

Daily Market Outlook

10 May 2024

Dovish BoE

- **GBP rates.** The Bank of England kept its Bank Rate at 5.25% as widely expected. The vote was 7-2 which was also the consensus expectation as we flagged yesterday. Short-end Gilt yields fell in response. Argument from the two members who voted for a 25bp cut was that “Bank Rate needed to become less restrictive now to enable a smooth and gradual transition in the policy stance, and to account for lags in transmission”. We agreed with the point about the lags in transmission, which may also apply in other economies in general. At the press conference, Governor Bailey commented that it is likely that the Committee will “need to cut bank rate over the coming quarters...possibly more so than currently priced into market rates”. Market reaction to his comments shall be seen as subdued, considering his explicit remarks about market under-pricing rate cuts. GBP OIS price a total of 61bps of cuts this year versus 57bps a day ago; market remains split between a June (priced at a chance of 57%) and an August policy rate cut. Our long-held view is for an August cut, but there is a risk that this expected rate cut will be brought forward. There are loads of data to digest between now and the June MPC meeting, including two CPI reports. Any downside surprise may lead to some further Gilt underperformance against swaps.
- **USD rates.** UST yields fell overnight as initial jobless claims printed higher than expected while the 30Y coupon auction went well. The sales of USD25bn of 30Y coupon bond cut off at 4.635%, similar to WI level; bid/cover ratio was 2.41x versus 2.37x prior; indirect accepted was 64.9% similar to the 64.4% prior. USTs extended gains after the auction. Fed funds futures pricing was however little changed, with a 25bp cut by the July FOMC meeting seen at a chance of 36% only, versus our base-case for a July cut. Fed’s Daly opined that it might take more time for the restrictive policy to bring inflation down to target. Yields being appealing to investors who have asset allocation needs and QT taper on the one hand, market being reluctant to get ahead of the curve to price rate cuts at the current juncture on the other hand, may lead to some bonds outperformance against swaps. Net settlement of coupon bonds next week will be at a manageable USD17bn as maturity is relatively heavy. Level to watch for 10Y UST yield remains at 4.5%; a fall below this level would require breakeven and/or real yield to break out of recent ranges.

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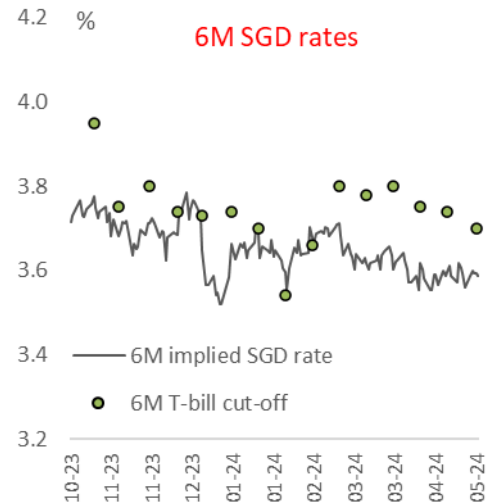
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- **DXY. Awaiting Catalyst.** USD slipped overnight on US data. Jobless claims jumped to 231k, the highest in more than 8 months as labour market tightness in US eased. Also released yesterday, the CNBC/NRF retail monitor noted some moderation in spending. Total retail sales, excluding automobiles and gasoline, were up 0.26% seasonally adjusted month over month but down 0.6% unadjusted year over year in April. This morning, DXY inched a touch higher on news that Biden plans to impose tariffs on China EVs as early as next week. DXY was last seen at 105.31. Bearish momentum on daily chart intact shows signs of fading while RSI rose. Consolidation likely intra-day. Resistance at 105.75 (21 DMA), 106.20, 106.50 levels (interim double top). Support at 104.60/80 (61.8% fibo retracement of Oct high, 50 DMA), 104.00/20 levels (50% fibo, 100, 200 DMAs). We see DXY settling into 104.70 – 105.80 range for now. The rise in geopolitical tensions also saw gold ticked higher intra-day. Taking a step back from the lacklustre short term price action, growth and activity in other parts of the world, including Korea, Taiwan, Malaysia, Philippines, Germany, France are starting to show signs of stabilization while that narrative on US exceptionalism was somewhat dented (due to recent softer than expected ISM mfg, services, 1Q GDP, softer payrolls data). Given a slight shift in global growth environment, and skewed market pricing for fewer Fed cuts, there could be room for USD to adjust lower. But we probably would need a catalyst and CPI/PPI reports next week might well fit the bill if the data surprises to the downside.
- **EURUSD. Range-Bound.** EUR rebounded overnight amid broad USD pullback after US data disappointed. Pair was last seen at 1.0775. Bullish momentum on daily chart intact but RSI was flat. Support seen at 1.0705/10 (21 DMA, 61.8% fibo retracement of Oct low to Jan high), 1.0660 levels. Resistance at 1.0790/95 (50% fibo, 50, 200 DMAs), 1.0840 (100 DMA). Consolidation likely in 1.0710 – 1.0790 range in absence of catalyst. Day ahead brings ECB minutes. Recent ECBspeak remained aligned with Jun cut but the rate trajectory beyond that remains highly data-dependent. Some of the recent ECBspeak are as follow: Wunsch said that “one known unknown remains the role of exchange rate and the risk of importing inflation.” He added that diverging economic conditions and policies in the Euro-area and the US might lead to significant effects from the exchange rate. He also warned that risks to inflation outlook persist and now is not the time to commit to rate path. He also pushed back against suggestions that ECB’s inflation-fighting mandate should be widened to include green goals. Holzmann said that policy decision is dependent on the data available at that time and ECB will have a lot of new data and forecasts in Sep and Dec but that’s hardly the case in July. His comments somewhat suggest that a June cut is likely but he may not support the case for another back-to-back cut in July. Guindos said that ECB won’t commit to any path beyond June.

- **GBPUSD. H&S?** GBP fell on dovish BoE but it was the broad USD decline on US data that saw GBP rebounded into NY close. BoE vote 7-2, with Deputy Governor Ramsden joining Dhingra while Governor Bailey said that rates may fall more than expected. Pair was last at 1.2520. Mild bullish momentum intact while RSI eased. Risks may be skewed to the downside. Potential head & shoulders in the making – typically associated with a bearish reversal. We continue to watch price action here. Support at 1.2460 (38.2% fibo retracement of 2023 high to Oct low), 1.2410 levels. Resistance at 1.2545 (200 DMA), 1.2590/1.26 levels (50% fibo, 50 DMA).
- **AUDUSD. Consolidation; Buy Dips.** AUD firmed overnight amid USD pullback. But headlines of US planning to impose tariffs on China EVs, strategic sectors spooked sentiments. AUD dipped in response. Last at 0.66 levels. Bullish momentum on daily chart remains intact while RSI eased. Slight risks to the downside while we remain opportunistic in looking for dips to buy into. Support at 0.6570 (50% fibo), 0.6500/40 levels (61.8% fibo retracement of Oct low to Dec high, 21, 50, 200 DMAs). Resistance at 0.6640 (38.2% fibo). While market disappointment on RBA has translated into a near-term pullback for AUD, we doubt the pullback will be significant as USD and US rates are likely to settle into range. Medium term, we still favour a constructive outlook on AUD on the back of RBA likely to be on hold for longer (possibly one of the last 1 or 2 major central banks to cut rates), higher commodity prices and tentative signs of stabilisation in China's bumpy recovery.
- **USDJPY. 2-Way Trades.** USDJPY continued to trade near recent high amid return to carry trade play. Still-wide UST-JGB yield differentials remains a key driver underpinning USDJPY moves. Pair was last at 155.70. Bearish momentum on daily chart intact shows signs of fading while RSI rose. Near term risks mildly skewed to the upside. Resistance at 156, 158 levels. Support at 154.80 (21 DMA), 152.00/40 levels (50 DMA, 23.6% fibo retracement of 2023 low to 2024 high). A reversal of the trend would require BoJ to signal an intent to normalise urgently or the USD to turn lower. Elsewhere, intervention risks remain heightened and hence the caution for 2-way risks in USDJPY. As much as markets may try the upside, we believe authorities are likely to remain active and should at least attempt to limit the high (i.e. lower high to ensure the intervention efforts are not wasted). Failing which, FX policy credibility would be at risk.
- **USDSGD. Consolidation.** USDSGD was last at 1.3540 levels. Daily momentum is bearish, but RSI is flat. 2-way consolidative price action still likely until USD catalyst comes along. US CPI, PPI reports next week would be key. Elsewhere we continue to watch moves in RMB, JPY as well as equity sentiment for directional bias. Resistance at 1.3590 (21 DMA), 1.3620 (76.4% fibo). Support at

1.3530 (61.8% fibo retracement of Oct high to Dec low), 1.3490 (50, 200 DMAs). Our model estimates show S\$NEER was at 1.57% above model-implied midpoint. Next SG data release: NODX (next Fri).

- SGD rates.** Demand at Thursday's 6M T-bills sales was strong, garnering a bid/cover ratio of 2.4x. Cut-off was at 3.70%, 4bps lower than the last cut-off of 3.74% while the 6M implied SGD rate was at a level similar to the time around the 25 April T-bills auction. Median yield and average yield were 3.55% and 3.13%, 10bps and 27bps lower than at the previous auction, respectively. The outcome suggests that investors might have added back mildly to expectation for rates to grind lower and therefore intended to lock in the still relatively high rate for this tenor. The SGS curve is fairly flat across 10Y to 30Y, with the long end probably supported by real money demand and also asset swap flows. Pick-up (before bid/offer spreads) was last at SOFR+119bps at 20Y SGS, SOFR+79bps at 10Y SGS, and SOFR46bp at 5Y SGS.



Source: MAS, Bloomberg, OCBC Research



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