Daily Market Outlook

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BoE in Focus

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
ChristopherWong@ocbc.com

Global Markets Research
Tel: 6530 8384

- **USD rates**. UST yields rose running into the 10Y coupon bond auction and stayed around session highs post auction with long-end USTs underperforming mildly. The 10Y coupon bond cut off at 4.483%, which was a tad higher than WI level; nevertheless, other auction parameters were decent with indirect accepted higher at 65.5% and bid/cover ratio higher at 2.49x. USTs are in consolidation mode after days of rallies, while Fed commentaries came in mostly balanced, along the line of lack of disinflation progress year-to-date leading to delays in rate cuts. Fed funds futures pricing was little changed, still at 43bps of cuts this year. The auction of 30Y coupon bond tonight will conclude the current batch of supply. Range for the 10Y UST yield is seen at 4.40%-4.60%.

- **GBP rates**. Gilt yields edged higher on Wednesday ahead of BoE MPC meeting later today. BoE is widely expected to keep its policy Bank Rate unchanged at 5.25%; focus is on the split in votes, which may shift the rate cut pricing between the June and the August MPC meetings. To recap, the votes were 8-1 (hold-cut) at the March MPC, which represented a dovish tilt from the 6-1-2 (hold-cut-hike) split at the February MPC meeting. Possibility is for additional member(s) voting for a cut, while a switch back to one or more votes of a hike is unlikely, in our view. A 7-2 split may be seen as somewhat neutral given that the market has positioned for a dovish tilt. GBP OIS price a 53% chance of a 25bp rate cut by the June MPC meeting and fully price a 25bp rate cut by the August MPC, while our base-case is for an August cut and a total of 50bps of cuts this year. Current market pricings are roughly in line with our expectations.

- **JPY rates**. JGB yields went higher this morning by 2-3.5bps. The Summary of Opinions for the April MPC meeting mentioned "various upside risks to prices", arising from factors including the depreciation of the yen. It opined that "there is a possibility that the future policy rate will be higher than the path that is factored in by the market"; and to avoid any shocks from future need of rapid policy changes, one option for the MPC is "to adjust the degree of monetary accommodation by conducting moderate policy interest rate hikes/to raise the policy interest rate in a timely and appropriate manner". These comments underline our view that the March rate hike was not a one-off and the outcome was not as dovish as some in the market has interpreted. Our base-case is for an additional 20bps of hikes before year-end, while passive QT may start in June. We continue to see the next support/target for the 10Y JGB at 1.05-1.15% in terms of yield.

- **DXY. *Consolidation.*** USD remains supported in lacklustre trade overnight. Week remaining sees no tier-1 data but only Fedspeaks – about 6 more to go. We continue to watch out for any shift in tone post-FOMC. But so far, the message is rather consistent for rates to stay elevated for longer. DXY was last seen at 105.55. Bearish momentum on daily chart intact shows signs of fading while RSI rose. Consolidation likely intra-day. Resistance at 105.75 (21 DMA), 106.20, 106.50 levels (interim double top). Support at 104.60/80 (61.8% fibo retracement of Oct high, 50 DMA), 104.00/20 levels (50% fibo, 100, 200 DMAs). We see DXY settling into 104.70 – 105.80 range until the next catalyst comes along, which is PPI/CPI report next Tue/Wed.

- **EURUSD. *Bulls Looking Lethargic.*** EUR traded little changed in absence of fresh catalyst. Pair was last seen at 1.0745. Bullish momentum on daily chart intact but RSI was flat. Support seen at 1.0705/10 (21 DMA, 61.8% fibo retracement of Oct low to Jan high), 1.0660 levels. Resistance at 1.0790/95 (50% fibo, 50, 200 DMAs), 1.0840 (100 DMA). Consolidation likely in 1.0700 – 1.0790 range. On ECBspeaks overnight, Wunsch said that "one known unknown remains the role of exchange rate and the risk of importing inflation." He added that diverging economic conditions and policies in the Euro-area and the US might lead to significant effects from the exchange rate. He also warned that risks to inflation outlook persist and now is not the time to commit to rate path. He also pushed back against suggestions that ECB's inflation-fighting mandate should be widened to include green goals. Holzmann said that Fed's sway over the USD give it an outsized influence that policymakers will take into account. He also warned against cutting rates too much too quickly. He went on to say that policy decision is dependent on the data available at that time and ECB will have a lot of new data and forecasts in Sep and Dec but that's hardly the case in Jul. His comments somewhat suggest that a June cut is likely but he may not support the case for another back-to-back cut in July.

- **GBPUSD. *Short Squeeze Ahead?*** Focus today is on BoE policy decision at 7pm and press conference at 730pm. While BoE is widely expected to remain on hold, markets are likely to pay attention to the MPC vote, inflation forecast and forward guidance. In particular, if there is any clue the BoE may hint at a cut as early as June or August. There is also some chance of a shift to lower inflation trajectory in BoE's projection. The MPC vote will be interesting. As of the last meeting, there was 1 dissenter and there is a fair chance there may be 2 dissenters this round. Deputy Governor Ramsden has taken a dovish tilt last month in saying he was more confident that the risks of persistent domestic inflation pressures were receding. He also cited research by his former BOE colleague, Gertjan Vlieghe, which suggested that the more elevated services component of the consumer price index is not a good indicator of underlying inflation. A vote split and a shift lower in inflation trajectory would be a clearest expression of a dovish outcome and that should validate GBP bears. But as GBP is already trading on the back foot anticipating a dovish outcome, we do caution that a less dovish BoE may see a squeeze on GBP shorts. Pair was last at 1.2495 levels. Mild bullish momentum intact while decline in RSI moderated. Support at 1.2460 (38.2% fibo retracement of 2023 high to Oct low), 1.2410 levels. Resistance at 1.2545 (200 DMA), 1.2590/1.26 levels (50% fibo, 50 DMA).

- **AUDUSD.** ***Consolidation; Buy Dips.*** AUD's decline moderated overnight. Last at 0.6580 levels. Bullish momentum on daily chart remains intact while decline in RSI moderated. Consolidation likely as we look for dips to buy into. Support at 0.6570 (50% fibo), 0.6500/40 levels (61.8% fibo retracement of Oct low to Dec high, 21, 50, 200 DMAs). Resistance at 0.6640 (38.2% fibo). While market disappointment on RBA has translated into a near-term pullback for AUD, we doubt the pullback will be significant as USD and US rates are likely to settle into range. Medium term, we still favour a constructive outlook on AUD on the back of RBA likely to be on hold for longer (possibly one of the last 1 or 2 major central banks to cut rates), higher commodity prices and tentative signs of stabilisation in China's bumpy recovery.

- **USDJPY.** ***2-Way Trades.*** USDJPY remains supported amid return to carry trade play. Still-wide UST-JGB yield differentials remains a key driver underpinning USDJPY moves. A reversal of the trend would require BoJ to signal an intent to normalise urgently or Fed to cut. That said, intervention risks remain real and hence the caution for 2-way risks in USDJPY. As much as markets may try the upside, we believe authorities are likely to remain active and should at least attempt to limit the high (i.e. lower high to ensure the intervention efforts are not wasted). Failing which, FX policy credibility would be at risk. Pair was last at 155.50. Bearish momentum on daily chart intact shows signs of fading while RSI rose. Near term risks skewed to the upside. Resistance at 156, 158 levels. Support at 154.80 (21 DMA), 152.00/40 levels (50 DMA, 23.6% fibo retracement of 2023 low to 2024 high). On BoJspeaks, Governor Ueda had said that abrupt FX moves are negative for Japan's economy and that BoJ could lift rate if price trend rises as expected. FX markets have largely ignored these until perhaps if clearer action is seen.

- **USDSGD. *Consolidation.*** USDSGD was little changed overnight. Pair was last at 1.3550 levels. Daily momentum is bearish, but RSI is flat. 2-way consolidative price action still likely. Bias to lean against strength. Resistance at 1.3590 (21 DMA), 1.3620 (76.4% fibo). Support at 1.3530 (61.8% fibo retracement of Oct high to Dec low), 1.3490 (50, 200 DMAs). Our model estimates show S$NEER was at 1.51% above model-implied midpoint.

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