

## Daily Market Outlook

7 May 2024

### RBA in Focus

- **DM rates.** UST performances were mixed overnight, with long-end yields a few bps lower on the day. Fed commentaries overnight support the notion that there will be a delay in the timing of the first interest rate cut, but unlikely a pivot back to tightening. Williams said there are signs households are more careful with spending, signs over the last year and a half have been largely positive, but more evidence is needed. Barkin is “optimistic that today’s restrictive level of rates can take the edge off demand in order to bring inflation back to our target”, but he added that “continued shelter and services inflation will leave the overall index higher than our target.” Fed funds future price a total of 43bps of cuts this year, and price the chance of a 25bp cut by the September meeting at 80%. On the other hand, incoming ECB commentaries add further to the likelihood of a June policy rate cut. Simkus expects three rate cuts this year, “if everything evolves the way it’s in the baseline”. Chief Economist Lane said the recent data “improved [his] confidence that inflation should return to target in a timely manner. Our base-case is for a 25bp cut at the June MPC meeting while we are not looking for back-to-back rate cuts; we expect a total of 75bps of cuts by the ECB this year. EUR OIS price the chance of a 25bp cut by the June meeting at 92% and a total of 72bps of cuts this year, which look fair to us. Nearer, focus at today’s RBA MPC outcome is the forward guidance. Given the hawkish pricings in the AUD market, risk is asymmetric in that we see the bar as high for the MPC to switch back to a more hawkish forward guidance. From RBA’s perspective, “not ruling anything in or out” probably provides enough flexibility.
- **DXY. Range.** USD consolidated overnight in absence of fresh catalyst. Week ahead sees no tier-1 data but only Fed speaks. We would be watching out for any shift in tone post-FOMC. DXY was last seen at 105.20. Bearish momentum on daily chart intact but decline in RSI moderated. Consolidation likely intra-day. Support at 104.60/80 (61.8% fibo retracement of Oct high, 50 DMA), 104.00/20 levels (50% fibo, 100, 200 DMAs). Resistance at 105.60 (21 DMA), 106.20, 106.50 levels (interim double top). Given a slight positive shift in external growth environment outside of US, and skewed market pricing for fewer Fed cuts, we think risk-reward may favour for USD strength to adjust lower. But USD correction may also not be significant as US growth still holds up

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and USD remains an attractive carry play. Further USD weakness would require the blessing of weaker US data, in particular price/wage-related ones and or Fed's hawkish rhetoric to soften.

- **EURUSD. Bulls Looking Lethargic.** Recent run-up in EUR slowed in absence of fresh catalyst. Pair was last seen at 1.0765. Bullish momentum on daily chart intact but recent rise in RSI shows signs of moderation. Support seen at 1.0705/10 (21 DMA, 61.8% fibo retracement of Oct low to Jan high), 1.0660 levels. Resistance at 1.0790/95 (50% fibo, 50, 200 DMAs), 1.0840 (100 DMA). Consolidation likely in 1.0710 – 1.0795 range. On ECBspeaks overnight, Simkus said he sees first cut in Jun and a total of 3 cuts for 2024 while Vujcic refused to comment on how many rate cuts he sees this year and instead reiterated that policy decision will be data dependent. Earlier, Chief Economist Lane said that the impact of any divergence with the Fed must not be exaggerated. He said that recent euro-area data have made him more certain that inflation is returning to 2% goal, raising likelihood of a first rate cut in Jun. He also added that April services inflation slowdown was an important step. Lane's comments are consistent with prior ECBspeaks, which have somewhat pointed to a Jun cut being consensus but the rate path trajectory beyond that remains uncertain amongst members.
- **AUDUSD. RBA in Focus.** AUD continue to hold on to gains ahead of RBA meeting later today (1230pm SGT). Recent hotter than expected CPI reading was the trigger. Rent, education and medical saw significant price increases. In particular, rent saw the strongest annual rise since 2009, reflecting low vacancy rates and a tight rental market. Reading from CoreLogic saw rental hitting fresh record in Apr with some cities seeing renewed growth momentum. Hotter CPI print has led to hawkish repricing. Markets are no longer expecting a cut this year. We still think the next move is a cut but likely at a later date this year. To be sure, disinflation remains underway in Australia but is a little stickier. Today's meeting will be accompanied with the release of statement on monetary policy (SOMP). Markets will be scrutinising the report for any hawkish hint. We doubt the central bank will react to just 1 data point to change guidance. Moreover, the re-acceleration in rent was due to the surge in migration that outpaced housing supply. And this may perhaps require supply side measures rather than demand-side measures (via interest rate increase) to effectively tackle the housing issue. Hence, we see risk of markets unwinding some of that hawkish hopes of a hike and this may dampen AUD's bullish momentum. But if the RBA does hint at a hawkish shift in stance, then AUD bulls may extend its run higher. AUD was last seen at 0.6635. Daily momentum is bullish while RSI rose. Immediate resistance at 0.6640 (38.2% fibo). Decisive break puts next resistance at 0.6730 (23.6% fibo). Support at 0.6570 (50% fibo), 0.65 (61.8% fibo retracement of Oct low to Dec high), 0.6460 levels.

- **USDJPY. 2-Way Trades.** USDJPY was a touch firmer. Pair was last at 154.20. Bearish momentum on daily chart intact but decline in RSI moderated. 2-way risks expected. Resistance at 154.60 (21 DMA), 156 levels. Support at 152.00/40 levels (50 DMA, 23.6% fibo retracement of 2023 low to 2024 high), 151 and 149.20 (100 DMA). Near term, we still do not rule out 2-way swings as markets may make another attempt to test the upside while authorities are likely to remain active. We reckon authorities should at least attempt to limit the high (i.e. lower high to ensure the intervention efforts are not wasted).
- **USDSGD. Consolidation.** USDSGD consolidated overnight in absence of fresh catalyst. Pair was last at 1.3515 levels. Daily momentum is bearish but decline in RSI moderated. 2-way consolidative price action likely. Bias to lean against strength. Support at 1.3490 (50, 200 DMAs), 1.3460 (50% fibo). Resistance at 1.3530 (61.8% fibo retracement of Oct high to Dec low), 1.3580 (21 DMA). Our model estimates show S\$NEER was at 1.62% above model-implied midpoint.
- **SGD rates** mildly underperformed USD rates in the downward moves over recent days. We do not read too much into this short-term relative performance and would continue to expect SGD rates to mostly outperform in an upward move and underperform in a downward move. Today brings the auctions of 4W and 12W MAS bills. The 1M and 3M implied SGD rates last traded at 3.74% and 3.70%, similar to the market levels around the time of the last MAS bills auctions. But given SGD liquidity has eased somewhat, the MAS bills cut-offs may come in a tad lower than those at the last auctions. On Thursday, SGD6.8bn of 6M T-bills are offered. The 6M T-bill cut-off at the last auction on 25 April was 3.74%, which was around 16bps higher than market level. As a reference, the 6M implied SGD rate last traded at 3.59%; we expect 6M T-bill cut-off at 3.72-3.77%.



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