GLOBAL MARKETS RESEARCH

Daily Market Outlook

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SGD rates movements; China soft PMIs

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Global Markets Research and Strategy

- **DM rates.** USTs cheapened by 3-4bps on Friday, mostly reflecting the catch-up with global moves on Thursday when the US was out for thanksgiving. UST yields remain in expected ranges; 10Y UST yield in 3.95-4.15% is consistent with 10Y breakeven in 2.2-2.4% range and 10Y real yield at 1.7-1.8%. Fed funds futures fully priced a 25bp cut at December FOMC, and a total of 93bps of cuts (including the expected December cut) between now and end-2026, which looks dovish enough. Range for 2Y UST yield is seen at 3.45-3.60%. Gilts continued to hold up reflecting relief from the Autumn Budget which pointed to a lower-than-expected additional gilt remit for 2025/2026. As we noted last week, DMO plan "to increase net issuances of medium tenor, while reducing mildly the net issuances of long tenor gilts". This has given long-end gilt an additional support. 30Y bond/swap spread (GBP OIS – gilt yield) has risen from the recent low of -86bps to the last -77bps; the spread is more likely to consolidate around the current level, rather than breaking much higher. BoE's Greene opined the impact of the cut to energy bills (from April 2026) on inflation is one-off; this is not against the general understanding while Greene is mildly on the hawkish side in the MPC. We do not read too much into such comment and regardless, we only have one 25bp Bank Rate cut for 2026 in our forecast profile, after an expected December cut; these cuts if materialise will bring Bank Rate to 3.50%.

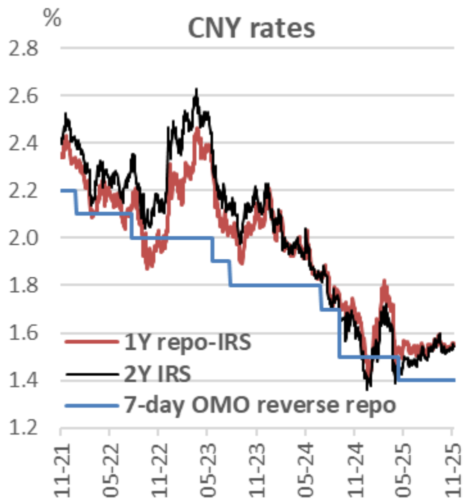
- **DXY. *Downward bias.*** DXY traded softer as markets fully priced in a Dec rate cut. DXY last seen at 99.38 levels. Daily momentum is mild bearish while RSI fell. Risks skewed to the downside. Support at 99.00/10 (50 DMA, 50% fibo retracement of May high to Sep low), 98.50 (100 DMA). Resistance at 99.70 levels (21, 200 DMAs, 61.8% fibo), 100.6 (76.4% fibo). Despite Fed communication blackout this week till 11 dec FOMC (3am SGT), Powell and Bowman have been scheduled to speak on 2 and 5 Dec. This week also brings the release of ISM data as scheduled, while IP, ADP employment and core PCE data will also be released. Hotter print here may partially restrain the USD slippage. More importantly, we would be watching out for any risk of a hawkish cut. The dot plot will be key - if Fed continues to guide for 1 cut in 2026 as compared to market expectations for nearly 3 cuts in 2026. The risk of USD rebound is plausible if dot plot or post-FOMC speech disappoints. Elsewhere, we also keep a look out on potential early announcement of new Fed chair contender.

- **NZDUSD. *Consolidation After Recent Run-Up.*** NZD extended its run-up post-RBNZ decision last week. Although RBNZ did cut OCR 25bp to 2.25%, Governor Hawkesby signalled that the easing cycle is likely over. He also said the RBNZ has reached the point where "forever lowering and keeping the door open" to further easing is "just not consistent" with getting inflation back to its 2% target. On economic outlook, growth is projected to average 2.8% in the year through Mar 2027 while inflation is projected to slow toward 2% by mid-2026. Taken together, signs of growth stabilisation and RBNZ nearing end-cycle should be supportive of Kiwi upside, given that it has come under a lot of pressure since Sep this year. NZD was last at 0.5735 levels. Daily momentum is bullish though RSI shows tentative signs of turning lower from near overbought conditions. Resistance here at 0.5740 before 0.58, 0.5880 levels. Support at 0.5660 (21 DMA), 0.5640 levels. Buy dips preferred.

- **USDJPY. *Hawkish BOJ Rhetoric.*** USDJPY traded a touch softer this morning, in reaction to Governor Ueda's speech. He said BOJ will consider the pros and cons of raising the policy interest rate and make decisions as appropriate by examining the economy, inflation and financial markets at home and abroad. He said that real rate is very low and a hike would be an adjustment of the degree of easing (i.e. conditions still accommodative). He also said that the likelihood of the BOJ's economic outlook being realized is rising. Ueda's speech appears to be a "game-prep" ahead of potential hike, making Dec or Jan meeting highly plausible. Our house view still looks for Dec hike. But the question is if this is a one hike and another long wait. A JPY recovery gathering momentum would likely need BOJ to follow through with stronger guidance. Pair was last seen at 155.60 levels. Daily momentum turned mild bearish while RSI fell. Risks skewed to the downside. Support at 155.20 (21 DMA), 154.40 (76.4% fibo) and 151.60 (61.8% fibo retracement of 2025 high to low, 50 DMA). Resistance at 156.70, 157.90 and 158.87 (previous high in 2025).

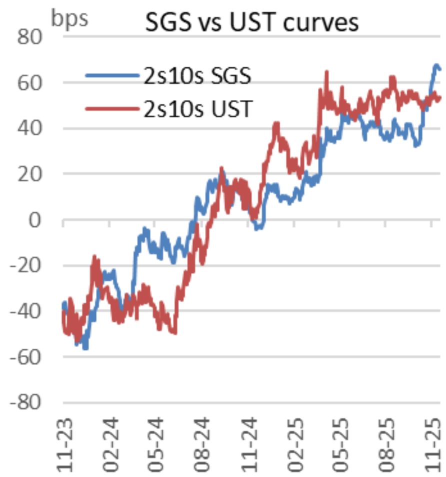
- **USDSGD. *Consolidation.*** USDSGD continued to trade softer amid USD pullback. Pair was last at 1.2950 levels. Daily momentum is mild bearish while decline in RSI moderated. Double-top pattern – bearish reversal played out. More broadly, a rounding bottom pattern also appears to be forming. This can be a bullish setup but for the medium term. Support here at 1.2950/60 levels (50 DMA, 23.6% fibo retracement of 2025 high to low), 1.2910 (100 DMA). Resistance at 1.3030 (21 DMA), 1.31 levels (38.2% fibo). S$NEER strengthened further; last seen at 1.6% above model-implied mid.

- **CNY rates**. Repo-IRS traded on the firm side at open this morning despite the soft PMI prints over the weekend. November manufacturing PMI edged higher to a lower-than-expected 49.2, while service PMI weakened more than expected to 49.5. We remain of the view that short-end repo-IRS are likely to be floored at 1.5% before the next interest rate cut. PBoC net withdrew CNY231.1bn of liquidity via daily OMOs this morning; daily OMOs are in reaction to the liquidity situation on that day which does not represent a certain monetary stance. The 1W implied CNY rate has fallen over recent days. We expect PBoC to stay supportive of medium-term liquidity, mostly from 3M to 1Y through outright reverse repos and MLF. CGBs may garner some support given an expectedly constructive liquidity backdrop while inflation stays low. In offshore, front end CNH rates have also been falling over recent days, mostly following onshore. The CNH CCS curve steepened further; we hold the view that the CNH CCS curve is likely to steepen back when the 1s10s segment becomes flat or flattens to within 5bps.



Source: Bloomberg, OCBC Research

SGD rates. SGD OIS were offered down by around 4bps across the curve on Friday. 1M implied SGD rate last traded at 10bps lower than Thursday's level, but SGD OIS traded on the firm side thus far this morning. We wrote on Friday that while we have been expecting some upward normalization in SGD interest rates over time, SGD rates had risen more rapidly than expected, and "the liquidity situation and short-end SORA rates fluctuates a lot. Some interim retracements in short-end SGD rates cannot be ruled out". Our expectation remains for short-end rates to normalise towards the 1.45-1.55% area over time after dips, but we are also mindful of potential liquidity injections keeping the liquidity situation flush, which could happen, for example, when S$NEER rises towards the upper end of the band. If short-end SGD OIS stay at current level sustainably without interim retracement, then pressure is probably for 2Y SGS yield to rise further, with the 2Y bond/swap spread (OIS – yield) still at a positive level albeit having corrected up over the past days. The steepening in 2s10s SGS is likely to pause, and the curve may flatten back mildly as investors start to see relative value at longer tenors with the next supply of long end bonds months away - the 30Y Green SGS (Infra) in March and the 10Y SGS (MD) in April. Asset swap wise, pick-up was mildly negative at 2Y SGS, and at around SOFR+35bps at 10Y SGS. There are the usual auctions of 4W and 12W MAS bills on Tuesday. Although the 1M implied SGD rate last traded at around 5bps lower than last week, the 4W bills maturity of 5 January covers the year-end, which may mean a mildly higher cut-off at above 1.35% level. Cut-off for the 12W MAS bills may come in the range of 1.43-1.48% as per this morning's market level, but these levels can change over the day.



Source: Bloomberg, OCBC Research

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