Daily Market Outlook

12 April 2024

ECB and MAS Review

- **EUR rates**. Bunds outperformed global peers with a dovish hold by the ECB. Yields initially fell upon the policy rate decision and the press conference during which Lagarde revealed "a few members "felt sufficiently confident" at the meeting that inflation would return to target in a sustained manner, suggesting in a subtle way that these members might have supported a rate cut. The exact quote was "truth be told, a few members felt sufficiently confident on the basis of the limited data that we received in April and agreed to rally to the consensus of a very large majority of the governors, who were comfortable with the need to reinforce confidence when receiving a lot more data in June". EUR OIS price the chance of a 25bp rate cut at the June MPC meeting at 84%, and a total of 66bps of rate cuts this year, marginally more dovish than before the decision; pricing has not gone more dovish as a June rate cut had already been in the price while the ECB emphasized a "data-dependent and meeting-by-meeting" approach which means there may not be back-to-back rate cuts. Our base-case remains for a total of 75bps of rate cuts, to be delivered in some of the remaining five meetings of the year, with the first cut likely coming in June. Q1 employment report to be out in mid-May shall be the last bit of evidence for the central bank to gain enough confidence to start cutting rates, when the growth outlook is tilted to the downside.

- **EURUSD. *Bearish Crossover.*** EUR held on to losses as ECB retains dovish rhetoric. Potential policy divergence between hawkish Fed and dovish ECB underpinned the bearish bias. Pair was last at 1.0720. Bearish momentum on MACD while RSI fell. Bearish crossover observed: 21DMA cut 50, 200 DMAs to the downside. Near term risks skewed to the downside. Immediate support at 1.0710 (61.8% fibo retracement of Oct low to Jan high), 1.0695 (2024 low). Break below puts next support at 1.0660 and 1.0610 (76.4% fibo). Resistance at 1.0795 (50% fibo), 1.0820 (50, 200 DMAs).

- **SGD rates**. SGD OIS were offered down by 2-4bps this morning after MAS SGD NEER decision. MAS maintaining a positive slope while the Fed is seen as delaying rate cuts will likely leave SGD-USD rates spreads deeply negative for now. In either a rising or a falling rates environment, SGD rates are likely to be relatively more stable than USD rates. Our medium-term view remains for SGD rates to underperform USD rates in a falling rates environment, thereby partially normalising rates differentials –

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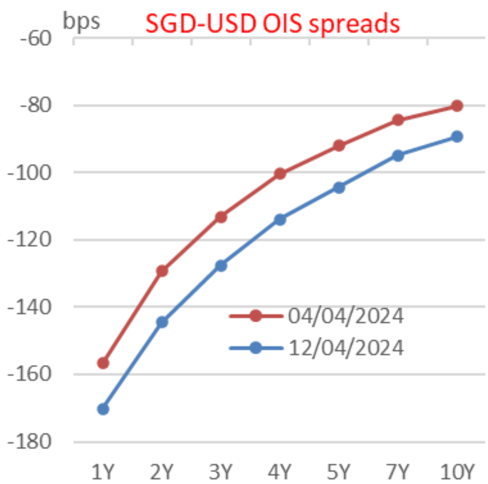
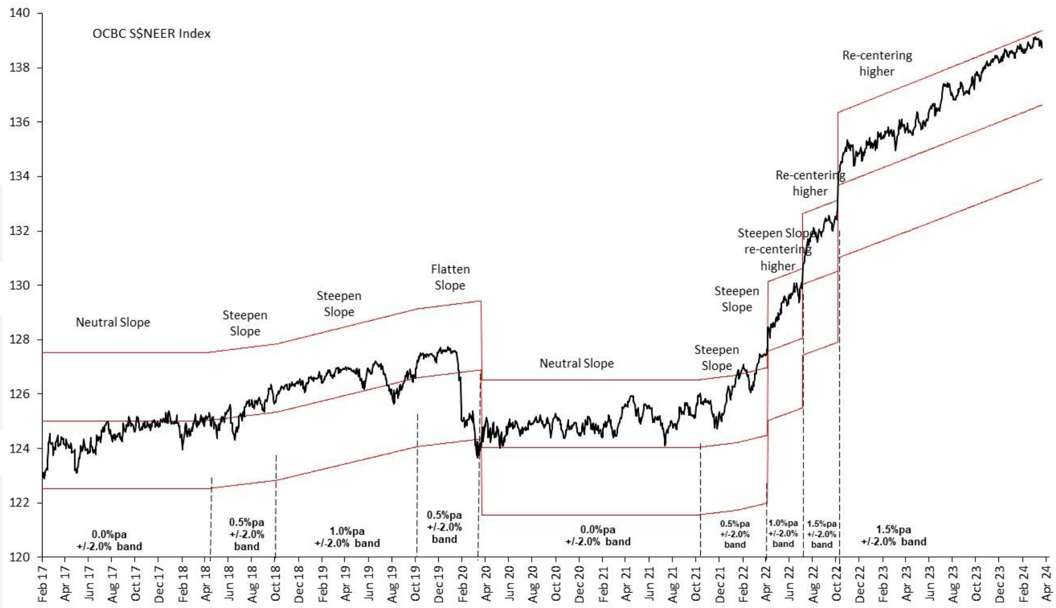


Source: Bloomberg, OCBC Research

this move may gain momentum later in the year when the Fed starts its easing cycle. On bills side, Thursday's 6M T-bill cut off at 3.75% versus last 3.80%, in line with our expectation for a mildly lower cut-off. The sales garnered a solid bid/cover ratio of 2.54x, at the high end of the range for past 6M T-bills auctions. On SGS, more selling interest was seen at the 5Y in recent days, correcting partly the "kink" on the curve.

- **USDSGD. *MAS No Rush.*** USDSGD traded modestly firmer post-decision this morning. Pair was last at 1.3540 levels. Bullish momentum on daily chart intact while rise in RSI moderated. We still look for some consolidation after the recent run-up. Resistance here at 1.3530/45 (61.8% fibo, interim double top, recent high). Break-out puts 1.3580, 1.3620 in focus. 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). MAS maintained policy status quo, as widely expected. Statement contained little deviation from the last MPS. MAS reiterated that core inflation is expected to remain elevated for 2Q-3Q but still remains on moderating path before stepping down in 4Q and falling further into 2025. On this note, we expect MAS to remain on an extended pause, unless there are outside-expectation changes to inflation-growth dynamics. S$NEER eased slightly post-decision; last at 1.63% above our model-implied mid. We continue to observe the +1.5% to +1.9% range above model-implied mid. On growth, 1Q GDP came in at 2.7% y/y, below our house view for 2.9% but still an improvement from the 2.2% growth seen in 4Q 2023. Our Chief Economist shared that o*ur current 2024 GDP growth forecast of "around 2%" may come in slightly higher at 2.3% yoy given the acceleration in 1Q24 growth and some anticipated firming in growth trajectory as the year progresses. Our 2024 headline and core inflation forecasts are 3.0% and 3.1% yoy respectively.*



GOLD. *Not Ruling Out a Pullback.* Gold extended its rise to another fresh highs this morning after the brief retracement post-US CPI report the day before. While markets have pushed back the timeline of first Fed cut and reduce the quantum of rate cut, the view that the next step is still a cut remains unchanged. Prospects of global monetary easing, central banks' sustained purchase of gold and geopolitical concerns remain the key drivers underpinning gold's bullish outlook. On monetary easing, it is not just the Fed, but other DM central banks including ECB, BoE, SNB and BoC are expected to transition to an easing cycle. This synchronous easing should continue to boost the appeal of gold. That said, from a positioning and velocity point of view, we are cautious of the risk of near-term retracement given the rapid rise in such a short time and stretched long gold position (CFTC). Last seen at 2388. Bullish momentum on daily chart intact but RSI in overbought conditions. Pullback puts support at 2360, 2320 levels. Resistance at 2400, 2440 levels.

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