GLOBAL MARKETS RESEARCH

Daily Market Outlook

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More US Data This Week

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 fell upon the release of weak US ISM manufacturing index. Market also took this chance to re-focus on the likelihood that the easing cycle is to start sometime this year, instead of being fixated on the pushback on the timing of the first rate cut itself – which the market had already reacted to during most of February. ISM manufacturing unexpectedly dipped to 47.8 points in February, compared to 49.1 points in January, with the biggest drags from inventories and employment while new orders was also below the 50-point watershed at 49.2 points. Separately, University of Michigan sentiment unexpectedly worsened, including both the current conditions and expectations. Fed funds futures added back some rate cuts expectations, now pricing in a total of 90bps of cut for this year, getting near our base-case of 100bps again; chance of a 25bp rate cut by the June FOMC meeting is priced at 93% which looks fair to us. Fed's Kugler opined that she was optimistic that there will be further progress on bringing inflation lower without a sharp deterioration in the labour market; Goolsbee said he wouldn't be surprised if January inflation data was a noise. We have pointed out that January is usually affected by seasonality to a large extent while seasonally adjusted data are after all estimates. There are three rounds of CPI and PCE deflator releases to watch before the June FOMC meeting. As for this week, data releases include ISM Services index, jobless claims and NFP; unless there are big misses, market shall stabilise around current pricings. On the liquidity front, usage at the Fed's o/n reverse repo fell further to USD441bn on Friday, down USD79bn on the week, against net bills and coupon bond settlement of USD137bn. Net bills settlement this week amounts to USD53bn.

- **DXY. *Dragged Lower by Softer US Data.*** USD started the week on a softer footing as the so-called US exceptionalism came under scrutiny. US data, including ISM manufacturing, new orders, employment fell while Uni of Michigan sentiment disappointed. Earlier last week, Chicago PMI surprised to the downside while jobless claims, continuing claims was on the rise. These pointed to signs that the US growth outperformance may be softening. Focus this week on Powell's testimony to Congress on Wed, Thu as well as ADP on Wed, NFP on Fri. We should expect Powell to reiterate patience and emphasize on no hurry to cut rates. These are known knowns and shouldn't affect markets too much unless Powell signals more forceful pushbacks, that could lead to further hawkish re-pricing. For now, markets are pricing in about 90bps of cut for 2024, largely in line with Dec dot plot for 3 cuts. DXY was seen at 103.85 levels. Daily momentum is mild bearish while RSI fell. 2-way trades with slight bias to downside likely to continue. Support at 103.75/85 (50% fibo retracement of Nov high to Dec low, 200DMA) and

103.10/30 (38.2% fibo, 50DMA). Resistance at 104.15 (21 DMA), 104.60 (61.8% fibo) and 105 levels.

- **CNY rates**. Repo-IRS traded on the soft side this morning, while CGBs were also supported amid the still subdued risk sentiment. Focus will be the "two sessions" which start today, at which the 2024 growth target will be announced together with the budget deficit number/additional bond issuances if any. CGB yields have been low compared to various lending rates including the MLF rate and LPR and as such 2.50% is probably only a psychological level for the 30Y CGB. Breaching below 2.50% tells little as to whether the downward move in yields has got more entrenched. That said, it has an implication on the curve shape and focus is on the 10s30s part of the curve as the spread narrowed and is moving towards par, suggesting the market is still waiting for a turnaround in the growth outlook.

- **EURUSD.** ***ECB meeting (Thu).*** Our house is not expecting any change to policy rates. Focus is on staff macroeconomic projection and forward guidance for any hint of earlier rate cut. But it appears that most ECB officials are in the camp of no hurry to cut yet. Lagarde and a few ECB officials spoke about wage pressures staying strong and that salaries will become an increasingly important driver of price dynamics in coming quarters. To some extent, Lagarde and her colleagues may have bought some time on policy decision as officials want to monitor other measures, including negotiated wage data. The next data release for 1Q, will not be out until sometime in May. And this may well infer that the earliest move for ECB is not at the Mar or Apr meeting but possibly be at the Jun meeting. Markets are also pricing in ~67% chance of a 25bp cut at the Jun meeting. EUR was last at 1.0845 levels. Mild bullish momentum remains intact while RSI rose. Slight risks to the upside. Resistance at 1.0870/76 levels (50 DMA, 38.2% fibo retracement of Oct low to Jan high), 1.0940 levels. Support at 1.0795 (21DMA, 50% fibo), 1.0760 levels.

- **USDJPY.** ***Tokyo CPI in Focus.*** USDJPY traded softer this morning, tracking the decline in UST yields. This week's focus is on Tokyo CPI (Tue) – typically a leading indicator for nationwide inflation after conflicting comments from BoJ Governor Ueda and Takata on whether the price target is in sight or not last week. Consensus looks for headline to come in at 3.1% (vs. 1.6% prior). A stronger print would be timely for markets to engage in hawkish BoJ re-pricing in the leadup to upcoming BoJ MPC (19 Mar). This can weigh on USDJPY. We remain of the view that a BoJ move should be a case of earlier, rather than later. Inflationary pressures are broadening, growth outlook is improving and upward pressure on wage growth remains intact. Labour unions in Japan are targeting above 6% wage increase this year, much higher than the average of 4% in 2023. Markets may be underprepared especially with JPY shorts at record high and dovish in terms of the timing on when BoJ will hike. An earlier than expected BoJ hike at the upcoming could see sharp unwinding of JPY shorts. USDJPY was last at 150.16 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 149.90 (21 DMA) before 149.20 levels (76.4% fibo retracement of 2023 high to 2024 low). Resistance at 150.88 (interim double-top), 151.90 (2023 high). We entered into a tactical short EURJPY trade (entered at 163.05 on 28 Feb), 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 162.80. We remained short on the cross.

- **USDSGD. *2-Way Trade***. USDSGD traded a touch softer, tracking UST yields and USD lower after US data disappointed. Last at 1.3440 levels. Mild bearish momentum on daily chart intact while RSI was flat. 2-way trades likely. Support at 1.3430 (100 DMA), 1.3380/90 (38.2% fibo retracement of Oct high to Dec low, 50 DMA). Resistance at 1.3460/75 (21, 200 DMAS, 50% fibo), 1.3530 (61.8% fibo). 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.

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

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