GLOBAL MARKETS RESEARCH

Daily Market Outlook

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Corrective Retracements

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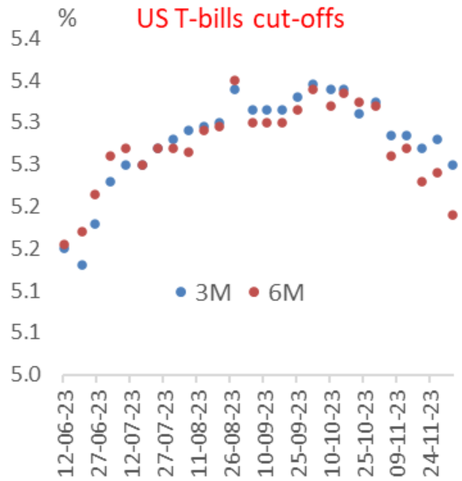
- **DXY. *ISM Services in Focus Today.*** USD was a touch firmer overnight, in what looks like a corrective rebound from the recent sharp sell-off. Fed fund futures had earlier saw an increase in expectations for Fed rate cut trajectory – now expecting the Fed to cut 125bps for 2024 (vs. 114bps last week) and a 25bp cut in Mar is now >50% priced in. Markets may have gotten a little ahead in pricing in a rather aggressive Fed cut trajectory and as such, the USD bears could potentially be setting itself up for further corrective rebound this week should US data surprise to the upside. Fedspeaks have largely entered into a blackout period ahead of next week's FoMC (14 Dec). This puts greater focus on this week's data calendar, including ISM services data, JOLTS job openings (later today); ADP employment, unit labor costs (Wed) and payrolls report, Uni of Michigan sentiment, inflation expectations (Fri). DXY was last at 103.62 levels. Daily momentum turned mild bullish while RSI rose. Risks remain skewed to the upside in the near term. Resistance at 104.10 (21DMA), 104.40 (100 DMA). Support at 103.50 (50% fibo retracement of Jul low to Oct high), 102.50 (61.8% fibo). Bias remains to sell rallies.

- **USD rates.** UST yields started to rise when London came in, and further during NY session; yields retraced from session highs but still closed higher across, more so at the 2Y to 5Y tenors. Market pared back rate cut expectations mildly. The recent bond performances are in line with our view for near-term consolidation with potential upticks in yields, and we continue to hold this view. The 3M T-bill sales went better than the 6M T-bill sales, as the 6M bill yield has adjusted lower more rapidly since the high in October. Nevertheless, the 6M bill cut-off being only 6bps lower than the 3M bill cut-off may still be appealing compared to rate cut pricing. Net bill settlement is on the light side this week, at USD6bn while there is no coupon bond settlement. Usage at the Fed's overnight reverse repo rose to USD816bn on Monday from USD769bn on Friday. Data releases, including ISM services index, JOLT jobs opening, ADP employment chance, payroll and the labour market report, will drive near-term market direction.



Source: Bloomberg, OCBC Research

- **EURUSD. *Retracement Underway.*** EUR continued to trade lower, in line with our caution. Markets continue to position for an earlier than expected ECB pivot, following the rapid deceleration in Euro-area CPI and comments from ECB's Villeroy. In particular, he said that ECB tightening cycle was over and that ECB would consider the question of easing in 2024. 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 first 10 months of 2024. Pair was last at 1.0840 levels. Daily momentum is bearish while RSI fell. Near term risks skewed to the downside. Support at 1.0820 (200 DMA), 1.0770 (38.2% fibo). Resistance at

1.0860 (50% fibo retracement of Jul high to Oct low), 1.0960 (61.8% fibo).

- **USDJPY. *Sell Rallies.*** USDJPY traded a touch firmer this as broad but mild USD bounce gets underway. Markets may have gotten ahead in pricing in a rather aggressive Fed cut trajectory and as such, the USD could potentially be setting itself up for further corrective rebound this week should US data surprise to the upside. On JP data this morning, Tokyo CPI unexpectedly undershoot surprises, largely due to falling electricity and gas prices. Slower rise in inflation was also consistent with BoJ's earlier caution the price pressures are weakening. Pair was last seen at 147.20 levels. Bearish momentum on daily chart intact but RSI shows signs of moving away from oversold conditions. We do not rule out short -term retracement. Resistance at 147.40 (100 DMA), 148.30 (23.6% fibo retracement of Jul low to Nob double-top). Support at 146.20 (38.2% fibo), 145 levels. Bias to sell rallies.

- **Gold. *Bearish Outside Day.*** The sharp spike yesterday to 2135 and subsequent failure to hold above previous triple top of 2070 may suggest further corrective pullback could be down the road. Markets are taking stock of how far expectations have gone to price in aggressive Fed cut and likely, ahead of FoMC next week, there could still be further adjustment of positions. The US ISM services (tonight) and payrolls report (Fri) will have impact on rates, USD and concomitantly on gold prices. Notwithstanding the corrective pullback, we are biased to buy dips as Fed is likely done with tightening for current cycle and we expect real rates to ease lower. These should underpin the support for gold prices. XAU was last at 2035. Bullish momentum on daily chart is fading while RSI fell. Bearish divergence observed on daily MACD. Risks skewed to the downside for now. Support at 2020 (yest low), 2011 (38.2% fibo retracement of Oct low to Dec high) and 1994 (21 DMA). Resistance at 2058 (23.6% fibo), 2070 levels.

- **IndoGBs** traded on the firm side yesterday, but some profit-taking was seen. The sukuk auction this morning has an indicative target of IDR9trn, comprising PBS036 (2025 sukuk), PBS003 (2027 sukuk), PBSG001 (2029 green sukuk), PBS037 (2036 sukuk), PBS034 (2039 sukuk), PBS038 (2049 sukuk) and bills. After today's auction, there are one conventional and one sukuk auctions on the calendar for the rest of the year; market watch if these remaining two auctions will be cancelled. Overnight, UST yields corrected higher; if there is any spillover onto IndoGBs, short-end bonds are likely to underperform. SRBI rates edged back up at the recent two auctions (depending on the tenors); 2Y IndoGB yield at around 6.5% remains low compared to 12M SRBI rate at 6.91124%. Nevertheless, short-end yield differentials with USTs widened earlier, which has contributed to the improvement in bond inflows – IndoGBs saw hefty inflows of IDR7.48trn on 30 November, bringing the total inflows in the month to IDR23.5trn.

- **SGD rates** underperformed USD rates in the downward move from mid-November, which is consistent with historical pattern. Today brings the auction of SGD13.1bn of 4W MAS bills, SGD18.6bn of 12W MAS bills, and SGD1.1bn of 6M FRN. Cut-off at the 4W bills may come in higher than the 4.03% at the previous auction, as 1M implied SGD rate was trading at 3.83% this morning being 9bps higher than the level on 28 November while the 1M bills expires on 4 January locking liquidity for the turn of the year. Meanwhile, investors may require a mildly wider spread at FRN given the fall in 6M SGD OIS. While we have a downward trajectory for yields and rates over the course of 2024, range-trading is likely between now and year-end, and some upticks in SGS yields cannot be ruled out as supply comes back to the market in Q1.

- **USDSGD. *Bullish Reversal.*** Corrective rebound gets underway for USDSGD as markets took stock on how far expectations have ran ahead on pricing in an aggressive Fed cut trajectory for 2024. Further unwinding of USD shorts cannot be ruled out especially is US data surprise to the upside and we have quite a handful this week, in particular the focus is on ISM services and JOLTS job openings later today. Pair was last at 1.3380 levels. Bearish momentum on daily chart is 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.

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