

Daily Market Outlook

23 April 2024

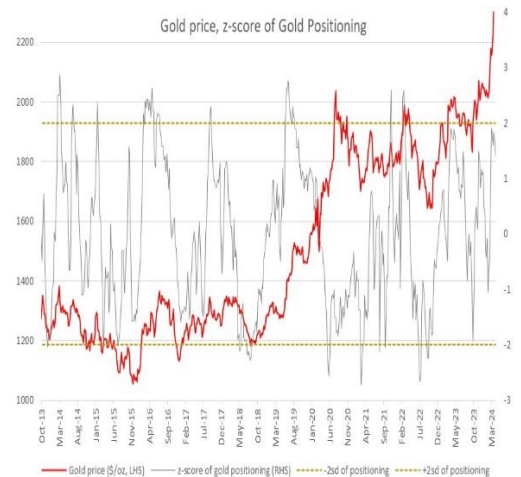
Gold Slump

- Gold. Retracement Underway.** Gold fell sharply overnight as geopolitical concerns subsided. The decline may have also tripped weak longs, in turn fuelling an even larger decline. This was in line with our earlier caution that the parabolic rise looks stretched. Our position-model based on rolling 52w z-score on CFTC positions had flagged that gold longs were at extreme levels (near +2sd). And typically, gold prices can see corrective pullback at those levels. We had also highlighted various factors that may pose downside pressure on gold: 1/ a much longer wait for Fed to pivot; 2/ an unexpected rate hike by the Federal Reserve or 3/ a significant reduction in geopolitical tensions. The last factor was the trigger. There was no follow-through escalation in geopolitical tensions in the Middle East as Iran attempted to defuse tensions. A senior Iran official told Reuters there were no plans to respond against Israel for the incident and the explosions reported were due to air defences hitting 3 drones over the city of Isfahan in Central Iran. Gold was last at 2310 levels. Daily momentum turned bearish while RSI fell. Corrective pullback underway. Immediate support at 2305 before 2263.7 (38.2% fibo retracement of 2024 low to high), 2240 levels. Resistance at 2327.8 (23.6% fibo), 2360 levels. In terms of outlook, we maintain a constructive bias on gold. The anticipation of real rates correcting lower, synchronized easing by central banks, and gold's role as a safe haven and portfolio diversifier are key factors underpinning its positive outlook. But near term, a correction is overdue, and any overshoot is not ruled out.
- DXY. Consolidation.** USD consolidated overnight in absence of catalysts. As Fedspeaks had entered blackout period ahead of FOMC on 2 May, the focus is on auction and economic data: US prelim PMIs (Tue); durable goods orders (Wed); 1Q GDP, core PCE (Thu) and personal income, spending (Fri). Recent run of strong US data has built up expectations that upcoming reports may exceed expectations. Hence, any disappointing print on US data may potentially dent USD's momentum. DXY was last seen at 106 levels. Bullish momentum on daily chart shows signs of easing while RSI eased from near overbought conditions. Risks skewed to the downside. Support at 105.76 (76.4% fibo retracement of Oct high to Jan low), 105 levels. Resistance at 106.70, 107.40 (Oct high).

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Gold long position was stretched



Source: Bloomberg, OCBC Research

- **USDJPY. *Measures Coming?*** USDJPY continued to inch higher despite attempts from officials warning about intervention explicitly. Finance Minister Suzuki said in parliament today that “the environment for taking appropriate action on FX is in place though I won’t say what the action is”. Separately, BoJ Governor Ueda said that BoJ will raise interest rates if underlying inflation rises towards BoJ’s sustainable 2% inflation target. He added that price trend is still below 2% and BoJ expects it will move towards 2% through next year. Key focus this week on BoJ MPC. Consensus is for policy status quo. Markets still expect BoJ to take on a very gradual path of policy normalisation, with next 10bp hike expected in July while for the year, a total of 20bp hike is expected. Softer CPI print last Fri likely added to expectations that the BoJ is in no hurry to normalise. But we note that the moderation in CPI was mostly due to base effects. Upcoming Apr Tokyo inflation is eyed on Fri (on the same day as BoJ decision). Some moderation is also expected, due to base effects. But this is probably less cause for concern as inflation still run above BoJ’s 2% target. The risk for JPY is a more hawkish than expected BoJ on forward guidance or even QT plans and we do not rule this out. Given a softer JPY and higher oil/energy prices, there may be a risk that BoJ may need to hike earlier than expected. Governor Ueda has also recently told G20 last week that there could be an adjustment to monetary policy if JPY’s effect on inflation becomes too significant to ignore. USDJPY was last at 154.75. Mild bullish momentum on daily chart shows signs of fading while RSI is in overbought conditions. Bearish divergence may be forming on MACD. Some signs of pullback are emerging. Support at 152.80 (21 DMA), 151.10 (50 DMA). Resistance at 155, 156.40 (138.2% fibo of Nov high to Jan low).
- **USDSGD. *CPI on Tap.*** USDSGD consolidated in absence of fresh catalyst. Last at 1.3615 levels. Bullish momentum on daily chart 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 1.3660/70 levels. Our model estimates show S\$NEER at 1.62% above model-implied midpoint. 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. CPI data will be released today (1pm). Consensus looks for core CPI to remain steady at 3.5% (vs. 3.6% prior) and for headline to slip to 3.1% (vs. 3.4%).



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