GLOBAL MARKETS RESEARCH

Daily Market Outlook

5 April 2024

Focus on Payrolls

- **USD rates**. UST yields retraced from session highs when a slew of Fed commentaries hit the wire overnight. The bond market largely shrugged off Kashkari's comment about seeing the possibility of no cut at all this year, supported by other Fedspeaks and safe-haven demand. Mester and Goolsbee both expect rate cuts at some point this year. Mester saw moderating demand with restrictive policy and expected progresses towards 2% inflation to continue although disinflation pace is unlikely to match last year's; overall she expects the Fed to be in a position to cut rates later this year. What to watch is further progress on housing and core services inflation. Market added back to rate cut expectation slightly, pricing a 73% chance of a 25bp cut by the June FOMC meeting. Uncertainty is high surrounding payroll and labour market report tonight, especially given the divides in opinions among FOMC members and the dispersed distribution of the Fed's dot-plot. Payroll have been on a broad, extended downtrend and the 6-month average ranged between 205K and 231K since it rebounded mildly in November 2023. We see an outcome that is near the 200K mark as supporting the rate cut narrative. On the UST curve, short end breakevens stay elevated with 1Y at 4.03% and 2Y at 2.74%, leaving downside room should any data print come in being supportive of the disinflation narrative. We maintain a steepening bias to the curve.

- **EUR rates**. Bunds traded on the firm side on Thursday with mid to long end yields ending the day mildly lower. ECB MPC meeting minutes elaborated on the reasons for the recent downward revisions to inflation forecasts; the MPC expected inflation to "continue its downward path in the coming months. In the near term, there would likely be some volatility in headline inflation owing to base effects in the energy component and to the timing of Easter. Thereafter, headline inflation was expected to decline to the ECB's target as labour cost dynamics moderated and past energy shocks, supply bottlenecks and pandemic reopening effects dissipated." One key indicator that the Committee is watching is wage growth. Compensation per employee growth slowed to 4.6%YoY in Q42023 versus the 5.1%YoY in Q32023; the next release is in mid-May where there is no MPC meeting. This explains the likelihood for the first rate cut to come in June, if wage growth proves to decelerate further. EUR OIS price the change of a 25bp cut by the June MPC meeting at 93%, which looks fair to us.

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- **DXY. *Payrolls in Focus.*** USD traded a session of 2 halves, reversing its earlier losses into NY close while Brent extended its run-up above $90/bbl. Concerns of escalation in Middle East tensions weighed on sentiments. Elsewhere Fedspeaks also influenced markets. Kashkari said rate cuts may not be needed this year if progress on inflation stalls while Goolsbee warned against keeping restrictive rates for too long as it risks damaging the job market. Focus next shifts to payrolls data tonight (830pm SGT). Consensus is looking for +214k NFP print (vs. +275k prior) and expects a sequential pickup in average hourly earnings to 0.3% m/m, from 0.1% previously. We still expect USD to see asymmetric response to data outcome. For instance, a downside surprise to NFP, or hourly earnings may see USD react more to the downside vs. a case when the data comes in in line or slightly better. This was evident on Wed when USD reacted modestly to the upside surprise in ADP employment but reacted more negatively to the disappointment in ISM services. The sweet spot or goldilocks print for risk assets to rally and USD to drift lower would be for NFP to come in around 200k or slightly below. This should still keep the hopes of Fed cut alive. DXY was last at 104.25 levels. Bullish momentum on daily chart is fading while RSI shows tentative signs of rebound from near overbought conditions. Consolidation likely ahead of data release. Support at 104 (23.6% fibo retracement of 2024 low to high), 103.40 levels (100 DMA, 38.2% fibo). Resistance at 104.50, 105 (double top). Expect quiet trades in Asia as key markets (China, TW) remained closed today.

- **XAUUSD. *Technical Pullback Underway.*** While we are bullish on gold outlook in the medium term, on the back of global easing prospects, geopolitical factors, we had cautioned for the risk of technical pullback in the near term *given* the rapid run-up and relatively stretched positioning as well as potential bearish divergence setup on daily RSI. Gold was last seen at 2271 levels. Underlying momentum as seen on monthly and weekly charts remain bullish. But on the daily chart, RSI is in overbought conditions. We are cautious of how a bearish divergence setup may potentially emerge, contrary to the bullish bias. Near term, a pullback towards 2251 (138.2% fibo) is not ruled out. Beyond this puts next levels of support at 2194 (21 DMA) and 2160. Bias remains for more upside to play out. Immediate resistance at 2305 (150% fibo extension of 2020 high to 2022 low) followed by 2360 (161.8 fibo) and 2535 (200% fibo).

- **USDSGD. *Consolidate.*** USDSGD firmed overnight. Pair was last at 1.3495 levels. Bullish momentum on daily chart is fading while RSI fell from overbought conditions. Support at 1.3460/70 levels (200 DMA, 50% fibo), 1.3430 (50 DMA) and 1.3390/1.34 (38.2% fibo retracement of Oct high to Dec low, 21, 100 DMAs). Resistance at 1.3530 (61.8% fibo, interim double top). US payrolls report should drive USD direction. S$NEER was last at +1.6% above our model-implied mid.

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