GLOBAL MARKETS RESEARCH

Daily Market Outlook

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JPY Outperformance; Payrolls Next

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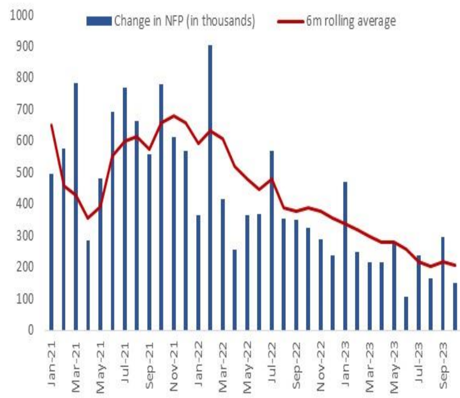
- **DXY.** ***Payrolls in Focus.*** The rebound momentum seen on USD this week stalled overnight. USD turned and traded lower, led by sharp decline in USDJPY. Focus today on payrolls report, Uni of Michigan sentiment, inflation expectations ahead of US CPI (next Tue) and FoMC (Thu 2 am SGT). For US payrolls, consensus expects slight pickup in NFP to print 185k for Nov (vs. 150k previously) and for hourly earnings to show sequential increase to 0.3% m/m (vs. 0.2% prior). Upside surprise to US data may lend support to another round of USD short squeeze but a downside surprise should see USD drift lower. Elsewhere, Fed fund futures are still pricing in for the Fed to cut 124bps for 2024 and a 25bp cut in Mar is now >60% priced in. FoMC next week will carry dot plot and that will provide the first point of validation. DXY was last at 103.60 levels. Daily momentum is mild bullish while RSI eased. Sideways trade likely intra-day. Resistance at 103.85 (21DMA), 104.50 (100 DMA). Support here at 103.50 (50% fibo retracement of Jul low to Oct high) and 102.50 (61.8% fibo). We look for better levels to sell rallies.

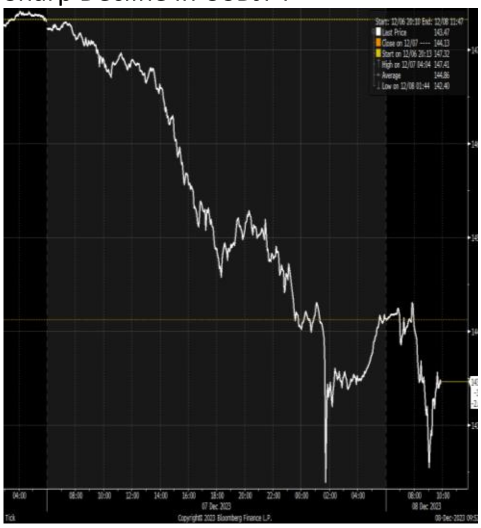
- **USDJPY.** ***Rising Expectations for BoJ Move.*** USDJPY traded sharply lower (~2.8%) overnight as markets are getting excited over the prospects of BoJ move at the next MPC (19 Dec). Specifically, it was the remarks made by BoJ Deputy Governor Himino that sparked off the sell-off. He was previously one of the contenders for the BOJ governor position and was highly critical of BOJ's negative interest rates policy for the damage it was inflicting on commercial banks' profits. He outlined various potential impacts that would follow an exit and he pointed out that households would probably benefit from improved net income if rates moved to positive territory and the impact on the corporate sector would likely be limited. Subsequently, Governor Ueda also told PM Kishida similar. He spoke about how the BoJ has several options on which interest rates to target once it pulls short-term borrowing costs out of negative territory. But there were contradicting messaging as well. Ueda said that it is too early to do an exit simulation, inflation trend below 2% and need to keep up easing. He also said, "may not be at stage to emphasize exit". Our long-standing house view is that we expect both the YCC and negative interest rate regimes to be removed as inflationary pressures are broadening; growth outlook was improving and upward pressure on wage growth remains intact. It was also reported that Japan's largest union will seek 5% pay increase at the shunto wage negotiation next year, following the near 4% increase this year. Our recent worry was that BoJ may miss the window to normalise if they do not act fast as inflation has already started to trend lower, as seen from recent Tokyo CPI. Perhaps officials may be seeing similar and are paving the way for potential move in due course. USDJPY was last seen at 143.10 levels. Bearish momentum on daily chart intact while RSI dipped into

Watching Payrolls



Source: Bloomberg, OCBC Research

Sharp Decline in USDJPY



Source: Bloomberg (tick chart), OCBC Research oversold conditions. Support at 142.30 (200 DMA), 142 and 140.70 levels (76.4% fibo retracement of Jul low to Nov double-top). Bias to sell rallies. Resistance at 144.50 (50% fibo), 146.20 (38.2% fibo).

- **EURUSD.** ***Dovish ECB Re-pricing Overdone?*** EUR consolidated overnight following the near 1% decline MTD. Markets aggressively position for a dovish ECB, expecting rate cuts of 150bps for 2024 and the first cut in March is >50% priced. ECB rhetoric has turned less hawkish following the rapid fall in CPI. Amongst ECB officials, Schnabel, who is considered one of the more hawkish voice on ECB Governing Council, 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". We question if markets had gotten too far in pricing such dovish expectations. Villeroy said that ECB may consider rate cut in 2024 but not now while Kazimir has indicated that 1q rate cut is 'science fiction'. Kazaks also said there is currently no need to cut rates in 1H24. Given the wash out in EUR positions, we caution that any paring-back in dovish expectations on ECB or a nasty downside surprise to US payrolls may see a sharp snapback for EUR. EUR was last at 1.0785 levels. Daily momentum is bearish while RSI is near oversold conditions. Near term risks skewed to the downside but watch out for potential reversal. Falling wedge pattern appears to be forming – this is typically associated with bullish reversal. Support here 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.** ***Slight Upside Risk.*** AUD rose, in line with our technical call for bullish reversal (inverted hammer). Pair was last at 0.6607 levels. Mild bearish momentum on daily chart intact while RSI rose. Consolidation likely with slight risks to the upside intra-day. Resistance at 0.6620 and 0.6690 (Dec high). Support at 0.6592 (23.6% fibo retracement of Nov low to Dec high), 0.6530/50 levels (21 DMA). Intra-day, AUD is likely to take cues from broader sentiments and USD shifts (US payrolls would be key).

- **Gold.** ***Consolidation.*** XAU drifted modestly higher overnight. Last at 2032 levels. Daily momentum is not showing a clear bias while RSI rose. Consolidative trades likely. Resistance at 2058 (23.6% fibo), 2070 levels. Support here at 2020 (yest low), 2011 (38.2% fibo retracement of Oct low to Dec high) and 1996 (21 DMA). We remain 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.

- **USDCNH.** ***Mild Upside Risks.*** USDCNH eased slightly, taking cues from the sharp decline in USDJPY. Pair was last at 7.1615 levels. Daily momentum is mild bullish while RSI eased. Sideways trade likely intra-day ahead of US payrolls (impact on USD). Resistance at 7.1760 (week's high), 7.1850 (21 DMA). Support at 7.1460 (200 DMA), 7.1120 (38.2% fibo retracement of 2023 low to high). Weekend brings CPI, PPI data (Sat) while greater focus is on the activity indicators (next Fri).

- **USDSGD.** ***Sell Rallies.*** USDSGD fell, in line with our call for potential bearish reversal hanging man observation on Wed). Move lower was largely led by sharp decline in USDJPY while USD rebound momentum faded. Pair was last at 1.3367 levels. Bullish momentum on daily chart intact but RSI fell. Risks remain skewed to the downside. Support at 1.3310, 1.3280 levels Resistance at 1.34 (61.8% fibo retracement of Jul low to Oct high), 1.3420 (21 DMA) and 1.3470 (50% fibo, 200 DMA). In absence of tier-1 data, focus is now on US payrolls, Uni of Michigan sentiment, inflation expectations. Softer than expected print can re-invigorate USD bears.

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