

Daily Market Outlook

1 November 2022

Consolidation

- **UST** yields edged higher overnight ahead of FOMC decision, while Fed Funds Futures pricing has stayed at a 75bps hike for Wednesday and a less than even chance for a 75bps hike at the December meeting. The 2Y UST yield at 4.5% is between one and two meetings ahead of the policy curve which looks fair at this juncture; FOMC narrative on calibration will be key to driving market reaction. The bill curve has stayed very steep crossing November and December; but the spread between the cut-offs at the 3M bill and 6M bill narrowed further, reflecting that the calibration theme is gaining traction. Policy rates are entering restrictive levels while there have been some soft patches of economic data of late. At some point, the Fed needs to move to smaller rate hikes, and this may happen at the December FOMC meeting.
- **US Treasury quarterly refunding plan.** Treasury revised upwards its net marketable securities borrowing plan for Q4 to USD550bn from USD400bn, due to “changes to projections of fiscal activity, greater than projected discount on marketable securities, and lower non-marketable financing”. As for Q1-2023, net borrowing via marketable securities is planned at USD578bn, with the cash balance expected to fall to USD500bn at end Q1 from an expected USD700bn at year-end. This plan underlines our view that the cash balance would serve as a buffer for issuances against QT impact. The planned fall in the cash balance will offset most of the SOMA redemptions estimated at USD221bn in Q1-2023.
- Elsewhere, a 75bps hike is firmly in the price for the BoE, which is also our base case. The first Gilt sales by the BoE is confirmed to start today, while the central bank delays the sales on 17 November to 24 November, in view of the timing of the DMO statement. This decision shall not reflect a material change in the bond sales plan. At the ECB, recent comments have erred on the hawkish side. Kazimir said monetary policy need to move to restrictive territory; Visco opined that the ECB should move gradually and take account of the risks to the economy, but nevertheless acknowledging rates would still need to rise further. EUR OIS is pricing in a slightly more than an even chance of a 75bps hike at the December MPC meeting, which does not look overly hawkish.
- **DXY. Near Term Upside Risks but Largely Consolidative.** USD continued to inch higher as we inch closer to FOMC (Thu 2am SG time). 75bps hike is fully priced, but the focus is on its rhetoric. Markets seem to be positioning for a hawkish stance as peak rate is now near 5% again. Fri's release of core PCE report shows inflation remains elevated (5.1% YoY) and it may be too soon to wish for a dovish pivot. But a policy calibration should still not be ruled out if inflation momentum

Frances Cheung, CFA

Rates Strategist

+65 6530 5949

FrancesCheung@ocbc.com

Christopher Wong

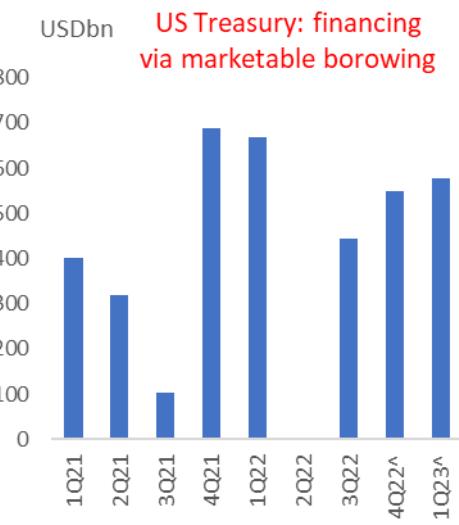
FX Strategist

+65 6530 4367

christopherwong@ocbc.com

Treasury Research

Tel: 6530-8384



Source: US Treasury, OCBC

[^]Treasury estimates, incorporating impact of SOMA redemptions at USD139bn in Q4 and USD221bn in Q1.

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continues to slow in coming months. This week, we also focus on ISM prices, payrolls report. In particular, if hourly earnings and job gains slow. Downside print to data could see policy calibration narrative gain traction and that can lead to further moderation in USD strength. DXY was last seen at 111.46 levels. Bearish momentum on daily chart shows signs of waning while the rise in RSI shows signs of moderation. Near term risks remain skewed to the upside but largely consolidative ahead of FOMC event risk. Resistance at 112.00/40 levels (21 DMA, 23.6% fibo) and 114 levels. Support at 110.90 (50DMA, 38.2% fibo) retracement of Aug low to Sep high), 109.50/70 levels (50% fibo), 108.50 (61.8% fibo).

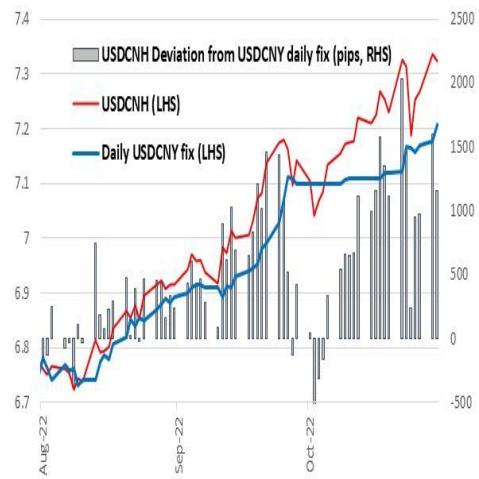
- **EURUSD. Driven by USD, FOMC Event Risk.** EUR slipped amid USD strength ahead of FOMC event risk. Pair was last at 0.9895 levels. Bullish momentum on daily chart shows signs of slowing while decline in RSI moderated. We continue to see consolidative trades, with slight risk to the downside. Support at 0.9890 (50DMA), 0.9850 (21 DMA). Resistance at 0.9960, parity. While likelihood of ECB doing another jumbo 75bps hike at Dec meeting eased, recent release of CPIs from the region including Germany, France and Italy and Euro-area (10.7% y/y) complicated the picture as inflation continued to print higher. We also noted that ECB speaks post-ECB decision seemed to be an attempt to dial back the less-hawkish tone. ECB's Simkus said that ECB needs to deliver a "substantial" increase in interest rates at the Dec meeting despite a strong likelihood of technical recession; Kazimir said ECB will have to move into restrictive territory at least for a certain period to get inflation under control while Knot said he favors a 50 or 75bps hike in Dec though a decision has yet to be made. Markets pricing Euro-area terminal rate crept higher to 2.87% for Jun-2023 vs. 2.73% (Jul-2023) vs. 2.54% on the back of less-hawkish ECB.
- **GBPSUSD. Sideways with Slight Risk to Downside.** GBPS slipped amid broad USD strength and warning from met services that winter more likely to be colder than usual. Pair was last at 1.1490 levels. Bullish momentum on daily chart remains intact while RSI fell from near overbought conditions. Consolidative trades still likely in lower range. Support at 1.1440, 1.1370 (50 DMA) and 1.1310 levels (50% fibo). Resistance at 1.1540 (61.8% fibo), 1.1640 levels. On BoE MPC (Thu), we believe a slightly faster pace of tightening at 75bps (from 50bps previously) to arrest inflation expectations is probable and that should also help to narrow yield divergence with UST and partially support GBPS. Risk for GBPS to the downside if BoE does not increase pace. The above said, we still retain some degree of caution as UK macro-fundamentals remain weak with stagflation risks – inflation at 10% and growth expected to stagnate) and possible deterioration in twin deficits on current and fiscal accounts.
- **USDSGD. Slight Risk to Upside but Bias to Sell Rallies.** USDSGD inched higher, largely tracking gains in USD ahead of FOMC. Pair was last at

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1.4130 levels. Bearish momentum on daily chart shows tentative signs of fading while rise in RSI moderated. Slight risks to upside but bias to sell rallies. Resistance at 1.4150 (50DMA), 1.4180 (38.2% fibo retracement of Aug low to Sep high). Support at 1.4080 (50% fibo), 1.4020 (100 DMA). Expect 1.4080 – 1.4180 range intra-day. S\$NEER is trading around 1.35% above the model-implied midpoint.

- USDCNH. Slight Risks to Upside.** USDCNH rose sharply in early trade this morning post-daily fix before trading lower for the session. The daily USDCNY fix came in at 7.2081 (lowest CNY fix vs. USD since 2008). We reiterate that daily PBoC fix is still a key guidance on how the USDRMB may trade. The series of steady fixing since last Tue reaffirm the view that disorderly or one-off sharp adjustment is not what the Chinese policymakers want. But the trend of the USDCNY fix going steadily higher continues to suggest gradual depreciation in RMB is preferred. USDCNH was last at 7.3240 levels. Daily momentum is not showing a clear bias while rise in RSI slips. Immediate resistance at 7.3750 (recent high, double top). Break out could see the cross test higher towards 7.41, 7.4250 levels. Support at 7.29, 7.21 (21 DMA).
- CNY rates.** The PBoC net withdrew CNY215bn via OMOs this morning, as the daily operation reverts to more normal size as expected passing month-end. Repo-IRS reaction was muted albeit trading on the firm side. Key to watch on the liquidity front is the relatively big-sized CNY1trn of MLF that matures on 15 November. Downward pressure on back-end CNH points persisted yesterday. While there appears room for implied CNH rates to fall further considering the low onshore repo-IRS, front-end CNY-USD rates may not be compressed much further near-term limiting the downside to back-end points. Meanwhile, market may be mindful of FX intervention risk. As such, investors may prefer to stay on the sidelines for now.
- HKD rates.** HKD loan-to-deposit ratio rose further to 90.1% at end-September, extending the uptrend over the past months. The rising LDR may help explain part of the upward move in HKD rates. Given that front-end HKD rates have caught up with the earlier moves in USD rates, further increases in HKD rates shall become less rapid. After all, the HKD liquidity buffer – bills and interbank markets combined – is thick. When the aggregate balance falls to the HKD50bn, HKMA may even need to consider shifting liquidity from the bills market to the interbank market to facilitate further FX intervention, thereby mitigating the upward pressure on HKD rates.



Source: Bloomberg, OCBC



Source: CEIC, OCBC

Treasury Research & Strategy

Macro Research

Selena Ling

Head of Strategy & Research
LingSSSelena@ocbc.com

Tommy Xie Dongming

Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto

Malaysia & Indonesia
WellianWiranto@ocbc.com

Keung Ching (Cindy)

Hong Kong & Macau
Cindyckeung@ocbcwh.com

Herbert Wong

Hong Kong & Macau
herberthwong@ocbcwh.com

Ong Shu Yi

Environmental, Social & Governance (ESG)
ShuyiOng1@ocbc.com

FX/Rates Strategy

Frances Cheung

Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong

FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong

Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo

Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei

Credit Research Analyst
WongHongWei@ocbc.com

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