

Markets Responsive to Data

- USD rates.** USTs rallied during London hours following Gilts and Bunds, and further upon a soft patch of data prints in the US. ISM service index ticked up to 52.7, but market focused more on the labour market condition – ISM services employment printed weaker than expected at 50.7 albeit being an improvement from the previous reading, while JOLTS job openings fell to 8733K and the previous number was revised downward. The drops in job openings were mainly observed in the education & health services, and the financial sectors. Meanwhile, net bill settlement is on the light side this week, at USD6bn while there is no coupon bond settlement – this might have added marginally to the positive sentiment. As illustrated by the overnight bond performances, market is responsive to data and on this, ADP employment chance, payroll and the labour market report are lining up.
- DXY. ADP Employment, Unit Labour Cost in Focus Today.** USD short squeeze continued overnight amid position adjustments as markets re-assess if expectation of Fed cut trajectory has been priced disproportionately to Fed. FoMC next week will carry dot plot and that will provide the first point of validation. Fed fund futures continued to see a slight increase in expectations for Fed rate cut trajectory – now expecting the Fed to cut 127bps for 2024 (vs. 114bps last week) and a 25bp cut in Mar is now >60% priced in. On data, ISM services, new orders were a touch better than expected but employment was softer. This week's focus is on ADP employment, unit labour costs (Wed) and payrolls report, Uni of Michigan sentiment, inflation expectations (Fri). Upside surprise to US data will further fuel the short squeeze momentum but a downside surprise should see USD's rebound stall. DXY was last at 103.92 levels. Daily momentum is mild bullish while rise in RSI stalled. We see consolidative price action intra-day. Resistance at 104.05 (21DMA), 104.50 (100 DMA). Support at 103.50 (50% fibo retracement of Jul low to Oct high), 102.50 (61.8% fibo). We look for better levels to sell rallies.
- Bunds** rallied upon some dovish remarks by Schnabel who is seen as a hawk. EUR OIS added to rate cut expectations, now pricing in an 85% chance of a 25bp cut by the March MPC meeting, versus 73% priced a day ago. Schnabel sees further rate hikes as unlikely given a remarkable fall in inflation. She went further to opine that the central bank "should be careful in making statements about something that is going to happen in six months' time". One interpretation is that she does not commit to keeping rates at high levels beyond mid-2024. Our base-case is the ECB will start cutting rates in Q2-2024; meanwhile, the deadline for PEPP re-investment is likely to be brought forward. We see limited room for OIS pricing to turn materially more dovish near-term.

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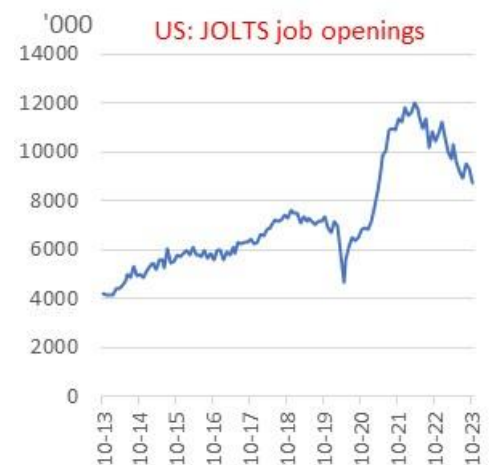
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Source: Bloomberg, OCBC Research

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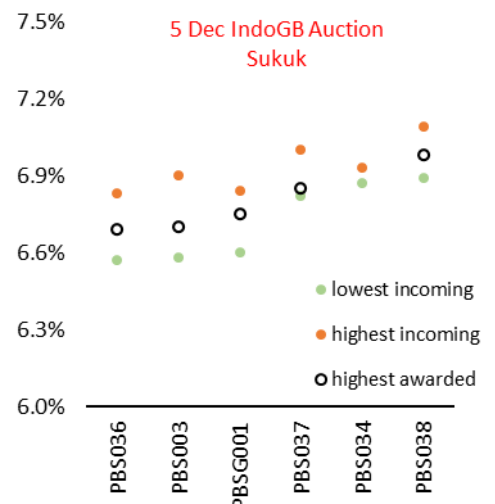
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- **EURUSD. Dovish Re-pricing.** EUR extended its decline below 1.08-handle on comments from ECB's Schnabel, who is considered one of the more hawkish voice on ECB but appeared to have switched sides. She said that "ECB can take further rate hikes off the table given a remarkable fall in inflation and policymakers should not guide for rates to remain steady through mid-2024". She took cues from the rapid fall in Euro-area CPI. Recall last week, Villeroy said that ECB tightening cycle was over and that ECB would consider the question of easing in 2024. Markets are raising their expectations of ECB cut trajectory, now pricing in > 70% chance of first cut as early as in Mar while a total of 130bps of cut has been priced in for first 10 months of 2024. EUR was last at 1.0790 levels. Daily momentum is bearish while RSI fell. Near term risks skewed to the downside. Support at 1.0770 (38.2% fibo), 1.07 (50 DMA). Resistance at 1.0820 (200 DMA), 1.0860 (50% fibo retracement of Jul high to Oct low) and 1.0960 (61.8% fibo).
- **AUDUSD. Consolidation.** AUD fell post-RBA decision yesterday. While markets had expected RBA to keep policy rate on hold at 4.35%. the accompanying MPS was somewhat interpreted as less hawkish - *Whether further tightening of monetary policy is required to ensure that inflation returns to target in a reasonable timeframe will depend upon the data and the evolving assessment of risks. In making its decisions, the Board will continue to pay close attention to developments in the global economy, trends in domestic demand, and the outlook for inflation and the labour market. The Board remains resolute in its determination to return inflation to target and will do what is necessary to achieve that outcome.* The shift towards policy decision being data-dependent as opposed to earlier when the guidance was hawkish led to a sell-off in AUD. Bullock also said that inflation is moderating, and wage growth is not expected to increase much further. This morning, Australia 3Q GDP surprised to the downside. But AUD appeared to have shrugged off GDP data to trade a touch firmer for the morning session. Pair was last at 0.6585 levels. Bullish momentum on daily chart faded but decline in RSI moderated. Consolidation likely intra-day. Support at 0.6550, 0.6530 (21 DMA). Resistance at 0.6592 (23.6% fibo retracement of Nov low to Dec high), 0.6620 and 0.6690 (Dec high).
- **Gold. Consolidation.** XAU continued to trade a touch softer overnight. Last at 2020. Bullish momentum on daily chart faded but decline in RSI moderated. Risks skewed to the downside but expect the pace of decline to slow. Support here at 2020 (yest low), 2011 (38.2% fibo retracement of Oct low to Dec high) and 1996 (21 DMA). Resistance at 2058 (23.6% fibo), 2070 levels. Notwithstanding the corrective pullback, we remained biased to buy dips as Fed is likely done with tightening for current cycle and we expect real rates to ease lower. These should continue to underpin the support for gold prices.

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- USDCNH. Mild Upside Risks.** USDCNH rose amid broad USD rebound and in response, to Moody's outlook revision for Chinese sovereign bonds to negative. A report in the Economic Daily quoting State Council official said that Moody's decision to cut China's credit rating outlook reflects outdated property market conditions and fails to take into account a new shift towards more rounded growth. The daily USDCNY fix has also deviated from estimate. Average 10d deviation was -296pips while today's deviation came in at -346pips. The move reflected policymakers' intent to keep up with their messaging of wanting a stable RMB and not let Moody's outlook revision derail policymakers' efforts. Pair was last at 7.1640 levels. Bearish momentum on daily chart faded but rise in RSI moderated. Slight risk to the upside but we are also watchful of potential *leaning against the wind* activities to restraint any excessive move to the upside. Resistance at 7.1760 (yest high), 7.1965 (21 DMA). Support at 7.1430 (200 DMA), 7.1120 (38.2% fibo retracement of 2023 low to high).
- USDSGD. Range-Bound Awaiting Catalyst.** USDSGD rebounded, in line with our caution. But we think the rebound could potentially moderate in pace. Pair was last at 1.3410 levels. Bullish momentum on daily chart intact but rise in RSI slows. Resistance at 1.3440 (21 DMA), 1.3470 (50% fibo, 200 DMA). Support at 1.34 (61.8% fibo retracement of Jul low to Oct high), 1.3320 levels. Pair is likely to take cues from USD and this hinges on US data, and there is quite a handful this week, including ADP employment, unit labour costs (Wed) and payrolls report, Uni of Michigan sentiment, inflation expectations (Fri). Softer than expected print can stall the USD rebound momentum.
- IndoGBs** traded in ranges on Tuesday in a quiet session. The sukuk auction attracted incoming bids of IDR19.75trn while MoF awarded IDR9.14trn of bonds a tad above indicative target of IDR9trn. Most of the awards went to PBS003 (2027 sukuk), followed by bills, while there was no allotment to PBS034 (2039 sukuk). Cut-off was near the lowest incoming bid yield for PBS037 (2036 sukuk), nearer the highest incoming bid yield for PBSG001 (2029 green sukuk), and around the middle of highest and lowest incoming bid yields for the rest. Quarter-to-date gross issuances amounted to IDR105trn; there are one conventional and one sukuk auctions in the remainder of the year. Extending the recent pattern, whole quarter gross issuance will be at around IDR133trn, similar to that in Q3.
- CNY rates.** Repo-IRS traded in ranges in a firm tone on Tuesday and this morning, as liquidity stays on the tight side. NCD rates rose above the recent highs, after a few days of mild easing; the CGB curve has stay relatively flat. We continue to see an RRR cut as likely. Back-end CNH points edged higher overnight on lower USD rates; multi-month bias is to the upside for back-end points on expected widening (less negative) in RMB-USD rates differentials; and we expect the FX swap



Source: DJPPR, OCBC Research

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curve to steepen albeit with potential return of short-term volatility at the very front-end. The credit outlook downgrade shall have minimal impact on CGBs and RMB rates. On an aggregate level, public debt is manageable, although the debt structure is skewed towards local government debt – the authorities have already initiated measures to address this issue. We maintain a mild upward bias to RMB rates on prospects of resilient economic activities.

- **SGD rates.** The 4W MAS bills cut off at 4.15%, higher than the 4.03% at the previous auction as expected. As we wrote yesterday, implied SGD rates rose between the two auction dates *and the bills mature on 4 January locking liquidity for the turn of the year*. Cut-off at the 12W MAS bills auction edged lower by 3bps to 4.01%. The cut-off spread at the 6M FRN widened to 0.55% from the 0.30% at the previous auction, which was in line with our expectation, as we opined investors may require a mildly wider spread at FRN given the fall in 6M SGD OIS. Demand was decent at the 1Y and 2Y FRNs, which garnered bid/cover ratios of 4.96x and 4.32x respectively

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