GLOBAL MARKETS RESEARCH

Daily Market Outlook

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Dollar on a Softer Footing

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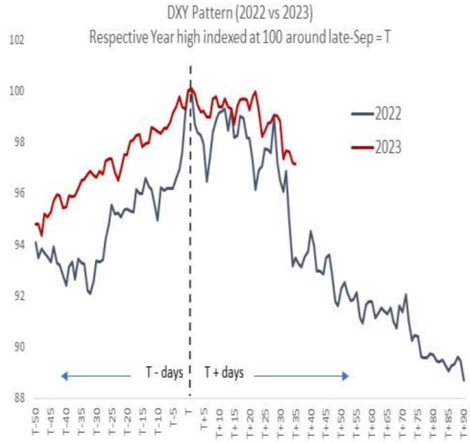
- **USD rates.** UST yields rose during NY session, rebounding from intra-day lows attained in London hours, in an uneventful day. Fed's Barr commented that "we are likely at or near the peak of where we need to be in terms of having a sufficiently restrictive stance of monetary policy". But that's it; market has already priced out rate hike regardless. As we wrote last Friday that *for market to add to rate cuts expectation, more data showing the risk of the US not being able to engineer a soft-landing scenario may be needed*. On this, Friday's data printed mixed with October housing starts and building permits a tad higher than expected but previous month's numbers were revised marginally lower. Continued goldilocks situation may see short-end UST yields trade in ranges in the coming weeks. TIC data show foreign investors' holdings of USTs fell by USD101.6bn during September, with foreign official holdings down by USD44.6bn – these numbers were affected by valuation. In terms of purchases, foreign purchases of long-term US agency bonds increased; purchases of corporate bonds slowed but remained positive; but there were net sales of US Treasury bonds and notes. For this week, net settlement of T-bills is at USD50bn and of coupon bonds at USD26bn this week; there are auctions of USD16bn of 20Y coupons, USD26bn of 2Y FRN, USD15bn of 10Y TIPS. Usage at the Fed's o/n reverse repo fell further to USD912bn on 16 November amid bills and bonds settlement.



Source: Bloomberg, OCBC Research

- **DXY.** ***Fade Rallies.*** USD traded on a softer footing, taking cues from the decline in UST yields. 10y UST yield fell below 4.40% at one point last Fri; last seen at 4.45%. Softer US data of late including the last CPI report, industrial production, jobless claims was the key driver of USD softness. We still hold to the view that the extent of USD decline is highly dependent on 1/ how much market expects the Fed to cut; 2/ timing of first cut. As of now, markets are pricing in about 93bps of cut for whole of 2024 and for first cut to come in Jun-2024. More entrenched disinflation trend and more material easing of labour market tightness, activity data in US should bring about the shift and for the USD to trade softer. Taking stock of DXY patterns around respective peaks in 2022 and 2023 shows signs that DXY is may be re-visiting the playbook of 2022. The macroconditions were somewhat similar in that US CPIs in 2022 and 2023 were falling and that Fed than was calibrating the pace of hikes (from 75bp to 25bp) while this time round, Fed may potentially go on extended pause or near end of tightening cycle. DXY was last at 103.82 levels. Bearish momentum on daily chart intact while RSI is near oversold conditions. Support at 103.50/60 levels (200DMA, 50% fibo retracement of Jul low to Oct high). Resistance at 104.40 (38.2% fibo), 105 levels. Focus this week on FoMC minutes, durable goods orders on Wed and prelim PMIs on Fri. US markets are out for Thanksgiving Day hols on Thu. Market liquidity could thin as we progress into late week.

- **EURUSD.** ***Bullish Bias though Near Overbought Conditions.*** EUR continued to trade higher, riding on USD softness and hawkish ECBspeaks. Last Fri, ECB's Wunsch said that the ECB may have to tighten more in case of oil shock while Holzmann said that rate cut in 2Q would be too soon. Pair was last at 1.0920 levels. Bullish momentum on daily chart intact while RSI is near overbought conditions. Resistance at 1.0960 (61.8% fibo), 1.10 levels. Support at 1.0860 (50% fibo retracement of Jul high to Oct low), 1.08 levels (100, 200 DMAs).

- **USDSGD.** ***Lean Against Strength.*** USDSGD continued to trade with a heavy bias. Lower UST yields, softer USD and gains in RMB were some of the drivers underpinning SGD's rebound. Core CPI would be in focus on Thu. Bloomberg consensus looks for an uptick. Any downside surprise may temporarily derail SGD's momentum. But overall, we remain biased to adopt a "sell-on-rally" for USD as Fed is likely done with tightening for current cycle. Pair was last at 1.3410 levels. Daily momentum remains bearish while RSI fell. Bias for downside play. Support at 1.34 (61.8% fibo retracement of Jul low to Oct high), 1.3360 before 1.3310 (76.4% fibo). Resistance at 1.3470 (50% fibo, 200 DMA).

- **USDTWD.** ***Stay Short.*** USDTWD continued to trade lower in the open, shrugging off the Saturday indecision. Unwinding of election risk premium, funding currency trades, amid continued decline in UST yields and USD were some of the factors underpinning the >2% decline in USDTWD MTD. Pre-election developments in Taiwan remain fluid. The **potential alliance between KMT and TPP is now in doubts as both parties failed to arrive at an agreement on how to interpret on the margin of error** from the opinion poll results on Saturday - over which candidate – TPP's Ko or KMT's Hou should lead the campaign as presidential nominee. **Both parties are still engaging in talks, but they have to firm up on their decision before 24 Nov deadline to register their candidacy.** The joint bid will be significant if they decided to go ahead to form the alliance. Based on the last polling results from various agencies and media, the combined KMT and TPP votes should well surpass ruling party's DPP votes. A DPP win may continue to put more strain on cross-straits relations while a TPP-KMT win should bode well for cross-straits relationship and lead to an unwinding of election risk premium. In the coming few days, we should expect to see more drama on whether an alliance will be forged. Near term, the risk of retracement is not ruled out amid alliance uncertainty. Nonetheless bias remains to sell USDTWD on rallies. Pair was last at 31.68 levels. Bearish momentum on daily chart intact while RSI fell into oversold conditions. Support at 31.55, 31.42 levels (38.2% fibo retracement of 2023 low to high). Resistance at 31.85 (100 DMA, 23.6% fibo retracement of 2023 low to high), 32 levels.

- **CNY rates**. 1Y and 5Y LPR were unchanged at 3.45% and 4.20%, respectively, as expected. Quantitative measures – liquidity injections – are still preferred over outright interest rate cuts to stimulate economic activities. With the earlier outsized MLF operation, the PBoC may adopt a wait-and-see approach for now regarding further liquidity releases; an RRR cut is still possible if PBoC wants to further buffer the liquidity impact of additional bond supply. On daily OMOs, there was a net withdrawal of CNY92bn this morning; a total of CNY1.648trn of reverse repos mature for the rest of the week and some net withdrawals are likely. Repo-IRS and CGB yields traded on the first side this morning; we maintain a mild upward bias to rates and yields.

- **IndoGBs** traded on the firm side on Friday, with long-end bonds outperforming on the curve. SRBI rates edged further lower, to 6.75064%, 6.85367% and 6.89678% respectively for the 6M, 9M and 12M tenors. The 6M, 9M and 12M rates were 5.5bps, 13.9bps and 12.6bps below their recent peaks, although still some 43-47bps higher than before the BI 25bp policy rate hike. The implication on the outlook for the policy rate is still ambiguous, given the recent falls – but small - in SRBI rates. The improved yield differentials are supportive of IndoGBs, but differentials are still narrow especially at the long end and SRBIs are competing with appealing rates at the short end. On balance, we do not expect the rallies in IndoGBs to be automatically extended; but BI policy rate decision can be a swing factor. At Tuesday's sukuk auction, indicative targets remain at IDR9trn.

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