to watch that may drag on EUR include (1) how severe EU recession turns out to be; (2) whether there will be further escalation in Russian-Ukraine tensions – poses risks to energy and inflation or would there be a ceasefire scenario; (3) if USD strength returns with a vengeance (i.e., global risk-off or Fed resumes aggressive tightening).

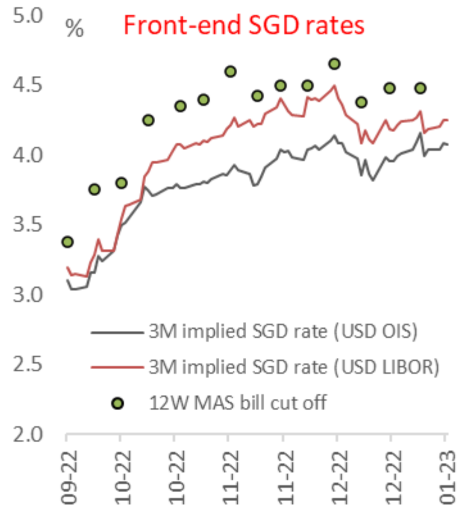
- **NZDUSD. Mild Bearish Bias.** NZD fell amid risk-off trades. Pair was last at 0.6260 levels. Daily momentum is bearish while RSI fell. Bias remains skewed to the downside in the interim. Support here at 0.6260/80 levels (200 DMA, 23.6% fibo retracement of Oct low to Dec high), 0.6130. Resistance at 0.6340 (21 DMA). On 20/12, we expressed our tactical short NZD bias via: 1/ short NZDUSD (spot ref at 0.6345), targeting a move lower towards 0.6280 (first objective) before 0.62 (second objective). SL at 0.6345. While the trade has hit our first objective at 0.6280, it was subsequently exited at 0.6345 (SL) with a small profit of 0.51% on 28/12.

- **AUDNZD. Stay Long.** Elsewhere we also have a tactical long AUDNZD trade on bullish divergence, targeting a move towards 1.0650 (first objective), 1.0725 and 1.0865. Spot ref then at 1.0555; SL at 1.0475. The trade has hit both first and second objectives and we continue to look for further upside. Spot ref as of 4/Jan was 1.0815.

- **USDSGD. Heavy Bias.** USDSGD continued to trade with a heavy bias. Pair was last at 1.3420 levels. Daily momentum is mild bullish though RSI fell. Sideways trade likely near recent lows. Support at 1.3360. Resistance at 1.3480 (76.4% fibo), 1.3670 (61.8% fibo retracement of 2021 low to 2022 high). S$NEER is 1.3% above model-implied mid.

- **IndoGBs** traded soft on Tuesday while the Rupiah weakened. The MoF awarded IDR19.2trn of bonds against incoming bids of IDR28.3trn and indicative target of IDR23trn. Most of the incoming bids went to FR96 and FR95 where the award ratios were not particularly low. Q1 gross issuance is planned at IDR245trn, which is consistent with indicative targets of IDR23trn for individual conventional auctions and IDR14trn of individual sukuk auctions. The 2023 supply outlook is sanguine but seems to be front-loaded; this, coupled with our neutral to upward bias to UST yields and already narrow IndoGB-UST yields differentials point to upside to IndoGB yields. The last few days of December saw some outflows from IndoGBs, after foreign holdings rebounded from the low seen in November; foreign holdings of IndoGBs stood at IDR762trn or 17.77% as of 30 December.

- SGD rates. 1M implied SGD rate was trading at around 3.90/3.92% (from SOFR/LIBOR) and 3M at around 4.10/4.25% this morning. Past pattern has seen cut-offs at MAS bills higher than the upper end of the implied rates ranges. Today's result will be a gauge of the liquidity situation going into the new year. SGD rates outperformed USD rates further over the past month. As rates are peaking, we expect SGD-USD rate differentials to turn less negative over the course of this year. Impact of MAS policy on SGD rates may be small, as spot will probably reflect most of the reaction.



Source: MAS, Bloomberg, OCBC

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