Daily Market Outlook

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FOMC Review

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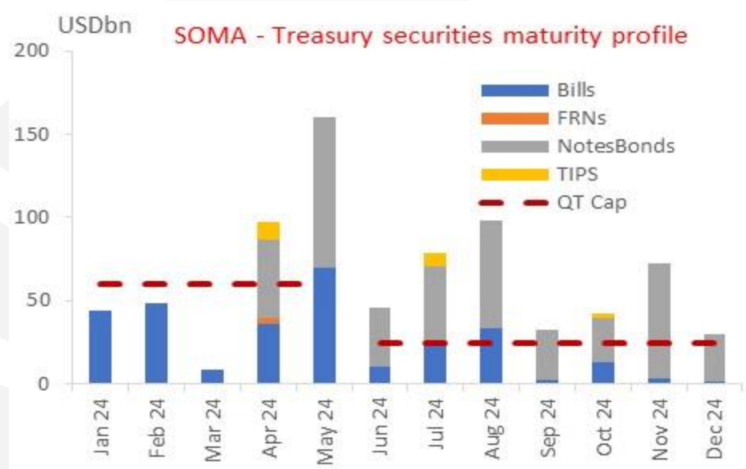
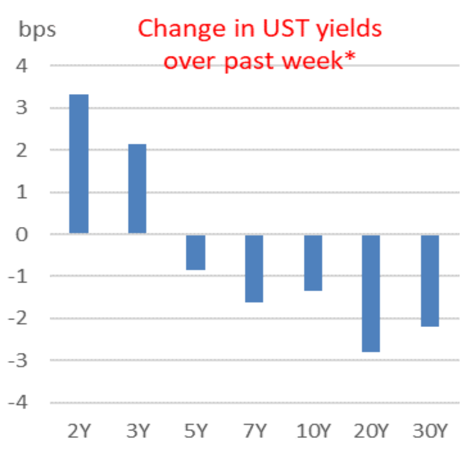
- **FOMC**. The Committee decided to keep the target range for the Fed funds rate unchanged at 5.25-5.50% as widely expected. While the Statement continued to note inflation has eased over the past year, it added "in recent months, there has been a lack of further progress toward the Committee's 2 percent inflation objective." Similarly, during the press conference, Powell commented so far this year, "the data have not given us that greater confidence". These remarks are not more hawkish than the recent commentaries from FOMC officials. When asked about the risk of a hike, Powell opined that "I think it's unlikely that the next policy rate move will be a hike. I'd say it's unlikely." Overall, the latest official stance supports the notion that there will be a delay in the timing of the first interest rate cut, but not a pivot back to tightening. Our base-case is for a total of 75bps of Fed funds rate cuts this year.

- **QT taper:** The committee also decided to slow the pace of QT starting from June, "by reducing the monthly redemption cap on Treasury securities from $60 billion to $25 billion." The monthly redemption cap on agency debt and agency mortgage-backed securities has been kept at USD35bn. The QT taper is in line with what the March FOMC minutes indicated, that FOMC members looked to half the overall QT pace via Treasury securities only. The confirmation of such still represents an outcome which is supportive of USTs. Total QT via Treasury securities will amount to USD175bn for the June-December period, instead of USD331bn, in our estimates. The reduction amount is less than the reduction in the cap as the previous USD60bn was not binding for some months.



Source: NY Fed, OCBC Research



Source: US Treasury, OCBC Research
**as of 1 May close*

- **USD rates**. UST yields fell upon FOMC decision and Powell's press conference, as the Chair did not sound more hawkish than his recent remarks. Overall, Powell maintained the bias to easing, against some market worries that he could have pushed back more forcefully on rate cuts. Earlier, the 2Y UST yield had broken above the 5% mark at Tuesday's NY session and stayed there throughout Asia session the next day, as investors prepared for a more explicit hawkish tilt. We continue to see the 5% level as a strong support for 2Y UST. US Treasury has released detailed auction plans. The auction sizes of coupon bonds in the May-Jul quarter are the same as what had been indicated at the previous update, i.e. confirming that no further upsize in long-end bond sales compared to the Feb-Apr quarter is needed. For May, the auction sizes of the 3Y, 10Y and 30Y coupon bonds are USD58bn, USD42bn and 25bn respectively; the sizes of the 10Y and 30Y bonds are the same as those in February, which will be downsized mildly in June and July. As we noted, the latest refunding estimates *still include the normal SOMA redemption assumption, i.e. at the current pace of QT before any confirmation of QT taper.* QT taper points to downward adjustment in refunding needs, other things unchanged. This backdrop shall lend some support to long-end USTs.

- **DXY. *2-Way Risks.*** USD traded choppy the past few days but ended a touch softer post-FOMC. The outcome was largely in line with our expectations for minimal changes to statement and that Fed will not use this meeting to signal any policy shifts. He did acknowledge inflation setbacks and that rates can remain on hold at elevated levels until policymakers gain greater confidence that inflation is heading sustainably back to 2% target. More importantly, Fed Chair Powell also told reporters that the next policy move is **unlikely** to be an interest rate increase. USD eased but still trades within recent range. Focus shifts to ISM services as well as payrolls report on 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 more (asymmetric risks for the USD). DXY was last seen at 105.72. Mild bearish momentum on daily chart intact while RSI was flat. 2-way risks likely to persist. Support at 105.55 levels (21 DMA), 104.80 (61.8% fibo retracement of Oct high). Resistance at 106.20, 106.50 levels (interim double top).

- **USDJPY. *Intervention Again?*** USDJPY fell another 5yen into NY close overnight, spurring chatters of another round of intervention. There was no confirmation as top currency official Kanda declined to say if authorities intervened. Given still wide UST-JGB yield differentials amid Fed-BoJ policy divergence, dips in USDJPY may still find support. A combination of BoJ demonstrating urgency to normalise policy and MoF conducting

FX intervention may perhaps be more effective than the MoF doing a solo. Of course, a less strong USD in the external environment will be helpful to JPY. The latter will be dependent on US data. This week, US payrolls report, in particular average hourly earnings will perhaps play some significance in USDJPY's fate. Near term, we still do not rule out 2-way swings as markets may make another attempt to test the upside. But we reckon authorities should at least attempt to limit the high (i.e. lower high to ensure the intervention efforts are not wasted). Pair was last at 155.95 levels. Bullish momentum on daily chart intact while RSI fell from overbought conditions. Support seen at 154 (21 DMA), 152. Resistance at 158, 160.20 (recent high).

- **USDSGD. *Tactical Sell?*** USDSGD continued to trade near elevated levels in recent range. Last at 1.36 levels. Daily momentum and RSI indicators show signs of turning bearish. 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 was steady at 1.52% above model-implied midpoint. US payrolls data will be the set of data that may influence USDSGD. A softer than expected report should support a tactical sell USDSGD play in the interim.

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