Daily Market Outlook

1 March 2024

Stabilising

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 retraced from session highs upon the release of PCE deflator which came in largely as expected. January PCE deflator picked up to 0.3%MoM in line with expectation but that was from a downwardly revised 0.1%; similarly, core PCE deflator accelerated to 0.4%MoM but the previous number was revised downward. Personal spending slowed to 0.2%MoM while personal income picked up to 1.0%MoM – the interpretation of which is not straightforward; seasonality/one-off items may be something to blame. Goolsbee cautioned against reading too much into a single month's data. Mester January's inflation "does not really change [her] view that inflation is going to be going down to [their] 2% goal over time, but it does show you that there's a little more work for the Fed to do". She continues to hold the view that three rate cuts this year is about right. Hence, the narrative hasn't changed – that the Fed is on course to embark on the easing cycle although not in a rush. USTs shall stabilise from here. On the liquidity front, usage at the Fed's o/n reverse repo fell by 68bn to USD502bn on Thursday, which was not unexpected given heavy settlement of bills and bonds this week. As of 28 February, bank reserves stood at USD3.57trn and reverse repos (all tenors) were at USD909bn; outstanding BTFP was at USD163bn. Liquidity on an aggregate level has stayed ample.

- **DXY. *Watch ISM Tonight.*** USD continued to trade mixed. PCE core data at 2.8% y/y, was in line with expectations and continued to show that disinflation trend remains intact. In other data released overnight, Chicago PMI surprised to the downside (44 vs. 48 expected) while jobless claims, continuing claims was on the rise. These pointed to signs that the US growth outperformance may be softening. This puts focus on Kansas City Fed mfg, ISM mfg data tonight. On Fedspeaks, Williams said he does not see a need to tighten policy further and that he expects Fed to cut rates later this year. Mester said 3 cuts in 2024 feels right while Daly said ready to cut as needed and said there is no urgent need to cut given strength of the economy. In sum, Fed rhetoric remains largely focused on patience and no hurry to cut rates. Markets have largely unwound most of their dovish expectations, with 30d Fed fund futures showing 84bps cut expected for 2024 while timing of first cut has been pushed out to June and the probability of a June cut has fallen to <60%. Much of the adjustment has been done and current market pricing is close to Fed's guidance for 3 cuts (or about 75bps) for 2024 (based on Dec dot plot). DXY was seen at 104 levels. Daily momentum is mild bearish while RSI is turning lower. 2-way trades likely to continue. Resistance at 104.20 (21 DMA), 104.60 (61.8% fibo) and 105 levels. Support here at 103.75/95 (50% fibo retracement of Nov high to Dec low, 100, 200DMAs) and 103.10/30 (38.2% fibo, 50DMA).

- **USDJPY. *Bears Need a Break Below 21DMA.*** USDJPY firmed in reaction to BoJ Governor Ueda's comments that BoJ's price target was not in sight. This was in contrast to comments from BoJ's Takata yesterday, when he said the BoJ's price target is finally coming into sight and that the momentum is rising in this Shunto wage negotiations that many companies are offering higher than 2023 wage hikes. And recall that labour unions in Japan are targeting above 6% wage increase this year, much higher than the average of 4% in 2023. We had indicated before that *the potential case for a larger than previous year increase in wage growth is likely what BoJ wants to see before proceeding with getting itself out of negative interest rate policy regime*. Markets have been dovish in terms of the timing on when BoJ will hike. Takata's remarks added to our conviction that an earlier than expected hike at Mar MPC is likely. Not forgetting, JP CPI came in hotter than expected. Headline was 2.2% (vs. 1.9% expected) while core was 3.5% (vs. 3.3% expected). This added to hopes that an earlier BoJ hike is still possible. With JPY shorts at record high, unwinding of shorts should see JPY bears run for cover. USDJPY was last at 150.30 levels. Daily momentum is mild bearish while decline in RSI moderated. Price pattern suggests that the pair has broken out of its rising wedge pattern – typically associated with a bearish reversal. Bearish divergence on MACD appears to be playing out. Bias remains for downside play. Key support at 149.80 (21 DMA) before 149.20 levels (76.4% fibo retracement of 2023 high to 2024 low). Resistance at 150.88 (recent high), 151.90 (2023 high). We entered into a tactical short EURJPY trade (entered at 163.05), targeting a move lower towards 161.35. SL at 163.65. This is based on the view of technical retracement for EUR and that BoJ may move earlier in Mar (JPY positive). Technically, the pair looks stretched with RSI easing from overbought conditions while bullish momentum on daily chart is fading. Cross was last at 162.65 after trading a low of 161.95. We stuck to our short bias.

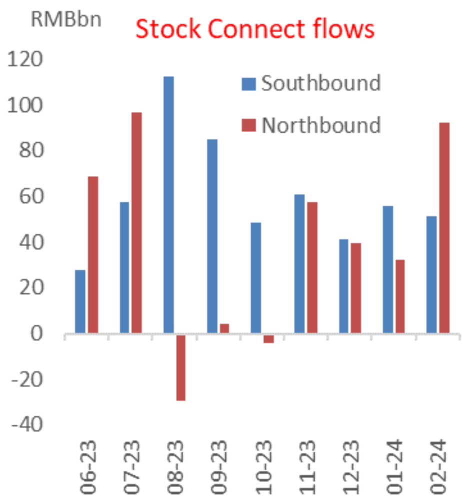
- **NZDUSD. *Buy Dips.*** NZD consolidated after the recent decline post-RBNZ, whereby the outcome was interpreted as less hawkish than expected. Of interest, Governor Orr highlighted that lates*t data confirmed inflation is slowing.. urges patience with policy.. and warned there is always a risk of overdoing policy tightening*. He also said that OCR needs to stay at where it is this calendar year. More importantly, the updated OCR projection saw a slight downtick to 5.6% for 2024, from 5.69% previously but basically this hinted at reduced risk of a hike this year. For 2025, projections indicated chance of cut in 2Q 2025. For now, rates are likely to remain at restrictive level for sustained period to meet inflation objective. Some unwinding of Kiwi longs may still be underway but after the washout, NZD remains attractive, given yield appeal as RBNZ is likely to be one of the last amongst DM central banks to cut rates. Some degree of policy divergence with Fed is possible in 2H 2024 and eventual stabilisation in China economy should also be supportive of NZD. Pair was last at 0.6090 levels. Daily momentum is mild bearish but decline in RSI moderated. Bias to buy dips. Support at 0.6080 (200

DMA), 0.6040 (Jan low). Resistance at 0.6120 (21DMA, 23.6% fibo retracement of Dec high to Feb low), 0.6160/70 levels (50DMA, 38.2% fibo).

- **USDSGD. *Range-bound*.** USDSGD continued to trade in subdued range. Last at 1.3460 levels. Mild bearish momentum on daily chart intact but shows signs of fading while RSI was flat. 2-way trades likely. Resistance here at 1.3460/75 (21, 200 DMAS, 50% fibo), 1.3530 (61.8% fibo). Support at 1.3430/40 levels (100 DMA), 1.3380/90 (38.2% fibo retracement of Oct high to Dec low, 50 DMA). S$NEER has started to ease from 1.85% above model-implied mid to about 1.6% in the past week or so post-CPI and IP reports. We had previously shared that S$NEER strength can fade at some point this year should core inflation in Singapore start to ease. Historically there is a positive correlation between the change in S$NEER and MAS core inflation. i.e., to say if core inflation does ease materially, then there is no need for the S$NEER policy to be so tight. There will be greater scrutiny on the next CPI report (25 Mar) for signs if inflation is indeed moderating faster than expected. Another softer print could lead to further unwinding of the crowded long S$NEER trade.

- **SGD rates**. SGD OIS traded on the soft side on Thursday with limited price action. On the bond side, 5Y SGS underperformed mildly. 6M T-bills cut off at 3.80%, which came as a mild upside surprise although we had expected a cut-off that would be higher than the last 3.66%. The high cut-off was partly a result of the recent hawkish repricing of the USD rates curve. Demand was not as overwhelming as that at recent auctions, with the bid/cover ratio edging lower to 1.94x, as some investors might have chosen to stay on the sidelines ahead of the all-important release of US PCE deflator. We expect the hawkish repricing in the USD rates market to come to a pause and hence the level of Thursday's 6M T-bill yield may not be sustained.

- **CNY rates**. Repo-IRS were paid up by 0.5-2bps this morning, while CGB yields also went higher. February manufacturing PMI came in at 49.1 points (versus 49.2 points prior) while non-manufacturing PMI improved to 51.4 points (versus 50.7 points prior). The mild divergence reflects the holiday effect. Stronger tourism and related services are encouraging which shall gradually turn sentiment around and set a floor to CNY rates and bond yields. The onshore equities market received hefty inflows of RMB21.445bn via Northbound Stock Connect on the last trading day of February, bring the month's inflows to RMB92bn the highest since July 2023. Separately, PBoC eases rules for investors – including foreign investors who already have access to CIBM - to buy bonds over the counter, effective 1 May.



Source: CEIC, 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