GLOBAL MARKETS RESEARCH

Daily Market Outlook

1 April 2024

Holding Pattern

- **USD rates.** USTs have been in a holding pattern over recent days, as market expectation settled at around 75bps of rate cuts this year in line with the median dot on the Fed's dot-plot; our base-case remains for 100bps of cuts. Core PCE deflator eased mildly to 0.3%MoM in February, but the previous month's figure was revised marginally higher to 0.5%MoM. Within overall PCE, the goods price index picked up to 0.5%MoM from -0.2% prior, and services price index slowed to 0.3% from 0.6% prior. The easing in services price deflator shall be a comfort given stickier services inflation. Meanwhile, personal spending accelerated but income growth slowed. Overall, the PCE outcome shall support the case that the Fed is likely to cut rate by the June FOMC meeting – Fed funds futures price the chance at around 71%. Short end breakevens have eased from the highs in early March, as various price measures did not point to a sudden pile-up of inflation pressure again. On liquidity, usage at the Fed's overnight reverse repo rose to USD594bn on 28 March from USD518bn on the day before; there is net bills paydown of USD40bn this week but there is relatively heavy net coupon bond settlement of USD124.8bn today.

- **DXY. *Watch ISM Manufacturing.*** Regional PMIs, including China came in much stronger than expected. NBS manufacturing PMI returned to expansionary territory (50.8 vs. 49.1 prior) while non-manufacturing rose for 4th consecutive month (53 vs. 51.4 prior). This morning, Caixin PMI manufacturing rose to 13-month high of 51.1. Better data offered reasons to be optimistic about growth in the region. Most equities in the region, including China, Singapore were trading firmer but regional FX remain subdued. This is because USD remains supported as Fed is in no hurry to cut. Fed Chair Powell reiterated on Fri that the US economy is strong and there is no need to be in a hurry to cut. He also said that policymakers can hold rates steady if inflation doesn't come down. USD may continue to stay supported until US data starts to show more signs of softening and this puts focus on the US data release this week: ISM mfg (Mon), 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 shows signs of moderation from near overbought conditions. Resistance here at 104.50 (recent high) before 105 levels (Feb high). Support at 104 (23.6% fibo), 103.30 (38.2% fibo) and 102.80 (50% fibo retracement of Dec low to Feb high).

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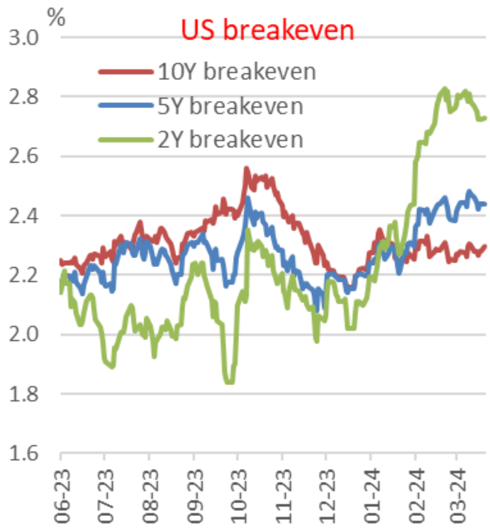

Source: Bloomberg, OCBC Research

- **EURUSD. *Heavy Bias.*** EUR extended its move lower in early trade. CPI readings out of France, Italy were softer than while ECB rhetoric was 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. Markets are also fully pricing in Jun cut and a total of 89bps cut for the year. Focus this week on CPI estimates (Wed), ECB minutes (Thu). EUR was last at 1.0790 levels. Bearish momentum on daily chart intact while RSI fell. Risks 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).

- **GBPUSD. *Sideways.*** GBP somewhat consolidated last week, following the sharp drop the week before. BoE may not be as dovish as it earlier seems. The 2 BoE members who made the switch from hike to hold at the last meeting shared their views with FT and Bloomberg last week. Catherine Mann said that BoE is unlikely to lead a global shift to cut rates, as wage dynamics and services dynamics in the UK are stronger and more persistent than in US or Euro area while Haskel said that interest rate cuts should be "a long way off" and he favours a later start and a slower pace of monetary easing. GBP was last at 1.2630 levels. Daily momentum is mild bearish while RSI is flat. Range-bound trade likely. Next support at 1.2590 (50% fibo retracement of Jul high to Oct low), 1.2560 levels. Resistance at 1.2680 (50 DMA), 1.2720 (61.8% fibo).

- **USDJPY. *Intervention Risks Remain.*** Recent rise in USDJPY moderated amid heightened caution of intervention, especially after MoF, BoJ and FSA meeting last week. This morning, Finance Minister Suzuki reiterated that the government is monitoring currency developments with a high sense of urgency and will take appropriate measures against any excessive moves without ruling out any options. 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 151.30 levels. Mild bullish momentum on daily chart shows signs of fading while RSI eased from near-overbought conditions. Resistance remains at 152 (triple top). Decisive break out could trigger more buy flows. Support at 150.80, 149.80 (21 DMA) and 149.40 (50 DMA).

- **USDSGD. *Supported.*** USDSGD eased slightly but remains near recent highs. Fed not in any hurry to cut rates is keeping USD broadly supported while, on the other hand, better than expected PMIs in the region kept sentiment broadly supported. Pair was last at 1.3485 levels. Daily momentum is mild bullish while RSI eased lower. Support at 1.3460/70 levels (200 DMA, 50% fibo), 1.3420 (50 DMA) and 1.3390/1.34 (38.2% fibo retracement of Oct high to Dec low, 21, 100 DMAs). Resistance at 1.3500/30 (61.8% fibo). Pair is likely to trade sideways near recent highs until US data point to downside surprise. S$NEER was last at +1.63% above our model-implied mid.

- **SGD rates.** The cut-off at the 6M T-bill auction on 28 March came in at 3.80%, 2bps higher than the previous cut-off. Demand was decent with a bid/cover ratio of 2.55x versus 2.29x prior; the mildly higher cut-off was in line with market implied SGD rate. Earlier, the 5Y SGS auction cut off at 3.06%, which was 6bps above OIS – we opined that *more than 5bps above 5Y SGD OIS is likely seen as attractive* in our preview. Market yield has since eased marginally, to last 3.04%/3.02%. We noted that USD-funded investors might prefer longer-tenor SGS. Tuesday brings the auctions of 4W and 12W MAS bills; 1M and 3M implied SGD rates were both trading at around 3.7% this morning. SGD liquidity appears to have improved, which may lead to mildly lower cut-offs at MAS bills auctions tomorrow, especially for the 4W bills. On OIS side, SGD OIS underperformed USD OIS in the past couple of weeks, as USD OIS eased; such underperformance was in line with historical pattern. The 2Y SGD-USD OIS spread was last at -134bps, versus -149bps in mid-March. our medium-term view remains for SGD OIS to underperform USD OIS in a falling rates environment.

- **CNY rates.** Repo-IRS traded on the firm side this morning, after China reported stronger-than-expected official PMIs over the weekend. March manufacturing PMI improved to 50.8 points and non-manufacturing PMI to 53.0 points. In manufacturing, sub-component “new orders”, and other indicator “new export orders” both showed marked improvement. We continue to look for CNY rates and CGB yields to bottom out. The offshore DF curve is well supported. At the front-end, CNH liquidity is tight as the authorities try to cap spot; back-end points have rebounded from the recent lows as USD rates stabilised while downside room for CNY rates is seen as limited despite monetary easing prospects.

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