Daily Market Outlook

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US Consumption; BoJ Decision

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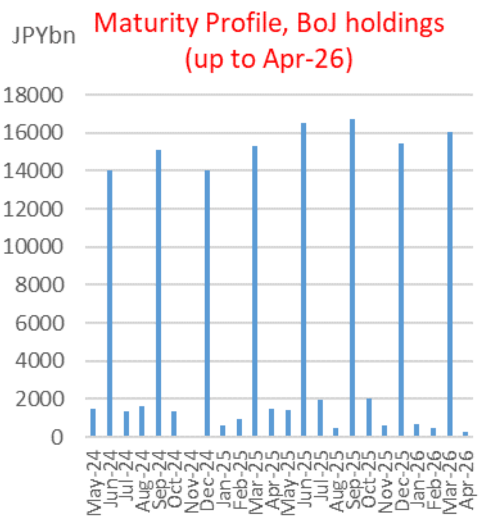
- **USD rates**. USTs were sold off overnight as Q1 PCE price index printed firmer than expected. Market further pared back rate cuts expectation, with Fed funds futures pricing in a total of 34bps cuts this year; chance of a 25bp cut by the September FOMC meeting was priced at 72%. Q1 core PCE price index rose at an annualised rate of 3.7% QoQ, faster than consensus of 3.4%, driven by services inflation. Services price index rose by 3.56% QoQ saar, while goods price index edged lower by 0.16%; the divergence between services and goods was in line with what seen at CPI measures. Meanwhile, Q1 GDP came in weaker than expected at 1.6%, which was mainly supported by consumer spending within which spending on services; net exports and change in inventories were deductions from overall GDP growth which might also reflect solid consumption demand to some extent. Strong personal consumption has been pushing up prices while there are imbalances in growth drivers; the key question here is for how long such strong consumer spending can be sustained. USTs stabilised at Asia open. March PCE deflator tonight will shed more light on the recent price momentum. The next quarterly refunding update from the US Treasury is to be released on 29 April.

- **DXY. *Await Core PCE Tonight.*** USD rose following the release of 1Q GDP, core PCE price index report but the rise was brief, and gains were quickly reversed. The 1Q report somewhat raises concerns of stagflation in US after GDP came in softer at 1.6% q/q (vs. 2.5% expected) while core price index jumped 3.7% q/q (vs. 3.4% expected). Focus shifts to personal income, spending, core PCE (tonight 830pm SGT). And we reiterate *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 105.62 levels. Bullish momentum on daily chart shows signs of easing while RSI eased from near overbought conditions. Risks skewed to the downside. Support at 105.30 levels (21 DMA), 104.80 (61.8% fibo retracement of Oct high to Jan low). Resistance at 106.70, 107.40 (Oct high).

- **JPY rates.** BoJ decided to keep the policy target rate unchanged at 0.0-0.1% by a unanimous vote, in line with consensus and our expectation. The central bank will conduct bond purchases "in



Source: Bank of Japan, OCBC Research

accordance with the decisions made at the March 2024 MPM". We repeated that back in March, the BoJ already adjusted lower the upper bound of intended JGB purchase amounts. Overlaying the JGB buying plans for Q2 with the maturity profile of bond holdings by the BoJ, passive QT may well start in June; a separate announcement of QT may not be seen as necessary. High on the agenda is a gradual shift away from QQE, to a framework that the BoJ guides short-term interest rate as a primary policy tool. Initial market reaction saw USD/JPY higher and JGB yields lower, as there was no rate hike and an absence of the explicit word of "QT". We maintain a steepening bias on the JGB curve with the next leave for watch for the 10Y yield at 1.05-1.15%.

- **EURUSD. *1y, 3y CPI Expectations Today.*** EUR continued to hold on to recent gains this week after German IFO, prelim services PMI came in better than expected, supporting the view that growth conditions in Euro-area/Germany may be showing signs of stabilisation. Pair was last at 1.0720 levels. Bearish momentum on daily chart faded while RSI rose. Risks skewed to the upside. Immediate resistance here at 1.0715 (61.8% fibo retracement of Oct low to Jan high), 1.0740 (21 DMA). Clearance of those hurdles should see EUR extend gains towards 1.0795 (50% fibo). Support at 1.0660, 1.0610 (recent low). We had opined that markets may have largely priced in ECB cuts into EUR but a growth re-rating outlook on Euro-area economy is probably not priced. And lately there are signs to suggest some signs of stabilisation in Euro-area growth. ECB's Lagarde and Bundesbank have recently spoken about signs of activity picking up pace in Germany. A better growth story in Euro-area can push back against aggressive rate cut expectations and this is supportive of EUR.

- **AUDUSD. *Consolidation.*** AUD was a touch firmer as markets no longer expect rate cut this year after CPI surprised to the upside. AUD was last at 0.6520. Daily momentum shows signs of turning mild bullish but rise in RSI somewhat moderated. Resistance at 0.6530/35 levels (50, 200 DMAs), 0.6570 (50% fibo) and 0.6590. (100 DMA). Support at 0.65 (61.8% fibo retracement of Oct low to Dec high), 0.6450 levels.

- **USDSGD. *Still Watching US Data.*** USDSGD consolidated. Last at 1.3610 levels. Bullish momentum on daily chart shows some signs of fading while RSI fell from overbought conditions. Retracement risks. Support at 1.3530 (61.8% fibo retracement of Oct high to Dec low). Resistance at 1.3660/70 levels. Pair should take cues from US core PCE tonight. Our model estimates show S$NEER was last at 1.58% above model-implied midpoint. We reiterate our view that S$NEER is likely to continue trading on the strong side given MAS' appreciating policy stance and sticky core inflation profile. But should we see a more material easing in core CPI, then S$NEER strength may potentially ease further.

- **SGD rates**. The 6M T-bill sales on Thursday cut off at 3.74%, within expected range given the mildly lower 6M implied SGD rate. Today brings the auction of the new 10Y SGS (maturity date 01 May 2034) at which demand is likely to be solid. First, the size of SGD2.9bn with MAS intending to take SGD300mn is within expectation. Second, the 10Y bond/swap spread (OIS minus SGS yield) fell to -17bps on Wednesday, the lowest this year, before trading higher today. The 10Y BSS staying negative may support some bond buying flows. Third, for USD-funded investors, asset swap pick-up was last at around SOFR+110bps (before bid/offer spread) which was decent.

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