

## Daily Market Outlook

15 May 2024

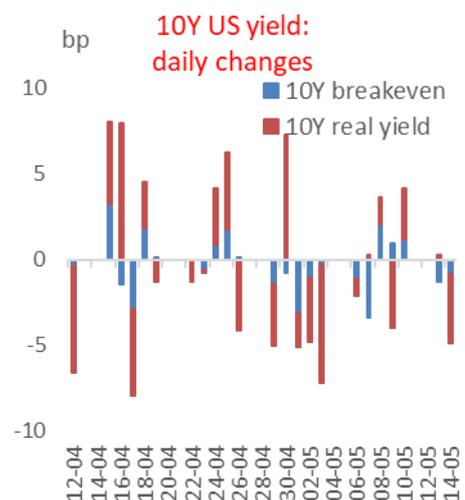
### Looking for More Evidence

- USD rates.** UST yields rose transiently upon the April PPI print, only to be followed by downward moves driving yields a few bps lower on the day. April PPI rose by 0.5%MoM, faster than consensus expectation of 0.3%; that said, March’s figure was revised down to -0.1%MoM from 0.2%. Investors chose to pay more attention to the downward revision which removed some of the heat as suggested by a slew of Q1 economic data. Powell repeated his comments that there was a lack of further progress on inflation in Q1 this year, with the outcome higher than expected, and therefore the FOMC “need to be patient and let restrictive policy do its work”; Powell continued to expect inflation will move down on a monthly basis, but his confidence on this outlook is not as high as it was. His comments have not gone more hawkish and the implied delay in the timing of rate cuts is already in the price, with Fed funds futures pricing an 82% chance of a 25bp cut by the September FOMC meeting. Focus is CPI tonight, where consensus is looking for some mild easing in both headline and core readings; the base effect was largely favourable in the month, with the swing factor being energy. The CPI outcome will dictate as to whether the 10Y UST yield can find a new range below the 4.50% mark. Given market may be used to upside data surprises, in-line readings shall be good enough to sustain the support to USTs.
- DXY. Asymmetric Reaction to US CPI.** USD jumped on knee-jerk reaction to US PPI data. But the subsequent price action saw USD reversing gains into losses sharply. Downward revision to prior data was the trigger and this aligns with the recent softer data print seen in 1Q GDP, NFP, ISM reports, adding to the view that the US exceptionalism narrative may be softening slightly. And we look for more evidence in tonight’s CPI release (830pm SGT). Potentially, FX price action may somewhat see a similar asymmetric price action around the US CPI release tonight. Any downside surprise to core CPI is likely to dent the USD strength more while data that comes in line with estimates may see a more muted reaction. Markets are currently pricing in less than 2 cuts for the year (vs. 5 cuts expected at the start of the year). In our opinion, hawkish Fed repricing seen thus far over the months may largely be done. We believe the room for USD upside may be constraint at this point unless the Fed outhawks itself to price in a hike or that data surprises a lot to the upside (that it would

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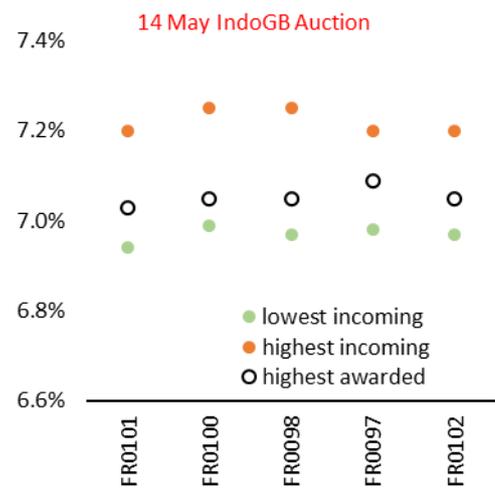


Source: Bloomberg, OCBC Research

warrant a re-think of Fed policy trajectory). Elsewhere the news of US imposing hefty tariffs on some China goods including EVs, solar cells may seem to pose a threat on sentiment, but the reality is market reaction has been fairly limited so far. DXY was last seen at 105. Bearish momentum on daily chart intact while RSI was flat. Consolidation likely intra-day. Support at 104.80 (61.8% fibo retracement of Oct high, 50 DMA), 104.00/20 levels (50% fibo, 100, 200 DMAs). Resistance at 105.60/80 levels (21 DMA, 76.4% fibo), 106.50 levels (interim double top).

- **AUDUSD. Looking for Clean Break Out.** AUD rose amid broad USD pullback and extended its move higher on news that China considers government purchases of unsold homes to ease the oversupply. AUD was last at 0.6644. Bullish momentum on daily chart remains intact while RSI rose. Bullish crossover observed with 21DMA cutting 50 and 200 DMAs to the upside. Risks are skewed to the upside. Key resistance at 0.6640 (38.2% fibo). Clean break above this resistance (which had capped the AUD's rally on 3 occasions in the last 2 months) could see AUD bulls gain confidence and momentum. Next resistance at 0.6730 (23.6% fibo). Support at 0.6570 (50% fibo, 100 DMA), 0.6500/50 levels (61.8% fibo retracement of Oct low to Dec high, 21, 50, 200 DMAs).
- **USDJPY. Watching Out for Intervention.** USDJPY continued to drift a touch higher. Pair was last at 156.40. Bearish momentum on daily chart faded while RSI rose. Near term risks remained mildly skewed to the upside. Resistance at 157, 158.20 levels. Support at 155.40 (21 DMA), 152.40/80 levels (50DMA, 23.6% fibo retracement of 2023 low to 2024 high). A reversal of the trend would require BoJ to signal an intent to normalise urgently or the USD to turn lower. Elsewhere, intervention risks remain heightened 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.
- **USDSGD. Downside Risk.** USDSGD drifted lower, tracking the broad move in USD. Pair was last at 1.35 levels. Daily momentum is mild bearish bias while RSI fell. Risks are skewed to the downside. Support at 1.3490 (50, 200 DMAs), 1.3450/60 (50% fibo, 100 DMA). Resistance at 1.3530 (61.8% fibo retracement of Oct high to Dec low), 1.3575 (21 DMA) and 1.3620 (76.4% fibo). Our model estimates show S\$NEER was at 1.61% above model-implied midpoint. Watch US CPI tonight for USD directional cues. Softer data print should see the pair move more material to the downside.

- CNY rates.** PBoC granted CNY125bn of MLF this morning, representing a full rollover, while keeping the rate unchanged at 2.5%. The full rollover of MLF does not send any particular policy signal, as the maturing amount and hence the granting today was relatively small. MLF rate being kept unchanged probably reflects the judgement that there is no urgency to cut rate at this juncture, shortly after the lifting of restrictions in the residential property segment and when NCD rates are well below MLF rate. That said, we continue to see room for some interest rate cuts down the road, while an RRR cut cannot be ruled out if the authority would like to buffer some ultra-long end bond supply. Market does not appear to have reduced monetary policy easing expectation after today's MLF outcome either. In offshore, front-end implied CNH rates have earlier come off from recent highs, as pressure on spot faded somewhat. Back-end CNH rates edged higher overnight on lower USD rates. If front-end stays quiet and US CPI prints in line, then the steepening momentum may come back to the FX swap curve.
- IndoGBs** pared back some of the earlier losses after Tuesday's auction. The conventional bond auction yesterday garnered decent demand with incoming bid of IDR49.4trn, with IDR 21.4trn awarded against the indicative target of IDR 22trn. Most of the incoming bid went to FR101 (2029 bond) and FR100 (2034 bond). Cut-offs were noted to be near the lowest incoming bid level for FR100 (2034 bond), FR098 (2038 bond) and FR102 (2054 bond). There were small clips of foreign inflows over the past days, bringing foreign holdings mildly higher to IDR797.5trn or 13.84% of outstanding as of 13 May. A sustained trend of foreign inflows has not been established yet; the dilemma here is that domestic demand may prevent IndoGB yields from rising to levels that are perceived as decisively appealing to foreign investors. Meanwhile, among domestic investors, banks have reduced holdings and non-bank investors have increased holdings, since 3 May.



Source: DIPPR, OCBC Research



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