GLOBAL MARKETS RESEARCH

Daily Market Outlook

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Moving to a Lower Range

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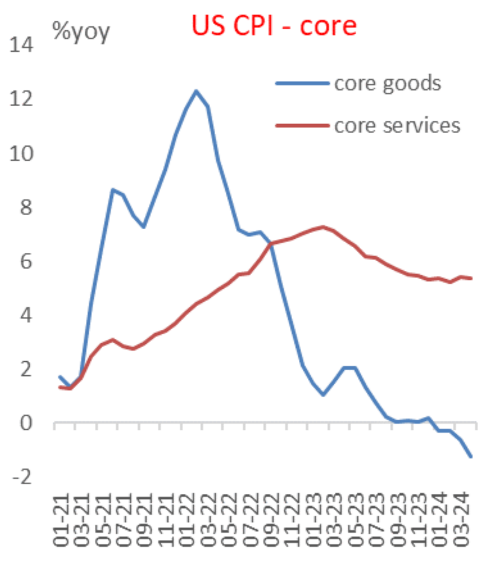
- **DXY. *Will 104 Hold?*** The narrative on US exceptionalism continues to show signs of softening, and this is giving markets the perfect excuse to increase Fed cut expectations and to sell the USD. US retail sales came in much weaker than expected. Core CPI decelerated though it was within expectations. But on YoY terms, core CPI posted its smallest increase since Apr 2021. Softer data print shows that economic activity and prices are not re-accelerating. This offers the much-needed comfort for risk proxies and for USD to adjust lower. That said, there may also be a limit to how much lower the USD can go as the USD still retains a carry advantage. Further USD weakness would require the blessing of weaker US data. And there isn't much tier-1 data to feed USD bears this week, apart from import/export prices and some housing data tonight. DXY was last seen at 104.20. Bearish momentum on daily chart intact while RSI is near oversold. Key support at 104 (50% fibo). If it does make a clean break below, then there could be a bit more runway for USD bears towards 103.20 (38.2% fibo). Failing which, if 104 holds up, then we may see DXY reverting back to trade range until next set of data comes along. Resistance at 104.80 (61.8% fibo retracement of Oct high, 50 DMA), 105.50 (21DMA).

- **USD rates**. UST yields slid upon the CPI and retail sales releases, ending the NY session 9-11bps lower compared to Tuesday's close. Market added to rate cut bets, with Fed funds futures pricing in a total of 52bps of cuts this year, versus 43bps priced before the CPI release. April CPI outcome was mostly in line with consensus expectation which had looked for some easing, with sequential (MoM) headline CPI printing a tad softer than expected. We note: 1/ core goods deflation deepened to -1.27% YoY from the previous -0.65%YoY; 2/ core services inflation eased back after March's uptick, to 5.35%YoY; 3/ rent of shelter inflation eased further, albeit mildly; 4/ energy inflation accelerated, but not as rapid as feared. As we opined yesterday, *given market may be used to upside data surprises, in-line readings shall be good enough to sustain the support to USTs*, and *the CPI outcome will dictate as to whether the 10Y UST yield can find a new range below the 4.50% mark*. The movement in the 10Y yield has remained driven more by real yield than breakeven. With 10Y breakeven trading at the bottom of recent range, while the still resilient US economy may also put a floor to real yield for now,



Source: CEIC, OCBC Research

additional triggers would be required for another leg of rally in 10Y UST. 10Y nominal yield last traded around our end-Q2 forecast of 4.35%; a new range is seen at 4.25-4.45% on a multi-week horizon.

- **EURUSD. *Stretched; May Retrace.*** EUR has drifted higher over the past 2 weeks despite dovish ECB rhetoric. The 3 cuts trajectory for 2024 and timing of first cut have largely been priced but a growth re-rating story for the EU is probably not adequately priced. For instance, in the Euro-area, 1Q GDP came in higher, PMI services, investor confidence, ZEW survey improved. In Germany, IFO, prelim services PMI came in better than expected. ECB's Lagarde and Bundesbank Nagel have spoken about signs of activity picking up pace in Germany. For France, Banque de France Governor Villeroy said that French economy is robust and sees recovery next year. European tourism is also expected to further recover with travel expenditure likely to hit record in coming months especially in light of Paris Olympics and Euro Cup in Germany in July. On net, recent data/outlook supports the view that growth conditions in Euro-area/Germany may be showing signs of stabilisation. A better growth story in Euro-area can offset against dovish ECB or potentially stand up to the USD. EUR was last at 1.0886 levels. Bullish momentum on daily chart remains intact while RSI rose into overbought conditions. We are cautious of near-term retracement especially after the recent run-up. Support at 1.0820 (100 DMA), 1.0785/95 levels (50% fibo retracement of Oct low to Dec high, 50, 200 DMAs). Buy dips preferred. Resistance at 1.0940/80 levels.

- **AUDUSD. *Buy Dips.*** The broad USD pullback, upswing in copper prices and news that China is considering government purchases of unsold homes to ease oversupply were some of the factors that underpinned AUD's rise. This morning, slightly softer than expected Aussie full time employment dented AUD momentum. Pair eased from intra-day high of 0.6714; last at 0.6690 levels. Bullish momentum on daily chart intact while RSI eased slightly from overbought conditions. Next resistance at 0.6730 (23.6% fibo). Support at 0.6640 (38.2% fibo), 0.6550/70 (50% fibo, 21, 50, 100, 200 DMAs).

- **USDJPY. *Watching Out for Intervention.*** USDJPY fell sharply, tracking the decline in 2y UST yields after US data was released yesterday. US retail sales came in much weaker than expected. Core CPI decelerated though it was within expectations. But on YoY terms, core CPI posted its smallest increase since Apr 2021. Softer data print show that economic activity and prices are not re-accelerating in US, hence there is no need for Fed to tighten rates. Pair was last at 154. Bearish momentum on daily chart is growing while RSI fell. Support at 152.90 (50 DMA), 152.40/80 levels (50DMA, 23.6% fibo retracement of 2023 low to 2024 high). Resistance at 155.20, 156.90 levels. A more sustainable reversal of the trend would require BoJ to signal an intent to normalise urgently or the USD to turn lower. Elsewhere, intervention risks remain 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).

- **USDSGD. *Pace of Decline May Slow.*** USDSGD continued to trade lower, tracking the broad decline in UST yields, USD after softer than expected retail sales and CPI report. Pair was last at 1.3430 levels. Daily momentum is bearish bias while RSI fell. Risks are skewed to the downside. Support at 1.3390 (38.2% fibo). Resistance at 1.3450/60 (50% fibo, 100 DMA), 1.3500/10 levels (50, 200 DMAs).

- **CNY rates**. Repo-IRS traded on the firm side this morning but with limited price action. While market still holds hope for some form of monetary easing to come, nearer is the preparation for this Friday's auction of RMB40bn of 30Y special CGBs which saw the 30Y bond underperforming mildly on the curve. Since the auctions of special ultra-long bond are paced out, the timing of an RRR cut – if it is to happen – has become trickier in that the liquidity is to be released in one go. In offshore, RMB30bn of 3M and RMB20bn of 12M PBoC bills are to be tendered on 22 May. The 3M bills represent a rollover of maturing bills, while the 12M bills is a small upsize of RMB5bn. Impact on CNH liquidity shall be minimal. On the offshore DF curve, back-end points rose on the lower US rates, while front-end points were soft as pressure on spot subsided further. This relative performance underlines our opinion that *the steepening momentum may come back to the FX swap curve.*

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