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GLOBAL MARKETS RESEARCH

Daily Market Outlook
30 January 2024

Softer Yields, Softer USD

- **USD rates.** UST yields fell upon the release of Dallas Fed Manufacturing Activity and further as US Treasury trimmed Q1 quarterly refunding target. The curve ended the day 2-6bps lower and flatter. For the January-March quarter, Treasury now expect marketable borrowing at USD760bn, lower than the previous estimate of USD816bn, largely due to projections of higher net fiscal flows and a higher beginning of quarter cash balance (TGA balance at USD769bn at end-Dec versus target of USD750bn; TGA balance rose further to USD830bn on 25 January). Market awaits the plan to be announced on Wednesday on the adjustment in coupon bond supply vis-à-vis bills supply; we suspect the reduction in borrowing needs will be skewed towards lower bills supply as after all, part of the reduction in borrowing needs is due to higher TGA balance and it would be a good opportunity for Treasury to reduce the % share of bills. Planned marketable borrowing for Q2 is at USD202bn, mostly due to expected SOMA redemption. 10Y UST yield is still likely to hover around the 4.1% level.

- **DXY. *Slight Risk to Downside*.** USD traded lower this morning, alongside the pullback in UST yields as US Treasury's estimates for 1Q borrowing was much lower than expected. DXY was last at 103.40 levels. Bullish momentum on daily chart shows tentative signs of fading while RSI fell. Risks skewed to the downside for now. Support at 103.10 (38.2% fibo), 102.6 (neckline of inverted h&s, 21DMA) and 102.20 (23.6% fibo). Resistance here at 103.55 (200 DMA), 103.8 (50% fibo retracement of Nov high to Dec low) and 104.60 (61.8% fibo). This week is heavy on data calendar with JOLT job openings, conference board consumer confidence (today); ADP employment, Chicago PMI, employment cost index, quarterly refunding plan for notes and bills (Wed); FoMC decision, ISM mfg (Thu) and payrolls report, Uni of Michigan sentiment, inflation expectations (Fri). For FoMC, we will be watching for clues on timing of Fed cut and guidance on QT. Softer core PCE (2.9% y/y) reinforced disinflation trend in US and if we do get a softer NFP print, USD can ease.

- **EURUSD. *Downside Bias*.** EUR continued to trade a touch softer as ECB's dovishness lingers. This is despite USD softness seen against most FX. Focus is on whether ECB will go with earlier start to easing cycle as Lagarde's pushback at the press conference last week was perceived to be not strong. Apr cut (-25bp) is now fully priced and another Jun cut (-25bp) is also fully priced. The quantum of cuts expected for 2024 has also increased to 150bps, up from 133bps of cuts earlier. Focus today on 4Q GDP before CPI estimate on Thu. Softer data print could further weigh on EUR. Pair was last at 1.0840

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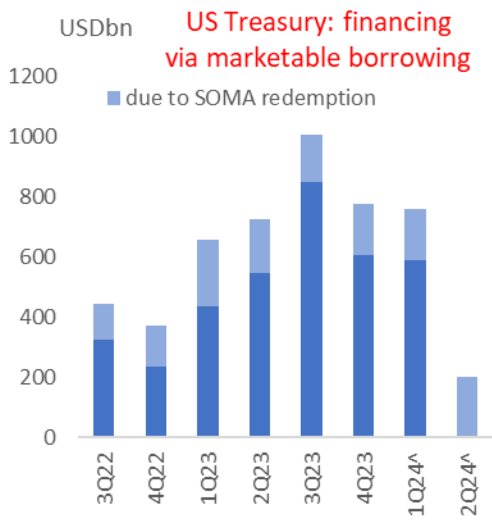


Source: US Treasury, OCBC Research
^US Treasury estimates

levels. Mild bearish momentum on daily chart intact while RSI was slipped. Consolidation likely with bias to the downside in the interim. Support at 1.08 (50% fibo) and 1.0780 (100 DMA). Resistance at 1.0875 (38.2% fibo retracement of Oct low to Jan high), 1.0905/20 levels (21, 50 DMAs).

- **GBPUSD.** ***Eyes on BoE MPC This Week.*** GBP continued to trade in subdued range as markets await BoE meeting (Thu). While BoE is widely expected to keep policy rate on hold, markets will be watching out for any hints of BoE embarking on starting its rate cut cycle earlier. Markets are now pricing 56% probability of 25bps cut at May MPC (vs. <50% probability a week ago). Any hint from BoE MPC that suggests an earlier cut/dovish tilt could send GBP bulls into hibernation. Recall at the last MPC in Dec-2023, 3 members out of 9 members voted for rate hikes while Governor Bailey said there was “some ways to go” in the fight against inflation. That said, so long the remarks from BoE officials do not sound overly dovish, we reckon the pullback may provide an attractive point for GBP bulls to re-enter. On the data front, UK economy has been fairly resilient. Services PMI is still in expansionary territory (53.8 vs. 53.4 prior) while mfg PMI though in contractionary territory, has improved (47.3 vs. 46.2 prior). Business optimism and consumer confidence were also improving while public sector net borrowing (ex-banking groups) came in much lower than expected (GBP7.8bn vs. 14.1bn expected). Overall, these positives should continue to support GBP. Pair was last at 1.2708 levels. Momentum and RSI indicators are flat for now. 2-way risks ahead. Support at 1.2670 (50 DMA), 1.2590 (50% fibo retracement of Jul high to Oct low). Resistance at 1.28, 1.2880 (76.4% fibo)

- **USDJPY.** ***Retain Short Bias.*** USDJPY continued to drift lower, in line with our call for a short bias. Move lower came amid softer UST yields, following lower than expected US Treasury’s estimates for 1Q borrowing. Pair was last at 147.45 levels. Bullish momentum on daily chart is fading while RSI fell. Risks skewed to the downside. Support at 146.25 (21 DMA), 146.10 (50% fibo retracement of Nov high to Dec low). Resistance at 148.20, 148.80 levels before 149.20 (76.4% fibo). We believe BOJ is paving way for a move, sooner rather than later. Governor Ueda highlighted that policy change at meeting can happen with or without quarterly outlook. This implies that every meeting is probably live. Governor Ueda also commented that many businesses have decided on wages early this time and does not need all SMEs to hike wages significantly for a policy change. This also implies that BoJ decision does not necessarily have to wait till shunto negotiation is over. Potentially, an earlier move in Mar/ Apr should not be ruled out. Retain bias to sell USDJPY on rallies on potential Fed-BoJ policy divergence.

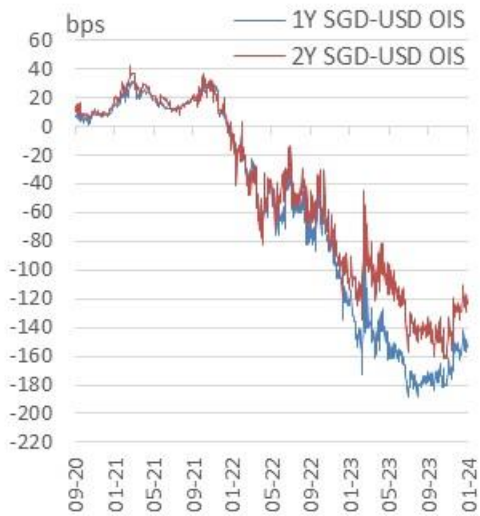
- **USDCNH.** ***Range-Bound.*** USDCNH traded little changed despite bearish sentiments in local equities (Shenzhen composite is down >11% YTD). PBoC has continued to use the daily RMB fix to manage RMB expectations. USDCNY fix-Survey expectations remains wide at -684pips today (vs. -671pips 5d average) while fix was set relatively steady at 7.1055 (vs. 7.1097 yest). Markets are still on the lookout for more support measures, in particular targeting consumption, rate cuts following the recent 50bps RRR cut, the lowering of rates on relending funds to banks that lend to agricultural sector and small firms, allowing bank loans pledged by developers' commercial properties to be used to repay other loans and bonds as well as reports that China is considering to mobilise RMB2tn to buy onshore equity. We opined that policymakers should ride on the momentum by announcing some form of support measures for the economy targeting consumption. These, alongside the 1tn liquidity injection (RRR cut) and potential support (2tn) for equity market can help rebuild credibility and shore up investor confidence. That said, there is still a fair amount of market scepticism over how sufficient the measures are but if the plan to rescue China shares does materialise sooner rather than later, alongside other support measures, then risk proxies, including AUD, KRW can benefit while CNH could see greater relative stability. However, absence of new measures in due course can be a setback on earlier-announced measures. This will further weigh on sentiments. USDCNH was 7.1850 levels. Daily momentum is flat while RSI slipped. Range-bound trade with slight risk to the downside likely in the interim as markets await USD cues from FoMC, NFP later this week. Resistance at 7.22, 7.24 levels. Support at 7.1810 (21 DMA), 7.1640 (50 DMA).

- **USDSGD.** ***Lower Range.*** USDSGD drifted a touch lower, tracking the moves in USD, UST yields. Pair was last at 1.3395 levels. Bullish momentum on daily chart is fading while RSI fell. Consolidation likely with slight risks to the downside. Support at 1.3390 (38.2% fibo retracement of Oct high to Dec low), 1.3360 (50 DMA) and 1.33 levels (23.6% fibo). Resistance at 1.3460 (200 DMA, 50% fibo), 1.35 (100 DMA). We expect a range of 1.3360 - 1.3420 in the interim. On MAS policy, we expect MAS to go on an extended pause well past Apr MPC, given the upward revision to core inflation outlook. As such, S$NEER should continue to trade bid vs. its trade partners.

- **IndoGBs** traded within ranges on Monday ahead of supply. Today's conventional bond auction has an indicative target of IDR24trn, in line with the quarterly issuance plan, with a potential upsize to IDR36trn. The sale comprises the reopening of FR101 (2029 bond), FRSDG001 (green 2030 bond), FR100 (2034 bond), FR098 (2038 bond), FR097 (2043 bond), and FR102 (2054 bond), and bills. We expect MoF to issue bonds as per target amount. Separately, SRBI rates last came in at 6.63595%, 6.70030%, and 6.83112% at the 6M, 9M and 12M tenors respectively; these rates were a tad lower than before but remained relatively high compared to short-end bond yields. With IndoGBs supported by local demand, IndoGB-UST yield differentials did not widen further, and bond inflows have yet to stage a strong comeback. Foreign flows have continued to fluctuate over days, with foreign holdings of IndoGBs standing at IDR848trn as of 26 January after moderate inflows of IDR5.1trn thus far this year.

- **RMB rates.** Repo-IRS continued to trade on the soft side, as market expects more actions to follow through, including a potential cut in the MLF rate and/or LPR. This policy backdrop together with the risk-off sentiment is supporting CGBs, before a turnaround in the economy becomes in sight. 10Y CGB yield is approaching the low seen in April 2020; if that is broken, then the next to watch is 2.45%. That said, we do not look for an extended downtrend in yields. Deployment of fiscal proceeds that were raised earlier, and additional bond supply are probably more important. The yield curve shall exhibit a steepening bias. Back-end CNH points rose overnight on higher USD rates, but retraced lower this morning driven by CNY rates move. On balance, we maintain an upward bias to back-end points as the movement in USD rates shall still be the dominating factor.

- **SGD rates**. The 2Y SGS auction (reopening) was very well received, attracting a bid/cover of 3.2x; cut-off came in at 3.04% which was a few bps lower than secondary market level. The auction outcome reflects investor preference to lock in the return on expectedly lower rates, and the continued directional view for bond/swap spread to narrow. Our medium-term view is for SGD rates to lag on a downward move as a normalization process. However, after the recent SGD rates underperformance, further meaningful move in SGD-USD rates spreads may only happen from Q2 onwards when the Fed is likely to start the easing cycle, and more so if MAS starts to ease as well. In the interim, SGD-USD rates spread may stay around current levels, and chance for a final leg of SGD rates outperformance cannot be ruled out should USD rates edge higher near-term combined with a still positive S$NEER slope and strong appetite for SGD papers.



Source: Bloomberg, OCBC Resesarch

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