Daily Market Outlook

9 February 2024

CPI Week Ahead

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- **USD rates.** UST yields rose during NY session without an obvious catalyst; the USD rate market might have taken cue from the GBP and EUR markets, while US initial jobless claim printed in line with expectations and the 30Y coupon bond auction went well. The 30Y bond sales benefited from the cheapening in the bond during the day and over the past days, cutting off at 4.36% which was a tad below WI level; bid/cover was solid at 2.40x with indirect accepted higher at 70.7%. Despite the strong demand for the auction, USTs did not manage to pare back the losses in the day. Nevertheless, the changes in yields on the day were mild and range-bound remains the near-term theme until a fresh trigger. The next to watch is January CPI to be released on 13 February; headline YoY inflation is likely to have eased markedly and core to have eased mildly due to base effects. The base effect becomes more prominent in the months ahead. Fed funds futures price the chance of a 25bp cut by the May FOMC meeting at 74% and a total of 115bps cuts for this year, which looks roughly fair, contributing to the range-trading. US Treasury's TGA balance stood at USD821.6bn on 7 February; net bills settlement is at USD51bn next week.

- **EUR rates** rose as some hawkish comments from a couple of ECB officials hit the wire. Governing Council member Holzmann commented "there is a certain chance that there will be no interest-rate cut at all this year or only at the very end of the year". Chief Economists Lane said the central bank "need to be further along in the disinflation process" before they can be confident enough; Lane sees risk around the 2% target as "two-sided". EUR OIS pared back slightly rate cuts expectation, pricing a 25bp rate cut by the April MPC meeting at 58% versus 64% priced a day ago. We see it as more likely that the easing cycle will start in June rather than in April. There were mild rebounds in yoy inflation in items of housing/fuels/household and of transport and communication in December. Nevertheless, the base effect is favourable for January; the week ahead brings a slew of January CPI releases which will be closely watched. As market pricing still looks dovish, risk is for some upward adjustments in EUR OIS.

- **DXY. *Watch CPI Next Tue.*** DXY was a touch firmer overnight but largely caught in range for now. DXY last at 104.15 levels. Bullish momentum on daily chart shows signs of fading while RSI fell. Potential bearish divergence on MACD is emerging. Support at 103.86 (50% fibo retracement of Nov high to Dec low) and 102.90/103.10 (38.2% fibo, 21, 50DMAs) and 102.20 (23.6% fibo). Resistance at 104.63 (61.8% fibo), 105.60 (76.4% fibo). While DXY may appear to have broken out of its recent range, thanks to better-than-expected US data including ISM services, NFP in recent days, the move higher appears to lack momentum for now. This is especially so with the slide in UST yields as Treasury auction were well absorbed this week. It is perhaps also key to point out that the rise in most USD/AXJs have been largely contained to some extent in spite of the pushbacks from Fed, China sell-off and geopolitical concerns in middle east. Possibly, these can be due to a couple of factors including: 1/ fundamentals in the region are not shaky. Regional PMIs, exports are improving; 2/ markets appeared to have "compartmentalise" Chinese equity risks. Typically, sharp sell-off in Chinese equities in the past would have seen much weaker RMB and AXJs; 3/market participants are aware that Asian central banks are likely on standby, ready to smooth any excessive, one-way FX volatility. As much as we refrain from sounding complacent, we reckon the Fed is done tightening and we can be looking forward to a less restrictive rates environment. True that markets can still pare back Fed cut expectations and the USD may still face the risk of intermittent bounces, but the bulk of the pare back may already have occurred. Recall how markets were expecting 150bps cut for 2024. This has now been dropped to 120bps. Even the timing of first Fed cut has been pushed out to May. Furthermore, two pieces of news flow out of China this week were worth reiterating: 1/ China sovereign wealth fund vowed to buy more ETFs and 2/ President Xi was having a discussion with financial regulators. These may temporarily lend a boost to sentiment, especially if there are successive sessions of sustained gains. Looking on most major markets in Asia are closed for Lunar New Year holidays, including China, Korea, Vietnam. Next Mon will see more market closures including Singapore, Japan, HK, Taiwan, China (to return only on 19th Jan). As such, market liquidity during Asian hours is expected to thin further. Expect USD to stay range-bound as markets await CPI data next Tue.

- **GBPUSD. *Consolidation.*** GBP was little changed in absence of fresh catalyst. Pair was last at 1.2620 levels. Bearish momentum on daily chart shows signs of fading while RSI rose from near oversold conditions. Consolidation still likely in absence of key catalyst. Resistance at 1.2670/80 levels (50DMA), 1.2720 (61.8% fibo). Support at 1.2590 (50% fibo retracement of Jul high to Oct low), 1.2520 (recent low) and 1.2460/80 levels (38.2% fibo, 100 DMA). We stick to our view that BoE may remain one of the last few DM centrals to tighten rate and hence potential BoE-ECB, Fed policy divergence may support buying GBP on this pullback.

- **NZDUSD. *Upside Risks.*** NZD continued to trade with a bid tone, in line with our view for risks skewed to the upside. There are now market chatters that the RBNZ may need to hike rate in the next 2 MPCs. We had earlier shared that we do not expect RBNZ to join the pivot party so soon. Next MPC is on 28 Feb, and it is likely that RBNZ may still highlight the still-elevated inflationary pressures though it is moderating. 4Q labor market report may not matter as much to RBNZ than before due to its single mandate of inflation (or price stability under the newly passed RBNZ (Economic Objective) Amendment Bill) but it is still worth highlighting about its upside surprise. Unemployment rate rose by less than expected at 4%. Earlier, there were multiple reports that talked about surge in labour supply amid immigration surge and how job adverts have been declining. But it turned out that the employment situation is still much better than expected. Private wages came in better while employment change rose. Elsewhere, NZ CPI remains sticky, with headline at 4.7% yoy in 4Q and non-tradeable inflation at 1.1% for 4Q (higher than 0.8% expected). A less dovish RBNZ may add to support for the Kiwi. NZD was last at 0.6122 levels. Bearish momentum on daily chart is fading while RSI rose. Morning star pattern formed – a signal for bullish reversal. Risks skewed to the upside. Resistance at 0.6130 (21 DMA), 0.6165 (38.2% fibo retracement of Jan high to Feb low) and 0.6205 (50% fibo). Support at 0.6070 (100 DMA), 0.6040 (recent low).

- **USDSGD. *Watching 100DMA.*** USDSGD firmed but largely stay within recent range. Pair was last at 1.3465 levels. Daily momentum is mild bullish while RSI fell. Inverted head and shoulders (h&s) observed. This is typically associated with a bullish reversal. Completion of h&s pattern puts objective at 1.3760. But not all patterns play out. We continue to monitor price action. Risks remain 2-way. Resistance at 1.3460/80 (100, 200 DMAs, 50% fibo). Break out puts next resistance at 1.3530 (61.8% fibo), 1.3620 (76.4% fibo). Support at 1.3380/1.3400 (38.2% fibo retracement of Oct high to Dec low, 21DMA), 1.3345 levels (50 DMA) and 1.33 levels (23.6% fibo). S$NEER trades at 1.65% above our-model implied mid estimates.

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