GLOBAL MARKETS RESEARCH

Daily Market Outlook

17 April 2024

Patience and Divergence

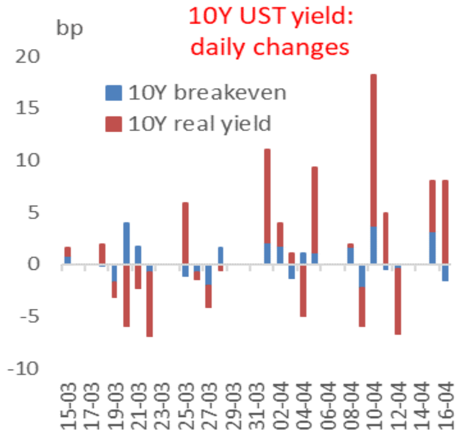
- **USD rates**. UST yields rose further as Fed officials, including Powell, signalled increased patience. The yield curve moved up by 6-9bps mostly in a parallel manner. Powell commented "the recent data have clearly not given us greater confidence and instead indicate that is likely to take longer than expected to achieve that confidence". Powell went further to say the FOMC can stand pat on rates for "as long as needed" if inflation pressure persists. Comments from Jefferson and Barkin were also along the narrative of "no urgency to cut rates". We have pushed back our expected first Fed rate cut to July from June; even with this, we are more dovish than market pricing where Fed funds futures price only a 46% chance of a 25bp cut by the July FOMC meeting. 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. Month-to-date, the increase in the 10Y UST yield was mainly driven by higher real yield (contributing 80% to the move), reacting to firm economic activities; meanwhile, a long-term breakeven of 2.4% is not entirely inconsistent with the current 2% inflation target if we add potentially higher structural inflation. For the 10Y yield to move lower would therefore require a lower real yield, which in turn requires some moderation in economic activities. Next level to watch for the 10Y UST yield is near, at 4.71%.

- **GBP rates**. Gilt yields rose as UK weekly earnings growth printed a tad higher than expected. Weekly earnings growth did not ease but stayed at 5.6% YoY in the three months to February. Nevertheless, unemployment rate for the three months to February rose by more than expected to 4.2% while the previous number was also revised upward to 4.0% from 3.9%. Together, the data may still show that the labour market has become less tight. Gilts retraced from session highs to end the day around 6bps higher across 2Y to 10Y. BoE Governor Bailey was quoted as saying there is more demand-led inflation pressure in the US than in the UK, and there is strong evidence that UK price pressures are retreating. These remarks underline the notion of policy divergence – or at least potentially different pace/timing of policy changes, as flagged by the ECB earlier. This has led to Bund outperformance, followed by Gilts, over USTs. Still, while the ECB appears on track to start cutting rates in June barring upside surprise in Q1 wage growth, we maintain our expectation for the first rate cut by the BoE to come in August given caution expressed

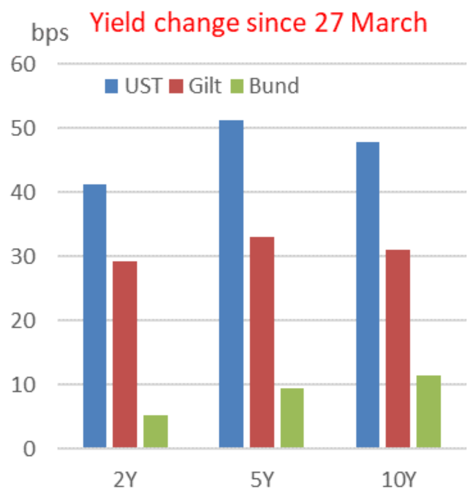
Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
ChristopherWong@ocbc.com

Global Markets Research
Tel: 6530 8384



Source: Bloomberg, OCBC Research



Source: Bloomberg, OCBC Research

by various BoE officials and the stickiness in wage. GBP OIS price the chance of a 25bp cut by the August MPC meeting at 79%, which looks roughly fair to us.

- **DXY. *Rate Cut Delayed.*** USD remains somewhat bid on lingering geopolitical concerns and hawkish Fed rhetoric. Powell's comments overnight further reinforced the high for even longer narrative. He pointed to the lack of additional progress made on disinflation path and that it may need to take longer than expected for officials to gain greater confidence that inflation is meeting 2% objective. This was in line with what other Fed colleagues have been trying to telegraph – that the Fed is not in a hurry to lower rates. The mix of high for longer, geopolitical risks and renewed volatility in RMB, JPY will continue to weigh on Asian FX. That being said, policymakers in the region are likely to take a more proactive stance in smoothing the one-sided moves. Possibly, AXJs may take a breather today. It is perhaps interesting to point out that the USD did go higher on Powell's comments. DXY was last seen at 106.23 levels. Bullish momentum on daily chart intact while 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).

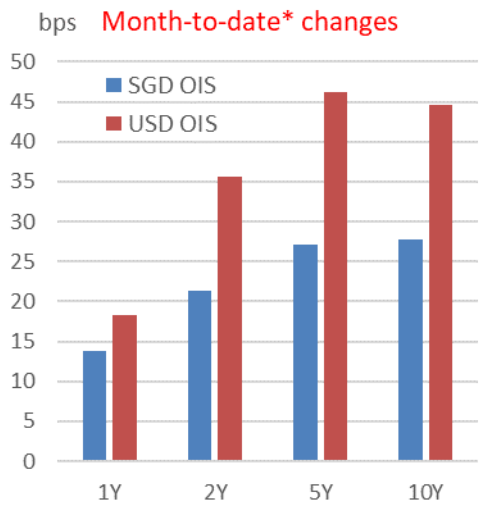
- **EURUSD. *Near Term Rebound Risk.*** Decline in EUR somewhat stabilised as USD bulls paused. ECB's Lagarde commented on the German economy, saying that the economy might have turned the corner. She referred to higher IP and investor confidence in Germany. Pair was last at 1.0630. Bearish momentum on MACD intact but RSI showed signs of turning higher from oversold conditions. Near term rebound risks not ruled out. Resistance at 1.0665, 1.0710 (61.8% fibo retracement of Oct low to Jan high), 1.0795 (50% fibo). Support at 1.0610 (76.4% fibo), 1.0520 levels.

- **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 0.9122 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. *Trend Is Your Friend Until It Bends.*** USDJPY continued to trade higher amid the rise in UST yields. Pair was last at 154.67. 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). There should be self-inflicted caution as USDJPY approaches those levels. Support at 152 (21 DMA), 150.55 (50 DMA). 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. Yesterday, Finance Minister said he was watching FX moves closely and refrained from commenting on whether 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 time.

- **USDSGD. *Sell Rallies.*** USDSGD slipped as USD momentum paused. Hawkish remarks from Fed Chair Powell surprisingly did not see USD jump in response. To some extent, this can be perceived as fatigue or that the USD gains have already baked in most expectations. Pair was last at 1.3637 levels. Bullish momentum on daily chart intact but RSI showed signs of turning from overbought conditions. Retracement risks not ruled out. Support at 1.3620 (76.4% fibo), 1.3530 (61.8% fibo retracement of Oct high to Dec low). Resistance at 1.3660, 1.3720 levels. Our model estimates show S$NEER has strengthened after hitting a low of 1.34% above model-implied mid yesterday. Last at 1.5%. We reiterate our view that S$NEER is likely to continue trading on the strong side given MAS' appreciating policy stance and sticky core inflation profile.

- **SGD rates**. SGD OIS were paid up by 2-3bps at open this morning, mildly outperforming USD rate movement overnight, underlying our long-held view that *in either a rising or a falling rates environment, SGD rates are likely to stay relatively more stable than USD rates*. In the upward move in rates month-to-date, the pass-through from higher USD rates onto SGD rates were around 60-75%, in line with historical pattern. Before USD rates embark on a more sustained downtrend, and with the S$NEER slope staying positive, SGD-USD OIS spreads are likely to stay deeply negative. Our medium-term view remains for short-end SGD rates to underperform USD rates in a falling rates environment, thereby partially normalising rates differentials – this move may only gain momentum later in the year when the Fed starts its easing cycle, and even by then SGD rates underperformance may be mild if MAS maintains policy setting. Nearer, SGD5.1bn of 1Y T-bill is scheduled to be auctioned on Thursday. The 1Y implied SGD rate was last at 3.44%; 1Y T-bill cut-offs were mostly around 10bps above implied, hence, with the latest market level we expect 1Y T-bill cut-off at around 3.55%.



Source: Bloomberg, OCBC Research
*as of 16 April.

GLOBAL MARKETS RESEARCH

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

Co.Reg.no.: 193200032W