# Daily Market Outlook

25 April 2024

## US GDP; BoJ MPC in Focus

- **USD rates**. The UST curve bearish steepened with yields mildly higher overnight as investors stayed cautious ahead of GDP and PCE deflator releases. Fed funds futures pricing was little changed, still seeing roughly an even chance of a 25bp cut by the July FOMC meeting and a total of 42bps of cuts this year. March durable goods orders were in line with expectations, but February figures were revised downward. The 5Y coupon bond sales were readily absorbed with a bid/cover ratio of 2.39x against the upsize, although the cut-off came in a tad higher than WI level. At the short-end, usage at the Fed's o/n reverse repos stabilised, as there has been either low net bill issuances, or net paydown; this week, there is net paydown of USD46bn when US Treasury's TGA balance stood high at USD955.7bn as of 23 April. Market await Q1/March PCE deflator tonight and on Friday.

- **GBP rates**. Gilt yields jumped by 8-10bps across the curve on Wednesday, continuing to react to the hawkish remarks from Pills. Indeed, there have been pushbacks or caution against an early rate cut from various BoE officials in recent days; and these include Mann, Haskel, Greene, and Pills. Our view has been for the first BoE policy rate cut to come only in August, given sticky services inflation. Earlier, April manufacturing PMI printed weaker than expected at 48.7, while services PMI printed firmer than expected at 54.9. GBP OIS price the chance of a 25bp cut by the August MPC meeting at 92%, and a total of 48bps of cuts this year, in line with our base-case for 50bps of cuts. The pricing of cuts is evenly paced across monthly contracts, and as such we do not look for meaningful adjustment in these pricings. We expect 3M term SONIA to end the year at around 4.7%.

- **DXY. *Mixed.*** USD traded mixed, with strength more felt vs. AxJs while USD was muted vs. DM FX. It appears that the combination of JPY breaching multi-decade low, rise in 10y UST yield and softer equity sentiment is weighing on AxJs. KRW, PHP led declines in the Asian FX space. On US data release overnight, durable goods orders came in firmer at +2.6% y/y (vs. 2.5% expected). Focus shifts to 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 105.70 levels. Bullish

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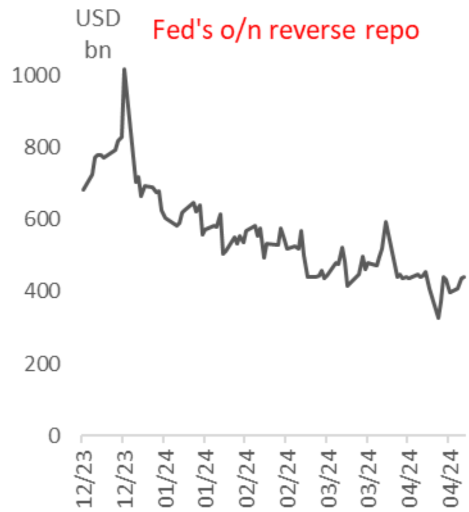



*Source: Bloomberg, OCBC Research*

momentum on daily chart shows signs of easing while RSI eased from near overbought conditions. Risks skewed to the downside. Support at 105.30 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 held on to recent gains as German IFO came in better than expected, supporting the view that growth conditions in Euro-area/Germany may be showing signs of stabilisation. We had 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. That said, further gains in the EUR appeared to have lacked momentum. 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 should see EUR extend gains towards 1.0795 (50% fibo). Support at 1.0660, 1.0610 (recent low). On ECBspeaks, Nagel said ECB cannot commit to what will happen after a likely first rate cut in Jun. This is in line with the view that the first cut is likely set but the path of cut remains highly uncertain and dependent on data.

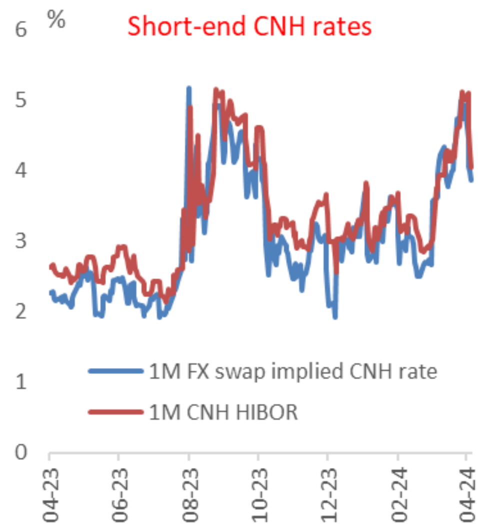
- **USDJPY. *BoJ MPC in Focus on Fri.*** USDJPY traded fresh multi-decade highs this morning. Move higher continues to track the rise in UST yields. Markets are still waiting for authorities to announce some form of measures, but officials are largely keeping mum. Finance Minister Suzuki said "cannot say much on FX at this point". Elsewhere BoJ's 2-day MPC meeting has commenced with policy decision likely around 11am (SGT) tomorrow. 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. Upcoming Apr Tokyo inflation is also eyed on Fri (on the same day as BoJ decision). Some moderation is expected, due to base effects. But there 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 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. USDJPY was last at 155.47. Mild bullish momentum on daily chart intact though it shows signs of it fading while RSI is in overbought conditions. Bearish divergence may be forming on MACD. Rising wedge also observed – typically associated with a bearish reversal. Some signs of pullback still expected. Support at 153.20 (21 DMA), 151.30 (50 DMA). Resistance at 156, 156.40 (138.2% fibo of Nov high to Jan low).

- **AUDUSD. *Pricing Out Rate Cut Expectations.*** AUD held on to gains as markets pushed out rate cut expectations for the year after CPI surprised to the upside. AUD was last at 0.65. Bearish momentum on daily chart faded but rise in RSI faded. 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 here at 0.65 (61.8% fibo retracement of Oct low to Dec high), 0.6450 levels.

- **USDSGD. *Watching US Data, JPY.*** USDSGD consolidated. Last at 1.3610 levels. Bullish momentum on daily chart shows some signs of fading while RSI fell from overbought conditions. Retracement risks. Support at 1.3530 (61.8% fibo retracement of Oct high to Dec low). Resistance at 1.3660/70 levels. Pair likely to take cues from US data tonight and moves in JPY as BoJ MPC meeting decision is out tomorrow. At the same time, markets are somewhat anticipating some form of measure/intervention from Japanese authorities after the move higher in USDJPY above 155. Our model estimates show S$NEER was last at 1.58% above model-implied midpoint. We reiterate our view that S$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.

- **IndoGBs** pared back gains after BI policy rate decision on Wednesday**.** Domestic bonds were stable this morning after the initial reaction. MoF managed to sell IDR5.9trn of sukuk bonds via greenshoe option on Wednesday, bringing the total awarded amount to IDR11trn as per indicative target. Market watch SRBI auction tomorrow. As a reference, SRBI rates rose by 31bps, 25bps and 28bps at the 6M, 9M and 12M, respectively, at the first auction after BI policy rate hike in October. Relatively high US yields and continued domestic supply means the IndoGB outlook is neutral at best. That said, the dilemma here is that domestic support may still prevent IndoGB yields from rising to levels that are perceived as appealing to foreign investors. A lower US yields environment is needed, after all, for bond inflows to make a strong comeback.

- **CNY rates**. CGBs were under selling pressure on Wednesday, especially at the longer end, after PBoC warned of interest rate and duration risk. We agree with PBoC's opinions to a large extent, from buying and selling of bonds under monetary operation is not



Source: Bloomberg, OCBC Research

QE, to the duration risk investing in long-end bonds. We maintain a steepening bias to the CGB curve, given pending supply, expected economic recovery and some room for monetary easing. We believe most of the CNY1trn supply will be via public auctions, if the authorities would like to prepare the market for such supply to come in the years ahead. Potential for steepening together with higher DV01 means return at long-end bonds are likely to underperform. CGBs stabilised this morning, but the 30Y bond underperformed. In offshore, while CNH HIBORs and implied rates declined notably, these front-end CNH rates can easily jump leading to higher rollover costs for yuan bears. As such, we caution against chasing front-end points and rates lower.

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