Daily Market Outlook

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Christopher Wong
FX Strategist
ChristopherWong@ocbc.com

Global Markets Research
Tel: 6530 8384

USD Bid

- **DXY. *Bullish Engulfing.*** USD dip was shallow as losses post-FOMC was reversed entirely. US data was upbeat overnight: prelim PMIs for manufacturing held up while jobless claims, continuing claims fell and existing home sales rose sharply. These contributed to the US exceptionalism narrative. At this point, USD still present a relative yield advantage and Fed has communicated that they are in no hurry to cut rates. Stronger data adds to narrative. On this note, any USD dips we've seen so far do find support. This would probably change only when US data starts to show more signs of softening, and this puts focus on core PCE next Fri. We are still of the view that the next step for Fed is a cut and a less restrictive rates environment should favour risk proxy FX. That said, softer CNY today partly in response to the higher USDCNY fix saw some negative spillover. DXY rose; last at 104.16 levels. Daily momentum is bullish while RSI rose. Compression of moving averages observed, and this typically precedes a break-out or pivot – continue to watch price action. Bullish engulfing observed in yesterday's trading session – may point to further upside in the near term. Resistance at 104.30 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).

- **GBPUSD. *Bearish Engulfing.*** GBP fell as BoE vote count showed that no member in the MPC supported rate increase for the first time since Sep-2021. Markets have ramped up bets for potential rate cut in Jun. We still look for a potential cut sometime in 3Q but if bets continue to shift in favour of Jun cut, then risks for GBP would remain skewed to the downside. GBP was last at 1.2640 levels. Daily momentum turned bearish while RSI fell. Bearish engulfing observed in yesterday's session. Risks skewed to the downside. Next support at 1.2590 (50% fibo retracement of Jul high to Oct low), 1.2530 levels. Resistance at 1.2680 (50 DMA), 1.2720 (61.8% fibo).

- **USDCHF. *Surprise Cut Embolden CHF Bears.*** USDCHF rose sharply, in line with our view for further upside play while we also cautioned that a surprise cut could see CHF bears taking charge. Yesterday, SNB became the first DM central bank to cut rates. The move was motivated by disinflation trend which was well underway in Switzerland. Headline and core CPI are at 1.2%, 1.1%, respectively after hitting a peak in Feb last year and well under the 2% conditional inflation target ceiling. This was consistent with our view that SNB could face a policy regime shift as inflation is falling, growth is slowing in Switzerland and domestic companies are feeling the pain. The benefits of holding a strong FX policy to curb imported inflation has diminished and there is room for SNB's tight policy to ease. Markets are now pricing in more than 80% chance of another cut at its next MPC in Jun. This probability could potentially rise if we do see further downticks in inflation print below 1%. We retain our bullish view on USDCHF and still like the pair to trade higher. Pair was last seen at 0.8990 levels. Daily momentum turned mild bullish while RSI rose into overbought conditions. Resistance at 0.9030 (76.4% fibo). Break out puts next resistance at 0.9115 levels. Support at 0.89 (61.8% fibo), 0.8820 (21, 200 DMAs) and 0.8790 (50% fibo retracement of Oct high to Dec low).

- **USDJPY. *152 in Focus.*** Dips in USDJPY remain shallow as the pair traded higher, tracking moves in broad USD, UST yields. Pair was last at 151.60. Bullish momentum on daily chart intact while RSI is near overbought conditions. Resistance at 152 (triple top). Support at 149.60 (21 DMA), 149 (50 DMA). BoJ Governor Ueda said that the basic stance is to let market players decide long term yields. This morning, headline JP CPI came in higher at 2.8%. Focus next on JP CPI (Fri), Tokyo CPI (next Fri) and more details of wage negotiations. Finance Minister Suzuki said that the government will continue to monitor developments in currency market with high sense of urgency – potential jawboning ahead of 152 levels (which we are paying close attention to).

- **USDTWD. *Surprise Rate Hike Has Marginal Impact on FX.*** Governor Yang's comments to parliament last week highlighted concerns about the upward pressure on expected electricity price increases that would have implications on CPI. For instance, residential and general industrial electricity are categorised into 3 tiers, and each subjected to different price adjustment. For super consumers (those with over 5b KWhours consumed annually for 2 straight years), the rate hike may reach around 25% and the corps that will be affected include Micron, TSMC which have 24h operations of their semicon fabs. He also warned that Taiwan may see structural changes to inflation that would make it impossible to go back to low rates seen in the 2010s. Inflation in Taiwan has been a sticking point if we consider past CBC minutes. The Nov release of its Sep meeting had already highlighted that members were of the view that the central bank should take a stronger approach to curb inflation if it does show any hint of becoming unanchored. At this point, it is hard to say if this is a one and done. We would probably need a few more inflation readings in coming months to assess if the CBC is done with rates at 2%, which arguably is a high since 2008. But inflation at 3% level is also a post-GFC high. From a real interest rate point of view, Taiwan is still in negative territories. Signs of moderation in inflation need to come in soon, if not, the chance of another hike is not ruled out to further tame prices. On FX, TWD's correlation with tech appears to have broken down since Feb. TWSE, SOX rallied nearly 13-14% since Feb but TWD spot fell over 1.5% in the same period. CBC hike was probably only marginally helpful. But USD still command a significant yield advantage, and this may keep USDTWD supported on dips in the interim. Pair was last at 31.95. Daily momentum is bullish bias while RSI is in overbought conditions. Risks skewed to the upside. Resistance at 32 levels (76.4% fibo retracement of Nov high to Jan low), 32.10. Support at 31.80 (61.8% fibo), 31.60.

- **USDSGD. *Supported.*** USDSGD turned higher overnight, tracking moves in broad USD, UST yields higher while softer CNH today weighed on AxJ complex. Pair was last at 1.3465 levels. Daily momentum is mild bullish while RSI rose. Upside risks. Resistance here at 1.3460 (200 DMA, 50% fibo) before 1.3530 (61.8% fibo). Support at 1.3417 (50 DMA), 1.3390/1.34 (38.2% fibo retracement of Oct high to Dec low, 100 DMA). Our S$NEER fell to 1.7% above model-implied mid, very much in line with the 3month range of 1.6% - 1.9% we earlier highlighted. Next 1-2 CPI readings will be key as any continued and material slowdown in core may imply that MAS can potentially ease earlier. This may have implication on long S$NEER trade. SG CPI next Mon will be of interest.

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
Cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Macau Economist
HerbertWong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
LavanyaVenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
Ahmad.Enver@ocbc.com

Jonathan Ng
ASEAN Economist
JonathanNg4@ocbc.com

Ong Shu Yi
ESG Analyst
ShuyiOng1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
ChristopherWong@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
WongHongWei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
MengTeeChin@ocbc.com