Daily Market Outlook

21 March 2024

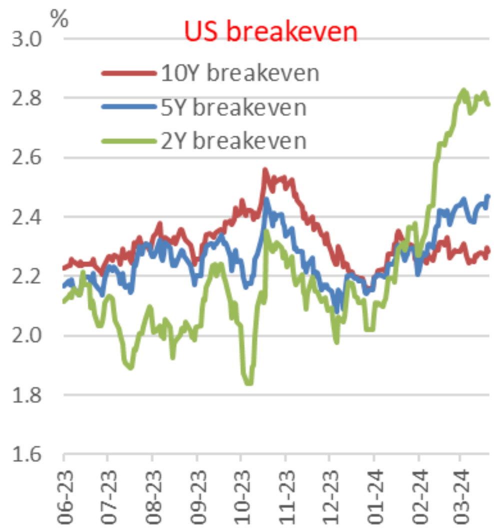
Cuts on the Cards

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
ChristopherWong@ocbc.com

Global Markets Research
Tel: 6530 8384

- **USD rates.** Short-end USTs rallied upon the FOMC decision, as the 2024 median dot has stayed at where it was. Long-end USTs traded in ranges with yields only a tad softer, as the dot plot reflects one fewer rate cut each in 2025 and 2026. The longer-run rate is now seen at marginally higher at 2.56% versus 2.50% prior which simply means the FOMC are still reluctant to update or disclose its latest estimate of the supposedly higher neutral rate; as such, we do not read too much into the longer-run rate at this point in time. Fed funds futures now price a total of 84bps of rate cuts for the year, and the chance of a 25bp cut by the June FOMC meeting is seen higher at 84%. Our base-case remains for a total of 100bps of rate cuts this year with the easing cycle likely starting in June. Powell's expectation remains that inflation is to ease further. He said "it's still likely in most people's view that we will achieve that confidence and there will be rate cuts". We agree. The path of disinflation is not a straight line, but we see it as more likely than not that there will be some further easing in prices pressure. Next to watch is February PCE deflator to be released on 29 March. Short-end breakevens still look too high to us; we maintain a steepening bias on the UST curve. On QT, Powell opined that they may slow the pace soon, which is also in line with expectations.



Source: Bloomberg, OCBC Research

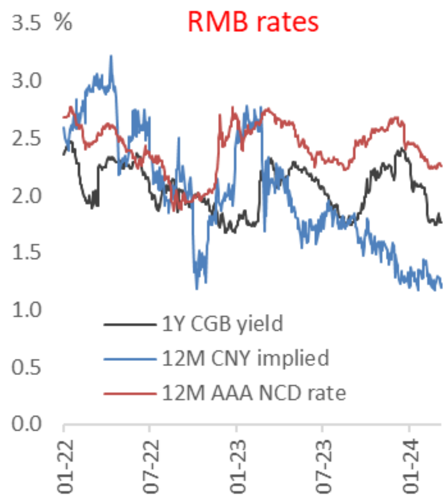
- **DXY.** ***Pullback.*** USD fell across the board post-FOMC, in what appeared as another buy on rumour, sell on fact. Outcome was largely within our expectations and the caution market had in terms of dot plot reflecting 2 cuts instead of 3 did not materialise. Dot plot still reflected 3 cuts for 2024 though the rate cut projection for 2025 was reduced to 3 cuts (from 4 cuts previously). Nevertheless, Fed Chair Powell's comments at the press conference did not contain any hawkish surprises. He made reference to the higher than expected inflation prints but that did not change the broader story that price gains were slowing on a "sometimes bumpy road". He also added that officials are not going to over-react to the 2 months of inflation data nor are they going to ignore them. While Fed is in no hurry to cut rate given the risk of sticky inflation and still resilient labour market, 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. DXY fell; last at 103.20 levels. Daily momentum if flat while RSI fell. Compression of moving averages observed, and this typically precedes a break-out or pivot – continue to watch price action. Support at 102.80 (50% fibo) and 102.28 (61.8% fibo). Resistance at 103.95 (23.6% fibo retracement of Dec low to Feb high), 104.30 before 105 levels (Feb high). Data focus today on prelim PMIs, continuing claims before core PCE (next Fri).

- ***USDCHF. Eyes on SNB Today.*** USDCHF eased, tracking the broader moves in USD, UST yields. Pair was last seen at 0.8845 levels. Daily momentum is flat while RSI fell. Near term risks skewed to the downside but bias to buy dips. Support at 0.8820 (21, 200 DMAs), 0.8790 (50% fibo retracement of Oct high to Dec low) and 0.8750 (50 DMA). Upcoming MPC meeting is key today as markets keep a look out for dovish tone or surprise cut. Disinflation trend in Switzerland is well underway with headline and core CPI at 1.2%, 1.1%, respectively (vs. 1.3% and 1.2% prior). Markets are pricing in 37% probability of 25bp cut at today's MPC while a cut is fully priced in for its next MPC in Jun. Growth is slowing in Switzerland; inflation is gradually coming to objective and domestic companies are feeling the pain, a surprise cut could see CHF bears taking charge.

- **USDJPY. *Retracement.*** USDJPY fell post-FOMC, tracking the decline in UST yields. 152 resistance is once again respected for the 3rd time. Pair was last at 150.45. Mild bullish momentum on daily chart intact while RSI fell from near-overbought conditions. Retracement ahead. Support at 149.50 (21 DMA), 148.90 (50 DMA). Resistance at 152 (triple top). BoJ Governor Ueda said there was a risk of BoJ having to undertake a series of rapid rate hikes if authorities had waited too long to completely confirm the stable inflation target will be achieved. Focus next on JP CPI (Fri), Tokyo CPI (next Fri) and more details of wage negotiations. Hotter prints should boost JPY bulls.

- **USDSGD. *SG CPI in Focus.*** USDSGD turned lower as fears of Fed reducing rate cut projections for 2024 did not materialise. Pair was last at 1.3370 levels. Daily momentum remains flat while RSI fell. Bias to sell rallies. Resistance at 1.3390/1.34 (38.2% fibo retracement of Oct high to Dec low, 100 DMA), 1.3460 (200 DMA, 50% fibo). Support at 1.3360, 1.3320 levels. On S$NEER, we continue to see some strengthening from 1.65% to 1.84% above our model-implied mid. We continue to monitor if this S$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.

- **CNY rates.** Repo-IRS and most CGB yields traded on the soft side this morning; 30Y CGB underperformed mildly in view of supply risk. Market awaits the issuance plan of the CNY1trn of special bonds, with options of issuances via auctions and targeted sales on the table. We believe issuing special bonds via public sales shall be the preferred way as this supply is not one off anymore. Public sales via auctions will prepare the market for such supply for years to come, ensuring steady demand from a wide enough investor base. Any targeted sales are likely to be supplementary and of a smaller share. We continue to look for a bottoming out in CGB yields, premised on economic recovery and reflation efforts. Despite easing prospects, we are at best neutral long-end CGBs at this juncture. On the FX swap curve, back-end points rebounded somewhat, again primarily a function of USD rates movement. Risk-reward does not justify chasing back-end points lower; with the March FOMC out of the way, investors may start to rebuild some pay positions given likely more room for USD rates than CNY rates to fall. Meanwhile, the carry stays positive, with for example the 1Y implied CNY rate last at 1.23% versus 12M AAA NCD rate at 2.26% and 1Y CGB yield at 1.77%.



Source: Bloomberg, OCBC Research

GLOBAL MARKETS 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

Co.Reg.no.: 193200032W