GLOBAL MARKETS RESEARCH

Daily Market Outlook

2 April 2024

Markets Responsive to Data

- **USD rates.** UST yields rose across the curve upon the print of firm ISM manufacturing index. Real yield was the main driver of nominal yield movement overnight, both at the short and long end, and rightly so given data were mainly on economic activities although there was a price component as well. 2Y breakeven was little changed; 10Y breakeven was up by 2bps while 10Y real yield was up by 9bps. ISM price paid picked up, and subsequently, market pared back rate cut expectation, with Fed funds futures pricing a total of 68bps of rate cuts this year, and the chance of a 25bp cut by the June FOMC meeting at 63%. These pricings fluctuate day by day and the market will continue to be responsive to the data; next lining up are JOLTS job opening, ISM services, and non-farm payrolls. On a multi-month horizon, we continue to look for downside to yields likely driven by short-end breakeven and long-end real yield. On liquidity, usage at the Fed's overnight reverse repo fell by USD153bn to USD442bn on Tuesday, as we noted yesterday there was a relatively heavy net coupon bond settlement of USD124.8bn. The usage may edge back up upon the USD40bn of bills pay down this week. As of 27 March, bank reserves stood at USD3.496trn and reverse repos (all tenors) at USD873bn reflecting a supportive liquidity condition on aggregate.

- **DXY.** ***Bid.*** USD bulls came to life after ISM manufacturing rose above 50-line for the first time since Oct-2022. ISM prices paid, new orders also rose. Latest data further reinforced the US exceptionalism narrative. 30d Fed fund futures saw further reduction of rate cut expectations: 68bps cut for whole of 2024 (vs. 85bps cut expectations a week ago) while probability of first cut in Jun was down to ~64% (vs. 85%). At this point, USD still present a relative yield advantage and Fed has communicated that they are in no hurry to cut rates. USD may continue to stay supported until Fed's rhetoric makes a dovish tilt or US data starts to show more signs of softening. This puts greater focus on ISM ADP employment, ISM services (Wed) and payrolls report (Fri). Plenty of Fedspeaks is also lined up this week, including Fed Chair Powell (Thu). DXY was last at 104.50 levels. Daily momentum is bullish while RSI rose to near overbought conditions. Resistance at 105.30, 105.80 levels (76.4% fibo). Support at 104.80 (61.8% fibo retracement of Oct high to Jan low), 104.50 before 104 (50% fibo).

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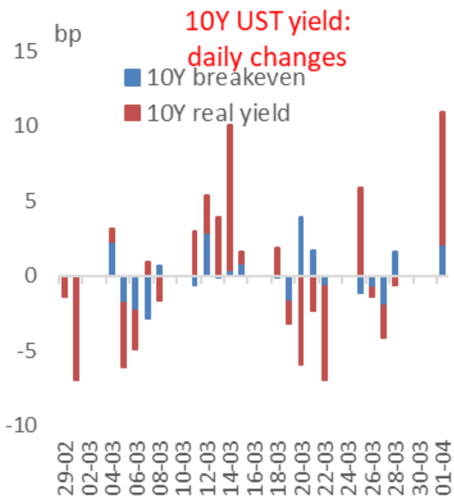

Source: Bloomberg, OCBC Research

- **EURUSD. *Heavy Bias.*** EUR fell, in line with our caution for risks to the downside. Move lower came amid broad USD strength. Pair was last at 1.0730 levels. Bearish momentum on daily chart intact while RSI fell. Risks remain skewed to the downside. Support at 1.0715 (61.8% fibo), 1.0690. Resistance at 1.0795 (50% fibo retracement of Oct low to Jan high), 1.0840 (50, 200 DMAs), 1.0875/80 levels (21, 100 DMAs, 38.2% fibo). Recent ECB rhetoric remains dovish. Stournaras said that a total of 100bps cut for 2024 is feasible, if disinflation trend continues until the end of year. Villeroy said that the ECB cannot ignore the economic risks of keeping rates high for too long and should begin cutting at Apr or Jun meeting. Earlier, Panetta said that policy is compressing demand while Cipollone said that ECB should swiftly dial back its restrictive stance if data confirms ECB's forecast for weaker growth and inflation. Kazaks is also supporting Jun cut as inflation dragon is pinned to the ground. Focus this week on CPI estimate (Wed), following softer CPI readings out of France, Italy.

- **AXJ FX. *Under Pressure.*** The combination of USD strength, fuelled by ISM manufacturing data (overnight) and ongoing RMB and JPY softness may continue to weigh on Asian FX in the interim. On RMB, onshore USDCNY spot continues to drift higher towards the 2% upper band, post-CNY fix. That persistent weakness in onshore CNY has resulted in a negative feedback loop to CNH in the interim. And to some extent, this may be fuelling speculation that China may be allowing for a softer RMB in a slow and measured pace, especially with broad softness seen in most AXJs. TWD, KRW, IDR, THB, SGD are approaching or have approached their year's low (vs. USD) today. We opined that policymakers in the region are probably on standby to smooth excessive volatility. But as a matter of fact, USD remains an attractive carry play and is a safe-haven proxy. We would probably need softer US data or a shift in Fed's rhetoric to dent USD's momentum.

  USDJPY. *Weak Jawboning.* USDJPY continued to inch higher. And not surprisingly, Finance Minister Suzuki is again on the wires. He said it is important for FX to move stably, reflecting fundamentals. USDJPY shrugged off those warnings to trade higher. We remain cautious of intervention especially if moves are rapid or excessive. That said, moves in the past couple of sessions were considered milder as compared to a week ago. While it is of popular belief that 152 may be the line in the sand (given that it capped USDJPY from breaking higher on various occasions in the last 2 years), we think it is also more of the magnitude of the move that may matter. Pair was last at 151.75 levels. Mild bullish momentum on daily chart shows signs of fading but RSI rose to near-overbought conditions. Resistance remains at 152 (triple top). Decisive break out could trigger more buy flows. Support at 150.80, 149.95 (21 DMA) and 149.55 (50 DMA).

- **USDSGD.** ***Supported.*** USDSGD inched higher, tracking broad USD moves. Pair was last at 1.3525 levels. Daily momentum is mild bullish while RSI rose. Resistance at 1.3530 (61.8% fibo), before 1.3620 (76.4% fibo). Support at 1.3460/70 levels (200 DMA, 50% fibo), 1.3430 (50 DMA) and 1.3390/1.34 (38.2% fibo retracement of Oct high to Dec low, 21, 100 DMAs). Pair is likely to try to test fresh highs until US data point to downside surprise. S$NEER was last at +1.583% above our model-implied mid.

- **CNY rates**. Repo-IRS opened mixed this morning. PBoC net withdrew CNY48bn of liquidity via OMOs, upon very light maturity. We continue to look for CNY rates and CGB yields to bottom out, on expected economic recovery, reflation efforts, and long end bond supply. After media revealed President Xi's much earlier comments about PBoC buying bonds, market contemplates the actual implication, while waiting for the first batch of ultra long end bonds to come to the market. For one, we highlight what was being quoted is buying and selling bonds under open market operations. OMOs buying and selling is not QE, as it will usually be done in a repo/reverse repo arrangement. There should be no ambiguity on this front. We do not assume there will be outright PBoC buying unless it is officially announced; instead, we believe most of the CNY1trn of special bonds will be sold to the public. On the FX swap curve, front-end CNH points shall stay supported as the authorities try to cap spot. Onshore 12M implied CNY rate has stayed low, last at 1.25%, compare favourably to NCD rates, with the 12M AAA NCD rate last at 2.24%.

- **IndoGBs** traded within ranges on Monday despite the weak Rupiah. Q2 issuance target has been announced at IDR170trn; there are five conventional and five sukuk auctions in the quarter; the quarter target will be consistent with individual auction size of IDR22-24trn for conventional and IDR10-12trn for sukuk which are within usual ranges. In Q1, gross issuances amounted to IDR230.088trn, near the original target of IDR240trn. The supply outlook stays neutral. On flows, during March (as for 28 March), holdings of IndoGBs fell across banks, non-bank domestic investors and foreign investors, partly because outstanding IndoGBs itself fell. Meanwhile, Bank Indonesia increased its holdings. IndoGB-UST yield spreads widened somewhat, but these spreads are still unlikely to garner strong foreign flows. We have a stable outlook for IndoGBs near-term.

- **SGD rates.** SGD OIS were 1bp lower across the curve on Monday. After a period of SGD rates underperformance, SGD rates are likely to outperform USD rates today in a rising rate environment. Today brings the auctions of 4W and 12W MAS bills; 1M and 3M implied SGD rates were both trading at around 3.71% this morning. SGD liquidity appears to have improved, which may lead to mildly lower cut-offs at MAS bills auctions today especially for the 4W bills. We expect 4W cut-off to come nearer 4% and 12W cut-off nearer 3.90%. On bond side, buying was mainly seen at the short end yesterday.

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