OCBC TREASURY RESEARCH

Daily Market Outlook

17 March 2023

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- Market sentiment improved overnight with major bond yields having rebounded from session lows and basis swaps being paid up. Bund yields went higher upon the ECB 50bp rate hike decision; the trading momentum spilled over onto the UST market. Fed funds future now price an 87% chance of a 25bp hike at the March FOMC meeting next week. On dollar liquidity, usage at the Fed's o/n reverse repo facility was virtually steady, edging higher to USD2.066trn on Thursday, probably on reduced need to mobilize the liquidity. In Asia, the KRW basis edged higher as well, reflecting easing concerns over USD liquidity; in Taiwan, FSC's statement on the new rules on insurers' FX reserves to increase flexibility may reduce the chance for extreme volatility in the TWD basis on the downside.

- **DXY. Consolidate.** USD traded on the back foot with high-beta FX, KRW, AUD, NZD leading gains. News of wall street banks agreeing to place $30bn deposits with First Republic Bank is a show of unity and brings a sense of calm to markets. Elsewhere SNB lifeline for Credit Suisse is also helping to stabilise sentiments. Focus next on FoMC next week – for the size of hike, forward guidance and dots plot. Our house view continues to look for a 25bp hike at this meeting. Apart from the blockbuster NFP prints, most US data have already shown signs of deceleration. A tamer Fed tightening profile should continue to support sentiments and weigh on USD. 30d fed fund futures imply a 81% chance of a 25bp hike with rate cut coming in as soon as July 2023. The risk is a hawkish repricing that may temporarily lend support to the USD. DXY was last seen at 104.2 levels. Daily momentum is mild bearish while RSI shows signs of falling. Immediate support at 104.10 (23.6% fibo retracement Sep peak to Feb low), 103.45 (50 DMA). Resistance at 105 (100 DMA) and 105.90 (2023 high). Consolidative price action at lower range is possible as we await fresh cues from FoMC next week.

- The ECB outcome underpins our thoughts on **the upcoming FOMC decision**. We wrote on 14 March that "we still believe a 25bp hike is the more likely outcome. The FOMC cannot ignore the implications of rate levels on financial stability; this shall argue against reverting to a bigger hike. However, the FOMC shall be keen to maintain its credibility by basing their policy decision mostly on the data; they may also want to avoid being seen as panicking, precisely at times when reassuring confidence is key". Meanwhile, we expect the FOMC to change its forward guidance, potentially dropping the "higher for longer" narrative, as after all, it does not entirely agree with decisions being "data dependent".

- The **ECB** cited inflation remaining “too high for too long” as the reasons for its decision to hike key policy rates by 50bp. However, the “elevated level of uncertainty reinforces the importance of a data-dependent approach”; the ECB no longer provides a concrete forward guidance for upcoming policy decisions. It appears that the central bank’s approach is to attain price stability mainly via policy rate adjustment, and financial stability via various tools that can “provide liquidity support to the euro are financial system if needed”. APP monthly decline has stayed as planned (EUR15bn per month till end June), and the intention to reinvest the principal payments from maturing securities under the PEPP until at least end 2024 has also remain intact. We continue to see room for the ECB to quick QT pace under APP after June.

- **EURUSD. Meeting by Meeting.** ECB delivered a well-flagged 50bp hike, with deposit rate and MRO rising to 3% and 3.5%, respectively. Lagarde shared that a “large majority” of ECB policymakers supported the decision as inflation is likely to remain too high for too long and policymakers aren’t wavering on their commitment to combat inflation. ECB also drops forward guidance as Lagarde emphasized that importance of data-dependence on policy rate decisions. There will be 2 more inflation readings before the next ECB meeting (4 May). EUR was firmer; last at 1.0630 levels. Daily momentum and RSI are not showing a clear bias for now. Support at 1.0560 (100DMA) and 1.0460 (38.2% fibo retracement of Sep low to Feb high). Resistance at 1.0640 (21DMA), 1.0680 (23.6% fibo0 AND 1.0730/40 (50 DMA).

- **USDJPY. Bias to Sell Rallies.** USDJPY traded sideways. Last at 133.30 levels. Mild bearish momentum on daily chart intact while RSI fell. Risks remain skewed to the downside. Support at 132.50/60 levels (50 DMA, 50% fibo) and 131.30 (61.8% fibo). Resistance at 133.80 (38.2% fibo retracement of 2023 low to high), 135.40 (23.6% fibo, 21, 100 DMAs).

- **AUDUSD. Room for Gains.** AUD firmed on signs of sustained risk-on momentum as fears of banking stresses eased. Elsewhere better than expected AU employment numbers yesterday kept the pair supported. We see room for AUD to rise should broad market confidence stabilise further. No more negative news of bank fall outs and a tamer Fed tightening trajectory will be pre-requisites for AUD to stay supported. Pair was last at 0.6690 levels. Daily momentum shows signs of turning mild bullish while RSI rose. Bias for upside play. Resistance at 0.6710 and 0.6760/80 levels (38.2% fibo, 21, 50, 200 DMAs). Support at 0.6660 (50% fibo), 0.6550 (61.8% fibo retracement of Oct low to Feb high) and 0.64 levels (76.4% fibo).

- **USDSGD. Range-bound.** USDSGD turned lower as risk appetite improved. Fears of banking stresses show signs of fading and that is helping to anchor confidence. Pair was last at 1.3450 levels. Daily momentum and RSI are showing tentative signs of turning mild bearish. Immediate support here at 1.3440 (21 DMA). Decisive break puts next support at 1.3375 (23.6% fibo retracement of 2022 high to 2023 low). Resistance at 1.35 (100 DMA). S$NEER was last seen around 1.16% above model-implied mid.

- In **IndoGBs**, the initially bond rally on Thursday did not last, with yields ending the day higher and the 10Y bond underperformed. Bank Indonesia kept its policy 7-day reverse repo rate unchanged at 5.75% as widely expected. BI would continue with operation twist to sell bonds of short tenors and with the foreign currency term deposits (TD Valas DHE), which did not come as a surprise either. Thus far, demand for the FX deposit concentrated on the 1M tenor; the FX TD being relatively new and the highly volatile USD rates of late may be the reasons that exporters adopted a wait-and-see approach. We do however note some progress over the first few auctions, in that interest has extended from tier 1 to tier 2 and 3 reflecting a broader participant base. On financing, MoF has raised IDR190.6trn of funds as of 14 March, versus full year need of IDR598.2trm; this status continues to suggest there is no pressure to upsize auctions.

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