Daily Market Outlook

20 March 2024

Dots and Powell Matter

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 softened mildly overnight after days of increases as investors stayed on the sidelines one day ahead of FOMC meeting. Demand at T-bills sales so far this week was also lukewarm. Fed funds futures still price 72bps of rate cuts for this year and a 66% chance of a 25bp cut by the June meeting. For tonight's FOMC meeting, we watch:
  1/ The **March dot plot**. The December dot-plot is skewed to the upside, in that two dots moving higher would be enough to move the median dot higher. History suggests these "dots" have not been particularly accurate in predicting what would be delivered ultimately, but the position of the median dot does have an impact on the market. Given recent market performances, the balance of risks for USTs has shifted to somewhat neutral from bearish; the market has prepared to a certain extent for a hawkish tilt. Should the median dot stay at where it was, investors are likely to add back to bond positions.
  2/ Hints on potential timing of the first rate cut. The FOMC and Powell are likely to emphasise patience again but given that Powell mentioned the Committee is "not far" from being confident about achieving inflation target, investors will look for clues as to **how "not far" we are from the first rate cut**. With market pricing in the likelihood for a rate cut either at the June FOMC or the July FOMC meeting, we would imagine if there were any hint on the timeline it would move the needle earlier rather than later.
  3/ **QT**. While our view remains that on aggregate, liquidity is enough to allow QT to continue at the current pace through most of this year, the last FOMC minutes revealed that members prefer to taper QT to help smooth the transition to an ample level of reserves when reserves are still more than ample, as it is difficult to gauge what is considered as ample.

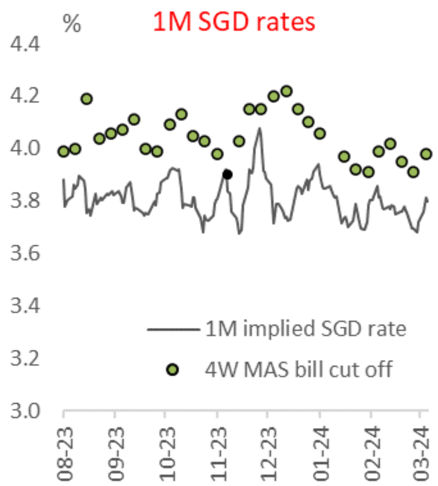
- **DXY. *Buy Rumour, Sell Rally?*** USD has seen >1% run-up over the last 5 days or so in the run-up to the FOMC meeting (2am SG time Thu). There is still some caution that the dot plot may shift to reflect 2 cuts instead of 3 cuts and that the timing of the first cut could be pushed back. True that the Fed is in no hurry to cut rate given the risk of sticky inflation and still resilient labour market, but recent data (such as ISM mfg, durable goods, retail sales, etc.) continue to suggest that the resilience may be easing. The next step for Fed is still a cut and a less restrictive rates environment. On that note, the USD should eventually drift lower. Our house view continues to look for Fed to cut in 2Q 2024. The uncertainty at this point is timing of first cut and magnitude of cut. That put emphasis on Fed's dot plot and Powell's press conference. DXY was last at 103.84 levels. Daily momentum turned mild bullish while the rise in RSI slowed. Compression of moving averages observed, and this typically precedes a break-out or pivot. Resistance here at 103.95 (23.6% fibo retracement of Dec low to Feb high), 104.30 before 105 levels (Feb high). Support at 103.3 (38.3% fibo), 102.80 (50% fibo) and 102.28 (61.8% fibo). We do not rule out a potential case of buy rumour, sell the fact post-central bank outcome (like the JPY post-BoJ).

- **JPY rates.** Market reaction to the BoJ decision to exit NIRP and remove YCC was underwhelming, as investors chose to focus on the lack of hints on further tightening, while the FOMC meeting looms with USD and USD rates being the more prominent drivers. We however see a few hawkish elements at yesterday's BoJ decision. First, while the BoJ outcome is in line with our base-case, the 7-2 vote is arguably on the hawkish side; and the pushback from the dissidents was not strong, with one of the dissidents simply not wanting to exit NIRP and remove YCC at the same time. Second, although BoJ said it would continue with JGB purchases, the tolerance level is likely higher. Already, the upper bounds of scheduled JGB purchases for the Apr-Jun period came in a lot lower than those for the Jan-Mar period. Third, in one of their footnotes, BoJ mentioned it judged that "the inflation-overshooting commitment regarding the monetary base had fulfilled the conditions for its achievement". After NIRP exit and YCC removal, the next decision will naturally be on passive QT. On the 10Y JGB, we continue to see strong support sitting at the 1.1-1.2% area making reference to historical averages; and maintain a steepening bias on the curve.

- **USDJPY.** ***Driven by US Rates and Fed.*** USDJPY has traded sharply higher post-BoJ. Market focus is again on 152 levels, its last high post-2022 - if authorities will step in to smooth the excessive, one-way FX move since a week ago. Pair was last at 151.30. Daily momentum turned bullish while RSI rose to near-overbought conditions. Risks skewed to the upside for now. Resistance at 152. Support at 149.50 (21 DMA), 148.75 (50 DMA). In the near term, USDJPY will be more a function of US rates, FOMC. A less hawkish Fed may see USDJPY ease lower.

- **USDSGD.** ***Sell Rallies.*** USDSGD rose over the past few sessions amid hawkish re-pricing of Fed. Pair was last at 1.3425 levels. Daily momentum showed signs of turning mild bullish while RSI rose. Risks skewed to the upside in the near term but bias to fade. Resistance at 1.3460 (200 DMA, 50% fibo), 1.3530 (61.8% fibo). Support at 1.3390/1.34 (38.2% fibo retracement of Oct high to Dec low, 100 DMA). On S$NEER, we saw a slight strengthening from 1.65% to 1.82% above our model-implied mid. We continue to monitor if this S$NEER strength will fade or that it continues to trade within in 3month range of 1.6% - 1.9%. Next 1-2 CPI readings will be key as any continued and material slowdown in core may imply that MAS can potentially ease earlier. This may have implication on long S$NEER trade.

- **SGD rates.** 4W MAS bills cut off at 3.98%, 7bps higher than the last cut-off of 3.91%, as implied SGD rate had also gone higher in the interim. 12W MAS cut-off was higher by 4bps at 3.94%. SGD OIS are likely in a holding pattern ahead of FOMC tonight. Further ahead, we maintain a downward bias to USD OIS and hence SGD OIS; our medium-term view remains for SGD rates underperformances against USD rates in a falling rates environment. On balance, we expect SGD OIS to fall gradually over the course of the year, towards the 3% handle at the 6M and 1Y, and towards the 2.55-2.60% area at 2Y to 5Y tenors. On bond/swap spreads, as bond yields are still above OIS, there is room for further narrowing (bond yield minus swap). For example, the 5Y bond/swap spread last traded at +7bps. SGD SORA OIS does not have a very long history but last time when the 5Y yield and rate were around current levels, the bond/swap spread was negative. The size of the new 5Y SGS auction will be announced today. The 5Y bond is likely to attract solid demand from domestic investors. First, expectation remains for yields to go lower over the medium-term with a steepening bias to the curve, while the SGS curve is pretty flat from 5Y out to 30Y. Hence, investors may want to lock in the return at this medium to short tenor bond. Second, commercial banks' non-bank loan-to-deposit ratio stayed low at 70.1% as of January, pointing to asset allocation demand. On the other hand, foreign investors may prefer longer-tenor SGS. In terms of asset-swap pick-ups, it gets more favourable when USD-funded investors move further out the curve, as both the SGD OIS curve and the SGD basis curve are inverted.



Source: MAS, Bloomberg, OCBC 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