GLOBAL MARKETS RESEARCH

# Daily Market Outlook

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## Auctions; BI MPC in Focus


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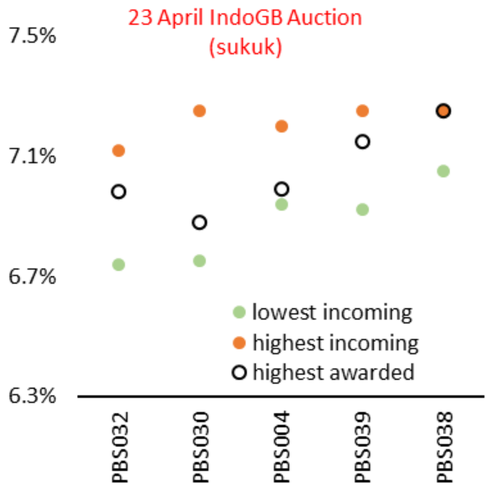
- **USD rates**. UST yields fell upon the soft US PMI prints and a solid coupon bond auction overnight. April manufacturing and services PMIs both came in weaker than expected, at 49.9 and 50.9, respectively. April saw an overall reduction in new orders and an overall reduction in workforce numbers, while rate of inflation generally eased. The outcome supports our assessment that the broader disinflation trend remains, so does the Fed's easing agenda; but interim bumps in inflation mean the Fed is not going to cut rate just yet. Granted, the policy rate outlook is highly data dependent; the next important release is Q1/March PCE deflator on Friday. On supply, the 2Y coupon auction, which was upsized to USD69bn, garnered a decent bid/cover ratio of 2.66x with other auction parameters solid as well – cut-off was a tad below WI level and indirect accepted went higher to 66.2%. There are still the 5Y and 7Y coupon auctions to digest this week. Bills paydown this week shall lend some support to overall liquidity. We continue to see range-trading for USTs ahead of PCE deflator.

- **IndoGB** investors were cautious ahead of BI policy rate decision today. The sukuk auction on Tuesday received lukewarm incoming bid of IDR16.2679trn while MoF awarded only IDR5.075trn of bonds. There will be a greenshoe option today. The combination of low awarded amount and follow-up with a greenshoe option signals that MoF would like to cap yields. Given market has been gearing up to a potential hike, if BI does not hike policy rate in line with our base-case, there may be an interim relief for the bond market. The implication on FX and hence foreign bond flows is likely a secondary factor for the bond market at this juncture, as regardless, foreign investors have not been a major support to the domestic bond in recent days. Foreign outflows amounted to IDR9.55trn over the past five days (as of 22 April), with foreign holdings lower at IDR797.65trn or 13.93% of outstanding.




Source: DJPPR, OCBC Research

- **DXY. *Consolidation.*** USD fell, alongside UST yields overnight after prelim PMIs surprised to the downside. Manufacturing PMI slipped into contractionary territory (49.9 vs. 52 expected) while services PMI was a touch softer at 50.9 (vs. 52 expected). Against other DMs, such as Euro-area and UK, there was a services PMI-divergence in favour or EU and UK, which led to higher EUR, GBP at the expense of a softer USD. Softer US data also provided a much-needed breather for risk proxies, including most AXJs. Not surprisingly, high-beta KRW led advances amongst AXJs. More US data is expected this week: durable goods orders (Wed); 1Q GDP, core PCE (Thu) and personal income, spending (Fri). And we reiterate *recent run of strong US data has built up expectations that upcoming reports may exceed expectations. Hence any disappointing print on US data may potentially dent USD's momentum.* DXY was last seen at 105.60 levels. Bullish momentum on daily chart shows signs of easing while RSI eased from near overbought conditions. Risks skewed to the downside. Support at 105.20 levels (21 DMA), 104.80 (61.8% fibo retracement of Oct high to Jan low). Resistance at 106.70, 107.40 (Oct high).

- **EURUSD. *Focus on German IFO.*** EUR extended its run-up, following better than expected services PMI in Eurozone, Germany. Pair was last at 1.0710 levels. Bearish momentum on daily chart faded while RSI rose. Risks skewed to the upside. Immediate resistance here at 1.0715 (61.8% fibo retracement of Oct low to Jan high), 1.0740 (21 DMA). Clearance of those hurdles could see EUR extend gains towards 1.0795 (50% fibo). Support at 1.0660, 1.0610 (recent low). We opined that markets may have largely priced in ECB cuts into EUR but a growth re-rating outlook on Euro-area economy is probably not priced. And lately there are signs to suggest some signs of stabilisation in Euro-area growth. ECB's Lagarde and Bundesbank have recently spoken about signs of activity picking up pace in Germany. A better growth story in Euro-area can push back against aggressive rate cut expectations and this is supportive of EUR.

- **GBPUSD. *Less Dovish; Better PMI.*** GBP rebounded following better than expected services PMI (54.9 vs. 53) while hawkish comments from BoE's Haskel suggests that BoE has not entirely pivoted. In particular, he warned that the "very tight" labour market is loosening only slowly and will be key to bring down inflation. He added that rate cuts should be "a long way off". GBP was last at 1.2460. Bearish momentum on daily chart is fading while RSI rose. Immediate resistance here at 1.2460 (38.2% fibo retracement of Jul high to Oct low) before 1.2535. Support at 1.2410, 1.2340 levels.

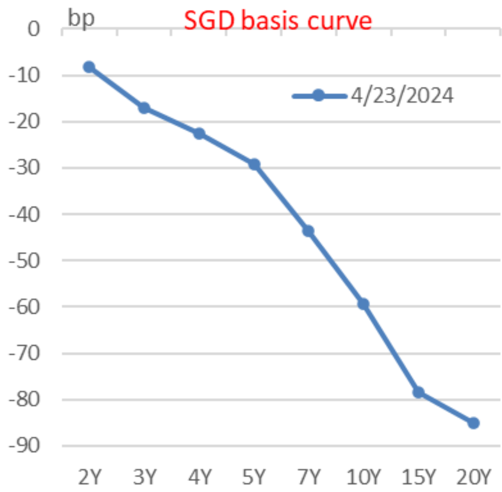
- **USDJPY. *Measures Coming?*** USDJPY continued to trade near elevated levels despite warnings of intervention. Former FX Chief Furusawa said authorities will move by 160 at the latest while he sees BoJ hike in Jul and one more later this year. Yesterday, Finance Minister Suzuki said in parliament that "the environment for taking appropriate action on FX is in place though I won't say what the action is". Separately, BoJ Governor Ueda said that BoJ will raise interest rates if underlying inflation rises towards BoJ's sustainable 2% inflation target. He added that price trend is still below 2% and BoJ expects it will move towards 2% through next year. USDJPY was last at 154.80. Mild bullish momentum on daily chart shows signs of fading while RSI is in overbought conditions. Bearish divergence may be forming on MACD. Some signs of pullback still observed. Support at 152.80 (21 DMA), 151.10 (50 DMA). Resistance at 155, 156.40 (138.2% fibo of Nov high to Jan low). Key focus this week on BoJ MPC. Consensus is for policy status quo. Markets still expect BoJ to take on a very gradual path of policy normalisation, with next 10bp hike expected in July while for the year, a total of 20bp hike is expected. Softer CPI print last Fri likely added to expectations that the BoJ is in no hurry to normalise. But we note that the moderation in CPI was mostly due to base effects. Upcoming Apr Tokyo inflation is eyed on Fri (on the same day as BoJ decision). Some moderation is also expected, due to base effects. But this is probably less cause for concern as inflation still run above BoJ's 2% target. The risk for JPY is a more hawkish than expected BoJ on forward guidance or even QT plans and we do not rule this out. Given a softer JPY and higher oil/energy prices, there may be a risk that BoJ may need to hike earlier than expected. Governor Ueda has also recently told G20 last week that there could be an adjustment to monetary policy if JPY's effect on inflation becomes too significant to ignore.

- **AUDUSD. *Rebound Underway.*** AUD jumped as higher CPI print pushed back rate cut expectations. Elsewhere, the USD pullback (owing to softer PMI), supported risk sentiments and relative stability in RMB fixing were other factors behind AUD's move higher. AUD was last at 0.6515. Bearish momentum on daily chart faded while RSI rose. Falling wedge pattern observed earlier played out – typically associated with a bullish reversal. Resistance at 0.6530/35 levels (50, 200 DMAs), 0.6570 (50% fibo) and 0.6590 (100 DMA). Support at 0.65 (61.8% fibo retracement of Oct low to Dec high), 0.6450 levels.

- **USDSGD. *Interim Top.*** USDSGD slipped, tracking moves in broader USD and UST yields overnight. Last at 1.3590 levels. Bullish momentum on daily chart shows some signs of fading while RSI fell from overbought conditions. Retracement underway. Support at 1.3530 (61.8% fibo retracement of Oct high to Dec low). Resistance at 1.3660/70 levels. Our model estimates show S$NEER eased from 1.62% above model-implied midpoint to about 1.5% after SG CPI disappointed to the downside. We reiterate our view that S$NEER is likely to continue trading on the strong side given MAS' appreciating policy stance and sticky core inflation profile. But should we see a more material easing in core CPI, then S$NEER strength may potentially ease further.

- **SGD rates**. The 4W and 12W MAS bills cut off at 3.96% and 3.92%, which were 14bps and 9bps higher than those at the previous auctions, respectively. The increases in the cut-offs were mildly more than the increases in market implied rates. Next coming up are 6M T-bills auction on Thursday and 10Y SGS auction on Friday. 6M implied SGD rate last traded at 3.59%, a level similar to that at the previous 6M T-bills auction; investors may require a mildly higher premium given the less dovish rate outlook, we expect 6M T-bill cut-off at 3.75-3.80%. On bond side, the size of 10Y SGS (new) has been announced at SGD2.9bn with MAS intending to take SGD300mn; this is within expectation of SGD2.7-3.0bn. We expect solid demand at the 10Y SGS auction. First, investors may take advantage of the recent upticks in yields; second, the SGS supply outlook is always neutral to supportive given minimal reliance on proceeds to fund fiscal spending; third, pick-up from asset swapping into the 10Y SGS has remained appealing, at around SOFR+75bps for 10Y SGS.

- **Gold. *Retracement Risks.*** Sharp decline in gold stabilised overnight as USD eased. XAU was last at 2320 levels. Daily momentum is bearish though decline in RSI somewhat moderated. Risks still skewed to the downside. Immediate support at 2305 before 2263.7 (38.2% fibo retracement of 2024 low to high), 2240 levels. Resistance at 2327.8 (23.6% fibo), 2360 levels. In terms of medium-term outlook, we maintain a constructive bias on gold. The anticipation of real rates correcting lower, synchronized easing by central banks, and gold's role as a safe haven and portfolio diversifier are key factors underpinning its positive outlook. But near term, a correction is overdue, and any overshoot is not ruled out.



Source: Bloomberg, OCBC Research

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