Daily Market Outlook

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Largely priced

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- **USD rates.** USTs cheapened by 3-8bps on Monday in a steepening manner, amid a slew of corporate supply while investors might have taken profit on some positions given the dovish pricings. The increase in 10Y UST yield was driven by higher real yield, as breakeven has stayed relatively stable. Yields nevertheless remain within ranges; 2Y yield at 3.45-3.60% and 10Y yield at 3.95-4.15%. Fed funds futures fully price a 25bp cut later this month, which is also our call. Between now and end-2026 market price a total of 89bps of cuts (including the expected December cut), which looks dovish enough. We do not see material downside to short-end yields upon materialization of expected Fed funds rate cut. The updated dot-plot will shed more light on the Fed funds rate cut path ahead. TGA balance was last at USD956bn on 28 November; net bills settlement is at a small USD18bn this week as cash balance is still above target.

- **JPY rates**. Market has added to rate hike expectation over the recent days; JPY OIS last priced an 81% chance of a hike at the December meeting, in line with our long end call for another 25bp hike before year end which is based on the prospect for the virtuous cycle between wage growth and inflation continuing to play out. Ueda said in a speech on Monday that the BoJ "will consider the pros and cons of raising the policy interest rate and make decisions as appropriate". More importantly, his additional comments that any hike would be an adjustment in the degree of easing, and that he has had smooth communications with the government suggest that the central bank is ready to take action soon. This morning, Finance Minister Katayama said there is no disagreement between the government and the BoJ on the view that the economy is on a gradual recovery path, and that the specifics of monetary policy should be left to the BoJ. Estimated natural (real) rate of interest ranges from -1.00% to +0.50%; adding in 2% inflation gives a range of nominal natural rate at 1.00-2.50%. We continue to expect additional 50bps of rate hikes (including the expected 25bp hike later this month) between now and end Q1-2026, which will bring BoJ Target Rate to 1.00%, the low end of the range of estimated natural rate.

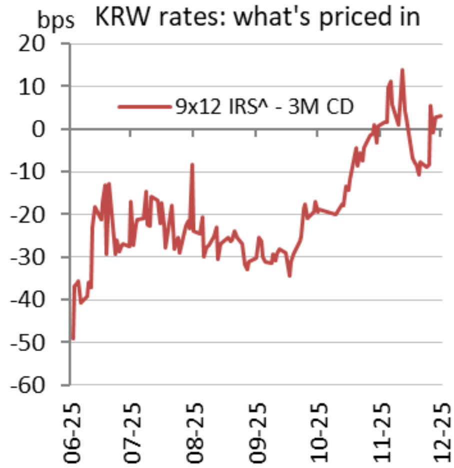
- **USDJPY.** ***JPY Move Largely Priced in Dec Hike.*** USDJPY consolidated after the recent slippage, owing to hawkish shift in BoJ rhetoric. Market pricing for Dec hike (19 Dec MPC meeting) has also swung up to 81% probability. Governor Ueda's speech yesterday was the trigger as he highlighted that BoJ will consider the pros and cons of raising the policy interest rate. 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. That said, comes the next question if this is a one hike and another long wait. We look for Dec hike. But any sustained JPY recovery would likely need BoJ to follow through with stronger guidance and for policymakers to demonstrate fiscal prudence. A softer USD environment will definitely be most helpful. Pair was last seen at 155.65 levels. Daily momentum is mild bearish while RSI fell. Risks skewed to the downside. Support at 155.30 levels (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).

- **EURUSD.** ***Rebound Temporarily Stalled.*** Recent geopolitical development is worth noting. Hopes of breakthrough in Russia-Ukraine peace talks is likely not adequately priced into EUR at this point. Putin said that the draft discussed in Geneva could form the basis of a future deal with Ukraine while US peace envoy Steve Witkoff is visiting Moscow this week. Though it may be early at this point but a potential resolution at some stage can be another driver lending a boost to EUR while USD stays soft. EUR last seen at 1.1610 levels. Bullish momentum on daily chart intact while RSI rose. Mild upside risks. Resistance at 1.1640 levels (23.6% fibo retracement of Mar low to Sep high), 1.1720 levels. Support at 1.1570 (21 DMA), 1.15 levels.

- **DXY.** ***Consolidation.*** DXY consolidated after the recent pullback as markets paused to assess US data releases, Fedspeaks and Fed cut trajectory. Markets have already fully priced in a Dec rate cut. More importantly, we would be watching out for any risk of a hawkish cut at next week's FOMC. 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. Then the risk of USD rebound is plausible if Fed's guidance disappoints or US data surprises. 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. DXY last seen at 99.40 levels. Daily momentum remains mild bearish but decline in RSI moderated. Interim consolidation not ruled out. 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).

- **USDSGD.** ***Consolidation.*** USDSGD consolidated after the recent pullback. Pair was last at 1.2970 levels. Daily momentum is mild bearish while decline in RSI moderated. We continued to flag the rounding bottom pattern which can be a potentially bullish setup 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.

KRW rates. KRW OIS were offered down 2-3bps thus far this morning, despite the firmer than expected headline inflation print, probably as market is already neutral to mildly hawkish. November CPI inflation printed higher than expected, at 2.4%YoY which was the same as October; CPI inflation ex food and energy nevertheless eased to 2.0%YoY versus 2.2% prior. BoK still expects inflation to gradually ease to 2% over the coming months but commented that it needs "to monitor closer possible weak won impact on prices". The uptick in inflation was driven by 1/ higher petroleum product prices – which the BoK said was due to the weak currency; and 2/ food prices, at which Finance Minister has pledged efforts to rein in such inflation. The comments on the impact of a weak won partially explained the long pause in monetary easing. Market has already priced out further easing and is pricing in some chance of a hike beyond a 9-month horizon. 3Y KTB yield is more than 50bps above the policy 7-day repo rate. Given that the market is already mildly hawkish, while we consider it as pre-mature to price in monetary tightening, short-end KTBs may garner some support at current level.



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