OCBC

Daily Market Outlook

8 April 2024

GLOBAL MARKETS RESEARCH

NFP Does Not Argue Against Easing

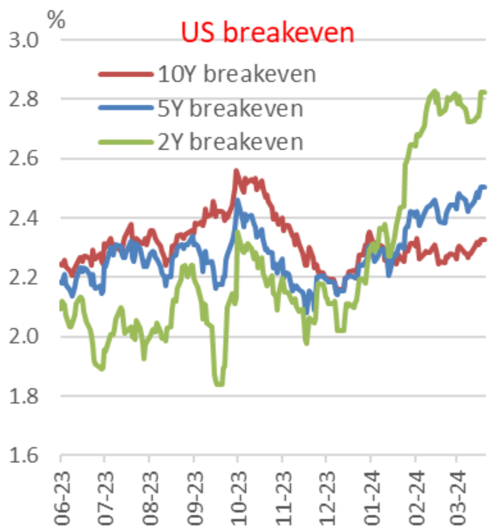
- **USD rates**. UST yields jumped on the payroll release. Fed funds futures pared back rate cut expectation further, to a total of 64bps of cuts this year and to a 52% chance of a 25bp cut by June FOMC meeting. While our notion is that *firm economic activity per se does not argue against easing, as long as the implication on inflation is not material*, strong data means the Fed is in no rush to cut and this is reflected in market pricings and UST valuation. Fedspeaks came in on the hawkish side on Friday, versus more dovish comments on Thursday, simply reflecting the diverse views among the Committee. Back to the data, removing some of heat off the headline payrolls was that the number of multiple jobholders stayed on the high side, at 8.5mn. Meanwhile, March average hourly earnings were in line with expectations, picked up to 0.3%MoM but easing to 4.1%YoY. The situation may still be one which was described by Kugler where "further disinflation can be accomplished without a significant rise in unemployment". In this regard, CPI report on Wednesday is the next to watch – headline YoY may see a mild pick-up because of the energy component. In terms of UST performances, breakevens rose across the curve, more notably at the front-end; the increase in the 10Y yield was still driven mainly by higher real yield rather than breakeven as it was strong economic activity that triggered the move. Levels to eye are 2.415% for the 10Y breakeven and 2.09% for the 10Y real yield, i.e. 4.51% for the nominal yield.

- **DXY. *Consolidate.*** USD spiked, in response to blockbuster NFP print last Fri (+303k vs. +214k expected). Markets have also priced in a delay on the timing of first cut to Jul (with 88% probability). That said, the USD spike was reversed into the close. Focus shifts to CPI report on Wed. Recent round of oil price increase may have near term implication on CPI reading. A higher-than-expected print may add modest support to the USD but a downside surprise may see USD react more to the downside. Asymmetric DXY price action to US data is likely in the interim. On Fedspeaks, Logan said it is too soon to consider rate cutting rates while Bowman said she expects inflation will cool further but it is too soon to consider lowering borrowing costs. DXY was last at 104.35 levels. Bullish momentum on daily chart faded while RSI rose. Consolidation likely. 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). On the data front, NY Fed 1y inflation expectations is on tap later tonight.

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
ChristopherWong@ocbc.com

Global Markets Research
Tel: 6530 8384



Source: Bloomberg, OCBC Research

- **USDJPY.** ***Sideways.*** USDJPY continued to trade sideways. Pair was last at 151.73 levels. Mild bullish momentum on daily chart waned while RSI rose. Resistance remains at 152 (triple top). Decisive break out could trigger more buy flows. Support at 150.80, 150.15 (21 DMA) and 149.70 (50 DMA). Last Fri in parliament, BoJ Governor Ueda said he will closely monitor FX and impact on the economy and inflation as currencies are an important factor affecting them. He added that monetary policy isn't targeting FX and some market speculation might have been a factor behind recent JPY moves. We remain cautious of intervention especially if moves are rapid or excessive. While it is of popular belief that 152 may be the line in the sand (given that it capped USDJPY from breaking higher on various occasions in the last 2 years), we think it is also more of the magnitude of the move that may matter, when it comes to intervention risks.

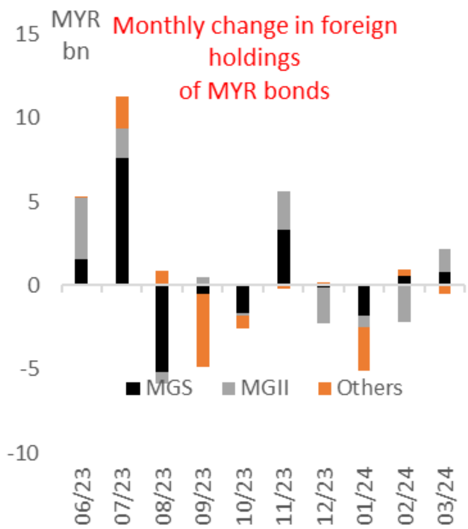
- **XAUUSD.** ***Nearing Another Resistance.*** Gold slipped into NY close last Fri as UST yields surged post-NFP report. But gold resumed its rise this morning even as UST yields continued to hover near recent highs. Weekend report that China bought gold for 17th consecutive month may have re-ignited the demand for gold again. Gold was last seen at 2343 levels. Bullish momentum on daily chart intact while RSI is in overbought conditions. We remain cautious of how a bearish divergence setup may potentially emerge in the near term, contrary to the bullish bias. Support at 2305 (150% fibo extension of 2020 high to 2022 low). Resistance at 2360 (161.8 fibo) and 2535 (200% fibo).

- **USDCNH.** ***Desire for Relative Stability.*** USDCNH continued to trade in subdued manner. Daily fix was set at 7.0947 (very close to last fix of 7.0949), and this means the upper bound on the onshore USDCNY is at 7.2366 for today. The move to fix it around 7.0949 (its last fix) comes as no major surprise as policymakers are after relative stability. Such a move to keep the fix steady should dampen any form of imagination that markets may have on steady RMB policy especially given the lingering speculations of further weakening in RMB but that's not the message policymakers want to send out. We expect policymakers to stick to the same play book of using daily fix to anchor RMB expectations. USDCNH was last at 7.2469. Momentum is not showing a clear bias though RSI fell. Risks may be skewed to the downside in the interim. Support at 7.2320 (21, 200 DMAs), 7.2190 (50 DMA). Resistance at 7.25.

- **USDSGD.** ***Consolidate.*** USDSGD traded choppy, tracking moves in broad USD. Pair was last at 1.3485 levels. Bullish momentum on daily chart is fading while RSI was flat. Range-bound trade likely intraday. 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). S$NEER was last at +1.66% above our model-implied mid. MAS policy meeting is scheduled on this Fri, alongside the release of 1Q GDP advanced estimates. We expect MAS to maintain policy status quo again at the upcoming MPC meeting in Apr as prevailing appreciating path of the S$NEER policy band remains appropriate, given the core CPI profile. Re-acceleration in Singapore CPI reflected the effects of Lunar New Year and was well within the guidance of policymakers that core CPI is expected to rise in current quarter. This should dampen market chatters that a potential MAS easing is round the corner. History shows that MAS did not rush into easing after inflation peaked at previous cycles in 2010s. Instead, the MAS maintained its appreciating policy stance on hold for a while.

- **CNY rates**. The bond market focus will be on the actual issuance plan for the CNY1trn of special bonds, with expectation for it to come to the market within this quarter. We believe most sales will be via auctions if the authorities would like to prepare for such supply to come for the years ahead. We continue to look for CNY rates and CGB yields to bottom out with a steepening bias to the yield curve. With USD/CNY fixing still anchored at the 7.09/10 levels, spot may continue to trade near the 2% cap intra-day which leaves a thin buffer for t/n – this is not a constraint on the fixing level though. On the offshore DF curve, the supported front-end appears to have some filtering through onto the back end, which did not fall much despite the higher USD rates. Still, on balance, the DF curve may exhibit a mild flattening bias near-term. On the data front, March aggregate financing, new yuan loans and money supply data will be out any time.

- **MYR rates**. MGS were stable to a tad firmer on Friday with mid to long-end bonds outperforming. The 7Y MGII auction went well, garnering a decent bid/cover ratio of 3.33x; cut-off was at 3.815% and the bond traded firmer post-auction. We expect MGS to stay fairly stable especially at the front-end where the yield spreads over OPR hover around multi-year averages and OCBC Economists expect BNM to keep OPR unchanged throughout this year. In addition, short-end MYR basis fell back of late, rendering asset swap into short-end instrument more appealing. Foreign reserves stood at USD113.8bn, mildly lower than the USD114.3bn as of 29 February; reserves were enough to cover 5.4months of imports of goods and services and was 1.0x short-term external debt. MYR bonds received inflows of MYR1670mn in March, reversing three months of outflows; MGS and MGII received inflows of MYR2166mn, while there were MYR350mn of outflows from T-bills which should have been due to falling supply (outstanding of T-bills fell by MYR3bn during March).



Source: CEIC, OCBC Research

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