GLOBAL MARKETS RESEARCH

Daily Market Outlook

18 April 2024

Psychological Resistance for USD

- **USD rates**. USTs stabilised after days of sell-off, with yields down 6-8bps across the curve; both breakevens and real yields edged lower. Some investors might have judged that the current market pricings are hawkish enough and were attracted by the higher yields. The 20Y coupon bond auction went well overnight, with cut-off coming in at around 2bps below pre-auction market level; bid/cover ratio went higher to 2.82x versus 2.79x prior and indirect accepted higher to 75.7% versus 73.5% prior. We earlier cited factors which might be supportive of USTs which included *a tighter financial condition working back towards the Fed's easing agenda* after some bumps in inflation, and *potential safe-haven flows* should geopolitical tensions stay. However, at the current juncture, market may still have relatively low conviction that the Fed is in a position to start cutting rates. For a more meaningful downward adjustment in long-end yields, some moderation in economic activities is probably required. For now, range for the 10Y UST yield is seen at 4.45-4.70%.

- **GBP rates**. UK March CPI came in a tad higher than expected, but more importantly the outcome represents continued disinflation. Indeed, core CPI YoY has been on a steady downtrend, easing further to 4.2%YoY in March, since the peak of 7.1% in May 2023. The more unstable sequential inflation however means the BoE is likely to adopt a cautious approach in easing. We maintain our long-held view that the BoE will only start cutting rate in August. Reaction from short-end Gilts to the CPI prints was muted and rightly so. GBP OIS price the chance of a 25bp cut by the August MPC meeting at 82% which looks roughly fair to us. Governor Bailey expects "next month number will show quite a strong drop" due to UK's energy pricing system mechanics. To recap, measures at the Spring Budget, including freezing alcohol and fuel duties, is estimated to reduce inflation by 0.2 percentage point in 2024-25.

- **DXY. *Psychological Resistance.*** USD eased further. The issuance of various statements by G7, trilateral meeting between Finance Ministers of Korea, Japan and US as well as PBoC's comment on RMB calmed sentiments in FX markets. While the combination of high for longer, geopolitical risks and renewed volatility in RMB, JPY may have lingering effects on most Asian FX in the near term. We noticed policymakers in the region may have also taken a more proactive stance in smoothing the one-sided moves. This

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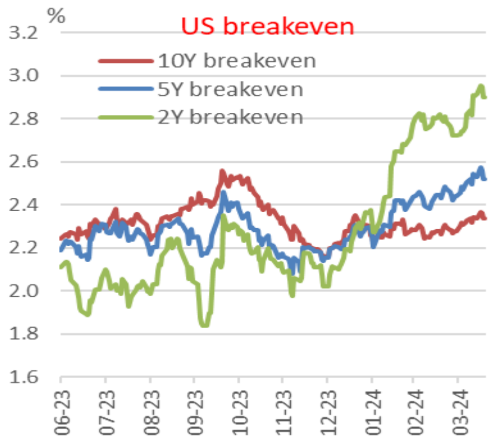
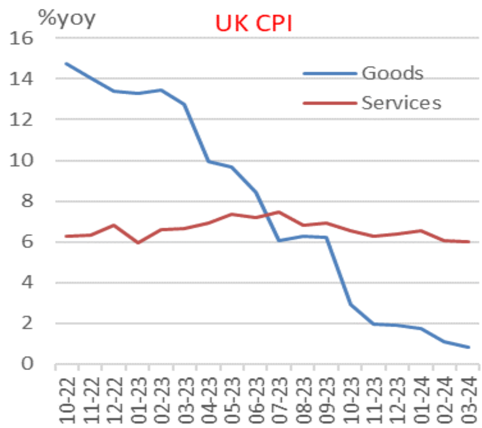


Source: Bloomberg, OCBC Research



Source: Bloomberg, OCBC Research

morning, there was confirmation of a G7 statement on FX and a joint statement issued by finance ministers of Japan, Korea and the US on FX, acknowledging the serious concerns of Japan and Korea about the recent sharp depreciation in JPY and KRW. It may not be a 1985 Plaza Accord but various statements, including the one issued by G7 commenting on FX moves may well be good enough to setup a psychological resistance for USD. It is not just G7, but PBoC, BoK amongst regional central banks weighing in. This should provide an extended breather for some of the worst-hit regional FX such as KRW, JPY. The last time when G7 made such a comment warning against FX volatility was on 12 Oct 2022 and this coincided with a peak in the dollar. DXY was last seen at 105.85 levels. Bullish momentum on daily chart shows signs of fading while RSI turned lower from overbought conditions. Retracement risks not ruled out. Support at 105.76 (76.4% fibo retracement of Oct high to Jan low), 105 levels. Resistance at 106.70, 107.40 (Oct high).

- **EURUSD. *Near Term Rebound Underway.*** Our call for near term rebound risks played out overnight. EUR rose amid extended pullback on the USD. Pair was last at 1.0677. Bearish momentum on MACD intact but shows signs of easing while RSI showed signs of rising from oversold conditions. Resistance at 1.0680. Decisive break out puts next resistance at 1.0710 (61.8% fibo retracement of Oct low to Jan high) and 1.0795 (50% fibo). Support at 1.0610 (76.4% fibo), 1.0520 levels. Commenting on growth, Lagarde told the Council on Foreign Relations that Europe's economy is nearing the end of a malaise that's resulted from a year of near stagnation and "we are clearly seeing signs of recovery".

- **USDCHF. *Bearish Divergence.*** USDCHF fell as USD retreated. Pair was last at 0.91 levels. Mild bullish momentum on daily chart waned while RSI fell. Bearish divergence on MACD, RSI observed. Near term corrective pullback not ruled out especially with CHF shorts at record levels. Support at 0.9055 (21 DMA), 0.8920 (50 DMA). Resistance at 0.9150, 0.9240 levels. Since the shift in SNB rhetoric earlier this year, CHF has weakened over 9% YTD vs USD. Flare up in geopolitical tensions and the possible repercussion it may have on energy and commodity prices may impact inflation, especially if this persists for longer. And we know that the SNB was earlier concerned about importing inflation. In the event that global inflation re-accelerates, then we do not rule out a temporary pause in CHF weakness as SNB may go on a cautious stance and revert to preferring a stronger FX to curb imported inflation. Also, CHF may also stand out as a safe haven proxy. That said, barring short term corrective moves, we still favour a long bias in the medium term.

- **USDJPY. *Verbal Intervention Ratcheted.*** USDJPY slipped overnight. Japan's top currency official Kanda said that G7 reaffirmed its commitment to past G7 policy responses, including exchange rates. Some interpreted this as a green light for Japan authorities to intervene while some may see it as BoJ buying time before its next MPC on 26 Apr. At the same time, there was also a joint statement following a trilateral meeting between the Finance ministers of Japan, Korea and US. The statement mentioned that the 3 countries will continue to consult closely on FX market developments in line with existing G20 commitments while acknowledging the serious concerns of Japan and Korea with regards to the sharp depreciation in JPY and KRW. Taken together, we opined that these actions may be sufficient to setup a psychological resistance for the USD. USDJPY was last at 154.30. Bullish momentum on daily chart intact but RSI eased from overbought conditions. Resistance at 155, 156.40 (138.2% fibo of Nov high to Jan low). There should be self-inflicted caution as USDJPY approaches those levels. Support at 152.30 (21 DMA), 150.77 (50 DMA).

- **USDSGD. *Sell Rallies.*** USDSGD slipped further as USD momentum eased. Joint statements from G7 and separately from trilateral meeting restored some calm to FX markets. Pair was last at 1.3590 levels. Bullish momentum on daily chart intact but shows some signs of fading while RSI fell from overbought conditions. Retracement risks not ruled out. Support at 1.3530 (61.8% fibo retracement of Oct high to Dec low). Resistance at 1.3620 (76.4% fibo), 1.3660. Our model estimates show S$NEER further strengthened after hitting a low of 1.34% above model-implied mid (Mon). Last at 1.61%. We reiterate our view that S$NEER is likely to continue trading on the strong side given MAS' appreciating policy stance and sticky core inflation profile.

- **SGD rates**. SGD OIS continued to outperform USD rates on Wednesday on an uptrend. This morning, SGD OIS were offered down by 1-4bps across, switching to underperformance which is in line with historical pattern. Relative performances in SGD rates versus USD rates underlines our long-held view that *in either a rising or a falling rates environment, SGD rates are likely to stay relatively more stable than USD rates*. Today brings the auction of SGD5.1bn of 1Y T-bills. The 1Y implied SGD rate was last at 3.42%, 2bps below the level we mentioned yesterday; 1Y T-bill cut-offs were mostly around 10bps above implied, and from this perspective we expect 1Y T-bill cut-off at around 3.55%. We watch the result to gauge investor expectation on short-end interest rate trajectory. As a reference, a 3.55% 1Y rate and a 3.75% 6M rate (the last 6M T-bill cut-off) would imply a 6M6M rate at around 3.29% - which may appear on the low side given current market expectation, but counteracting factors include investors' desire to lock in the 1Y rate and SGD liquidity has eased since the last 6M T-bill auction on 11 April.

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