

## Daily Market Outlook

6 January 2023

### Focus on data

- **USTs** fell upon the releases of labour market data. Yield retraced from intra-day highs but still ended the NY session higher. Treasury futures are trading soft this morning in Asian hours. The performances in USTs over the past two days suggest investors paid more attention to the data than Fed comments. Bullard said that the policy rate “is not yet in a zone that may be considered sufficiently restrictive, but it is getting closer”. Note in the latest FOMC minutes the opinion was that monetary policy “approached” a stance that was sufficiently restrictive. Hence, Bullard remains more hawkish than the Committee consensus, as usual. Market pricing went a tad higher albeit still expecting some rate cuts in the latter part of this year. We maintain our expectation for the 2Y UST yield to reach 4.60%, which is already below our expected peak effective Fed funds rate.
- At the **ECB**, Villeroy opined that the central bank shall aim to reach terminal rate by summer; there are five MPC meetings to go by then hence uncertainty on the level of the terminal rate remains high. Lagarde has earlier hinted on another 50bps hike at the next meeting in February; thereafter we expect the magnitude to be stepped down to 25bps each. In the UK, the latest monthly **BoE** survey showed corporates CPI inflation expectation edged up to 7.4% from 7.2% prior while wage expectation also rose. Nevertheless, breakevens fell alongside energy costs. We continue to expect Gilts to underperform GBP OIS.
- **DXY. Payrolls Report in Focus.** USD was a touch firmer overnight, tracking the move higher in 2Y UST yield, sharp rebound in ADP employment (+235k vs. +150k expected), Fed speaks, and ahead of US payrolls report later today (930pm SG time). Consensus is looking for hourly earnings momentum to decelerate to 0.4% MoM in Dec, down from 0.6% in Nov and for NFP to slow to +202k, from +263k previously. Slower print can help mitigate against hawkish Fed speaks and weigh on USD. On Fed speaks, Esther George told CBNC TV that she raised her forecast for Fed fund rate to 5% for 2023 while Bostic said that inflation is “way too high”. Bullard reiterated his bias for front-loading of rate hikes and pointed that policy rate is still a little bit below the sufficiently restrictive zone. He also said that that probability of soft landing has increased and it was due to the labor market that has not weakened the way many had predicted. More Fed officials, including Cook, Barkin, George and Bostic are scheduled to speak today but data release plays an important role as well. Sharper deceleration in price pressures could feed into slower pace of Fed hike and possibly weigh on the USD. DXY last at 105.1 levels. Mild bullish momentum on daily chart intact while rise in RSI moderated. Falling wedge pattern appears to be playing out. This is typically associated with a bullish reversal in the near term. Resistance here at 105.1, 106.2 (200 DMA). Support at

**Frances Cheung, CFA**

Rates Strategist

+65 6530 5949

[FrancesCheung@ocbc.com](mailto:FrancesCheung@ocbc.com)

**Christopher Wong**

FX Strategist

+65 6530 4367

[christopherwong@ocbc.com](mailto:christopherwong@ocbc.com)

Treasury Research

Tel: 6530-8384

## Daily Market Outlook

6 January 2023

103.45 (interim double bottom – lows in Dec and Jan), 102.15. Seasonally speaking, January is typically a strong month for DXY. Based on monthly calendar returns since 2000, DXY rose on 14 Januarys out of 22 and on average, gained +0.58%, the highest amongst the 12 calendar months. But seasonality trends aside, it is important to pay attention to other price measures. ISM prices paid already showed a sharp decline to 39.4 from 43.

- EURUSD. Taking Cues from USD Moves.** EUR fell amid broad rebound in USD on the back of strong ADP data. Pair was last at 1.0530 levels. Daily momentum is showing a mild bearish bias while RSI fell. Risks 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).
- USDJPY. Sell Rallies.** USDJPY rebounded amid rise in UST yields and broad USD strength. Pair was last at 133.60 levels. Daily momentum is at a bullish bias while RSI rose. There are upside risks in the near term; bias is expected to fade. Resistance at 133.90 (21 DMA), 134.80 (23.6% fibo retracement of Oct high to Jan low). We noted a Reuters report that BoJ is putting more emphasis on core CPI and will likely raise its projections soon. Report also highlighted that price increases are broadening more than initially expected. This reconciles with earlier observation that recent comments from other BoJ officials seem to suggest rising likelihood of policy shift especially if trend inflation overshoots expectations and stay above its 2% target. We believe Dec's surprise YCC tweak signals the beginning of more to come. Question is on the timing. Some options that the BoJ may consider, could be a removal of YCC regime and/or even exit from NIRP. A potential policy shift will lead to JPY strength. Elsewhere we also note that JGB selling has continued for the past few sessions with the new upper bound tested and the BoJ came in today to do another unscheduled bond purchases after a pause yesterday (BoJ had been doing unscheduled bond buying for 4 consecutive sessions prior to yesterday). It is probably a matter of time the BoJ surprises again and this puts focus on 18th Jan's BoJ MPC.

## Daily Market Outlook

6 January 2023

- AUDUSD. Sideways.** AUD fell overnight amid broad USD rebound. Pair now at 0.6760. Bullish momentum on daily chart faded while RSI is flat. Sideways trade likely ahead of key US event risk – payrolls report. Support at 0.6750, 0.6720 and 0.6685 levels. Resistance at 0.6850 (200 DMA), 0.6920. Break above these resistances could point to further upside towards 0.70, 0.7140. It was earlier reported that China was discussing plans to resume partial coal imports from Australia. And recall that Australia Foreign Minister Penny Wong had recently made a visit to China and the potential easing of import ban may imply the beginning of more to come as relations could be on the mend. Tourism, education and property sectors in Australia could benefit if relations between China and Australia start to warm up. This is positive for AUD. Not forgetting China reopening story and Fed policy calibration thematic can also further add to long AUD bias.
- USDSGD. Range.** USDSGD was a touch firmer but still near recent lows. Pair likely to trade sideways ahead of key US event risk tonight. Pair was last at 1.3440 levels. Daily momentum is mild bullish though RSI fell. Sideways trade likely near recent lows. Resistance at 1.3480 (76.4% fibo), 1.3670 (61.8% fibo retracement of 2021 low to 2022 high). Support at 1.3380/60 levels. S\$NEER is 1.36% above model-implied mid
- CNY rates.** The PBoC drained CNY384bn of liquidity via OMOs this morning, which shall mark the final day of relatively heavy drainage mopping up the remaining liquidity provided ahead of year-end. There shall be a fresh round of liquidity provisions ahead of the Chinese New Year and CNY700bn of MLF maturity on 17 January. A full roll-over of MLF, or even a combination of partial MLF rollover and another RRR cut, cannot be ruled out. The MLF rate is also closely watched given the recent dovish monetary rhetoric. We have a steepening bias for the CGB curve, as front-end yields are better anchored while the belly/long-end yields may face some upward pressure – either as and when the economic prospects improve, or if not then upon supply risk. Back-end CNH points fell alongside the higher US yields. While our medium-term strategy for back-end CNH points is buy-on-dips, short-term dynamics are against it and as such investors may need to be patient.
- IndoGBs** fared well on Thursday despite the higher USD/IDR but shall face some selling pressure today taking cue from the global market. MoF managed to spend 99.5% of the revised 2022 Budget, while revenue was 15.9% higher than the revised budget. With the pick-up in fiscal spending in December, surplus financing fell to IDR119.2trn as of end December. It will still provide a partial buffer for 2023 financing need at a time when BI is no longer buying bonds directly from the MoF – BI bought IDR224bn worth of bonds in 2022 under SKB III. With the reduced leftover fund, the supply outlook is not as sanguine as

## Daily Market Outlook

6 January 2023

previously seen but remains manageable. On balance, risk to IndoGB yields is to the upside as supply is front-loaded in Q1, while we have an upward bias to UST yields when IndoGB-UST yield differentials are already narrow.

## Treasury Research & Strategy

### Macro Research

**Selena Ling**

*Head of Strategy & Research*

[LingSSSelena@ocbc.com](mailto:LingSSSelena@ocbc.com)

**Tommy Xie Dongming**

*Head of Greater China Research*

[XieD@ocbc.com](mailto:XieD@ocbc.com)

**Wellian Wiranto**

*Malaysia & Indonesia*

[WellianWiranto@ocbc.com](mailto:WellianWiranto@ocbc.com)

**Keung Ching (Cindy)**

*Hong Kong & Macau*

[cindyckung@ocbcwh.com](mailto:cindyckung@ocbcwh.com)

**Herbert Wong**

*Hong Kong & Macau*

[herberthwong@ocbcwh.com](mailto:herberthwong@ocbcwh.com)

**Ong Shu Yi**

*Environmental, Social & Governance (ESG)*

[ShuyiOng1@ocbc.com](mailto:ShuyiOng1@ocbc.com)

### FX/Rates Strategy

**Frances Cheung**

*Rates Strategist*

[FrancesCheung@ocbc.com](mailto:FrancesCheung@ocbc.com)

**Christopher Wong**

*FX Strategist*

[christopherwong@ocbc.com](mailto:christopherwong@ocbc.com)

### Credit Research

**Andrew Wong**

*Credit Research Analyst*

[WongVKAM@ocbc.com](mailto:WongVKAM@ocbc.com)

**Ezien Hoo**

*Credit Research Analyst*

[EzienHoo@ocbc.com](mailto:EzienHoo@ocbc.com)

**Wong Hong Wei**

*Credit Research Analyst*

[WongHongWei@ocbc.com](mailto:WongHongWei@ocbc.com)

**Chin Meng Tee**

*Credit Research Analyst*

[menateechin@ocbc.com](mailto:menateechin@ocbc.com)

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate.

This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. There may be conflicts of interest between OCBC Bank, Bank of Singapore Limited, OCBC Investment Research Private Limited, OCBC Securities Private Limited or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OCBC Bank and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W