Daily Market Outlook

16 April 2024

AXJs Under Pressure

- **USD rates**. UST yields rose further overnight as US retail sales printed firmer than expected; short-end yields retraced relatively more from session high leading to a steeper curve. Data releases continue to add to the notion that the Fed is in no rush to cut rates. Meanwhile, OCBC economists have revised upward oil prices forecasts. Accordingly, we have pushed back our expected first rate cut from June to July. A delay in the timing of the first rate cut will reduce the room for rate cuts to be delivered between now and year-end; we now expect a total of 75bps of rate cuts this year instead of 100bps of rate cuts. We are mildly more dovish than current market pricing, as our assessment is that the broader disinflation trend remains, so does the Fed's easing agenda. After recent market adjustment, there are factors which may support USTs at current levels. First, if upside risk to energy prices persist, it would be fair to assume one of the reasons is geopolitical tension and in that case there shall be some safe-haven flows into USTs; Second, with higher market rates now, financial condition is getting tighter which works back towards Fed's easing agenda; Third, QT taper may come soon, with latest FOMC minutes revealing that "the vast majority of participants thus judged it would be prudent to begin slowing the pace of runoff fairly soon". That said, at the current juncture, market has relatively low conviction that the Fed is in a position to start cutting rates. The high-for-longer narrative may not change much near-term. These factors will leave USTs trading in ranges near-term with initial expected range of 4.45-4.71% for the 10Y nominal yield.

- **DXY. *Bullish but Overbought.*** USD stays bid on geopolitical concerns, and hawkish Fed. Overnight, Fed's Daly reiterated there's no urgency to adjust rates as US economy is solid, labour market is strong and inflation remains elevated. Williams still expects cut to begin this year but no need to cut in the very near term. Elsewhere, Israel vows to 'exact a price' after Iran's attack. Geopolitical tensions should see demand for safe haven proxy. This morning, daily USDCNY fix was set higher at 7.1028. This is the first time since 22 Mar when the fix was set above 7.10. There is a risk markets may interpret this as China allowing for depreciation. But we believe China is riding on external market development to allow for a measured pace of depreciation. On net, the mix of geopolitics, high for longer and volatility in RMB, JPY will continue to undermine sentiments in AXJs. DXY was last

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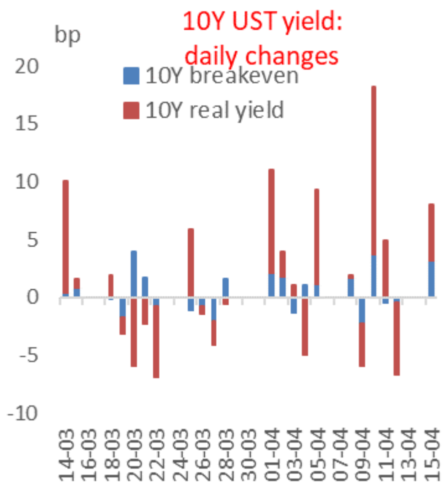


Source: Bloomberg, OCBC Research

seen at 106 levels. Bullish momentum on daily chart intact but RSI rose into overbought conditions. Retracement risks not ruled out. Support at 105.76 (76.4% fibo retracement of Oct high to Jan low), 105 levels. Resistance at 106.70, 107.40 (Oct high).

- **EURUSD. *Bearish Bias.*** EUR continued to trade with a heavy bias amid USD's resurgence. Meanwhile the CPI divergence between EU and US is also driving the policy divergence between Fed and ECB. And this should continue to weigh on EUR. Pair was last at 1.0610. Bearish momentum on MACD intact while RSI fell into oversold conditions. Downside bias intact. Support here at 1.0610 (76.4% fibo), 1.0520 levels. Resistance at 1.0710 (61.8% fibo retracement of Oct low to Jan high), 1.0795 (50% fibo).

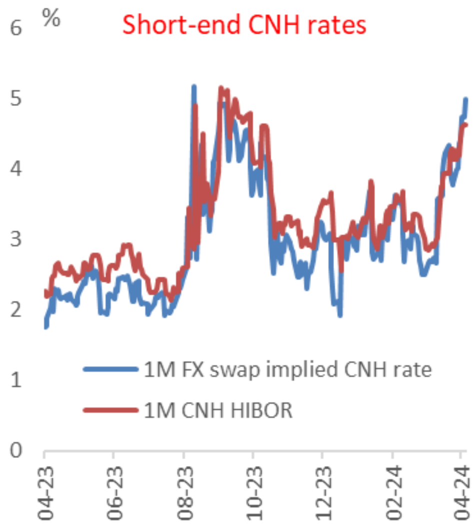
- **USDCHF. *Bearish Divergence?*** Since the shift in SNB rhetoric earlier this year, CHF has weakened over 9% YTD vs USD. Flare up in geopolitical tensions and the possible repercussion it may have on energy and commodity prices may impact inflation, especially if this persists for longer. And we know that the SNB was earlier concerned about importing inflation. In the event that global inflation re-accelerates, then we do not rule out a temporary pause in CHF weakness as SNB may go on a cautious stance and revert to preferring a stronger FX to curb imported inflation. Also, CHF may also stand out as a safe haven proxy. Pair was last at 0.9130 levels. Mild bullish momentum on daily chart is waning while RSI eased. Potentially, bearish divergence may emerge on MACD, RSI. Near term corrective pullback not ruled out especially with CHF shorts at record levels. Support at 0.9030 (21 DMA), 0.89 (50 DMA). Resistance at 0.9150, 0.9240 levels. Barring short term moves, we still favour a long bias in the medium term.

- **USDJPY. *Going with the Flow.*** USDJPY extended its move higher, after breaking past the 152-psychological level. Jawboning from officials appeared to be an everyday affair with markets largely ignoring them for now as the move higher appears to be in line with recent market developments – higher UST yields while BoJ is still perceived to normalise slowly. This morning, Finance Minister said he is watching FX moves closely and refrained from commenting on if current FX moves is rapid. Typically, intervention alert is heightened if the pace is considered to be rapid but it appears that the pace of move may not be deemed to be rapid this episode as compared to previously. Pair was last at 154.33. Bullish momentum on daily chart intact while RSI is in overbought conditions. Resistance at 155, 156.40 (138.2% fibo of Nov high to Jan low). Support at 152 (21 DMA), 150.55 (50 DMA).

- **USDSGD. *Bulls Awaken.*** USDSGD rose further amid broad USD strength while China fix was the latest catalyst to trigger some sell-off in Asian FX. Pair was last at 1.3665 levels. Bullish momentum on daily chart intact while RSI rose into overbought conditions.

Risk skewed to the upside. Resistance at 1.3720, 1.3760 levels. Support at 1.3620 (76.4% fibo), 1.3530 (61.8% fibo retracement of Oct high to Dec low). S$NEER has eased post-MAS meeting. Our model estimates show S$NEER has eased from 1.7% above model-implied mid to 1.34%. We continue to monitor if this may imply a slightly lower range going forward (as compared to the previous range of 1.5-1.9%). But that said, S$NEER is likely to continue trading on the strong side given MAS' appreciating policy stance and sticky core inflation profile. We would expect S$NEER strength to fade at some point this year should core inflation in Singapore start to ease.

- **CNY rates**. Repo-IRS traded on the soft side this morning with limited price actions. The reverse repo maturity profile is light this week; unless the PBoC conduct daily OMOs actively, net liquidity injections or withdrawals shall be minimum in the days ahead. MLF maturity in the coming three months are also on the low side. Q1 GDP came in firmer than expected, but March data were a mixed bag. While short-end implied CNY rates have stayed low, NCD rates and short-end CGB yields have been moving lower as well, narrowing asset-swap pick-up. Meanwhile, positioning may also be on the heavy side after months of inflows. Asset swap flows may slow. On the offshore DF curve, front-end CNH rates stay elevated, more so with today's RMB fixing. We expect front-end CNH rates to stay high; sporadic spikes cannot be ruled out.



Source: Bloomberg, OCBC Research

- **IndoGBs** re-opened this morning after the holidays under selling pressure. There is catch-up for IndoGB to play and as such the performance thus far this morning is not surprising. Given the recent upticks in UST yields, the current 10Y IndoGB-UST yield spread may still not be wide enough to attract strong foreign inflows. That said, on a multi-month horizon, we have a downward trajectory for US yields. In the interim, IndoGBs are likely supported by domestic demand.

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