

Daily Market Outlook

5 March 2024

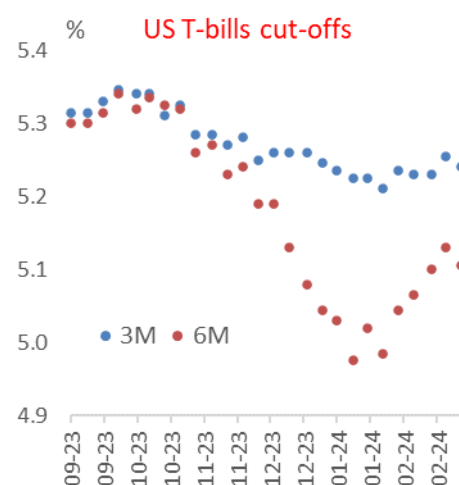
Subdued Range

- USD rates.** UST yields rose on Monday erasing some of the bond gains on Friday; long-end bonds were relatively stable. This week is busy with Powell's testimony and data including ISM Services index, jobless claims and NFP; investors may choose to stay on the cautious side. If Powell simply repeats his no-urgency-to-cut rhetoric, the market shall not react to it further. The path of QT is likely to be discussed at the March FOMC meeting, and ahead of that we doubt Powell will elaborate much on that topic. The 2Y breakeven edged further higher to 2.8273% adding to the flattening of the nominal curve; we have noted short-term breakeven has been responsive to price data and hence if there is any data print supporting the disinflation narrative, the curve is prone to re-steepening. T-bills auctions overnight went smoothly, although demand was not as overwhelming as that at previous auctions. Bid/cover ratios were still decent, at 2.59x and 2.65x respectively for the 3M and the 6M bills (versus above 2.9x at previous auctions); cut-offs were a tad lower with the spread between the 3M and 6M cut-offs still showing similar expectation of rate cuts as at previous auctions. There is no coupon bond auction this week and any pressure on the supply side will come from credit bonds.
- DXY. Range-Bound.** USD traded in subdued range overnight ahead of a busy week. Focus is on ISM services today, 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 emphasise 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 83bps of cut for 2024, largely in line with Dec dot plot for 3 cuts. DXI was seen at 103.87 levels. Daily momentum is mild bearish while RSI was flat. 2-way risks. 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.
- EURUSD. Services PMI, PPI on Tap Today.** Recent uptick in EUR paused ahead of US event risks this week. Pair was last at 1.0850 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. Data of interest today includes services PMI and PPI. Firmer print may help to keep EUR supported. ECB meeting on Thu is likely the highlight for EUR this

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Source: Bloomberg, OCBC Research

week. 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.

- **GBPUSD. Spring Budget in Focus Tomorrow.** Conservative party is lagging Labour party in terms of favourability ratings among the public and this brings the question if Chancellor Jeremy Hunt will try to improve popularity/win back voters with tax cuts or bumper giveaways at the Spring Budget (Wed). At the Autumn statement (Nov-2023), Hunt announced a GBP20bn stimulus, and the highlight then was a cut to employee national insurance contribution. Some touted the upcoming Spring budget as a pre-election budget (though elections have yet to be announced) and that it risks being an inflationary one. This would make it difficult for BoE to cut rates and may well point to upside pressure for GBP in the interim. GBP was last at 1.2685 levels. Daily momentum is not indicating a clear bias while RSI rose. Near term consolidation likely. Resistance at 1.2720 (61.8% fibo), 1.2830 levels. Support at 1.2635 (21 DMA), 1.2580/90 (50% fibo retracement of Jul high to Oct low, 200 DMA) and 1.2460 (38.2% fibo).
- **JPY rates.** February Tokyo CPIs printed in line to a tad firmer than expected with headline picking up to 2.6%YoY, core to 2.5%YoY and core core to 3.1%YoY (and previous number was revised upward to 3.3%YoY), primary on base effect with some government subsidies a year ago. Notwithstanding the reason being largely base effects, BoJ may want to take this opportunity to start normalizing monetary policy. We continue to see the March monetary policy meeting as a live one for a potential 10bp hike in the Policy-Rate Balance Rate, which shall be better seen as moving from a three-rate tiering system to a two-rate tiering system. JPY OIS are pricing in a 44% chance of a 10bp hike by the March meeting, and 79% by the April meeting. Regarding the YCC, in the scenario where it is removed, strong support for the 10Y JGB shall sit at the 1.1-1.2% area, if the 10Y bond/swap spread and the 10s20s yield spread were to revert to multi-year median levels, with reference to the highs in the 10Y JPY OIS and 20Y yield in the current cycle.
- **USDJPY. 2-Way Trades.** USDJPY remains better bid this morning despite Tokyo CPI coming in hotter than expected. We continued to caution that markets may be under-prepared and rather complacent

with JPY shorts at more than 2-year high. Weak JPY bears may rush for exit if BoJ hikes earlier than expected. Officials have pointed out that many companies are offering higher increment to wages than 2023. And most measures of inflation have already been rising. Our house view does not rule out a hike at the Mar MPC (19 Mar) to bring Japan out of negative interest rate policy regime. USDJPY was last at 150.45 levels. Daily momentum is mild bearish while RSI is flat. 2-way trade likely but bias to lean against strength. Key support at 150 (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).

- USDSGD. 2-Way Trade.** USDSGD traded in an uninspiring range ahead of Fed Chair testimony to Congress and NFP data later this week while China policies announced thus far offered little for markets to cheer about. Pair was last at 1.3435 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). On S\$NEER, we saw a slight easing in strength from 1.85% above our model-implied mid to about 1.6% after SG CPI, IP underwhelmed. We continue to monitor if this S\$NEER strength continues to fade or that it bounces off its 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.
- USDMYR. Consolidation.** USDMYR consolidated after declining 1.5% over the past week or so. BNM's FMC put out a statement on Fri to say that greater coordination between the central bank and the government has had an immediate impact on market flows and an increased market interest in buying ringgit. Basically, GLCs and GLICs are encouraged to repatriate foreign investment income and convert that income into ringgit more consistently. BNM will also enhance engagements with corporates and investors to further encourage conversions and strengthen market sentiment on the ringgit. Pair was last seen at 4.7255 levels. Daily momentum is bearish while RSI fell towards near oversold conditions. Directional bias remains skewed to the downside though some consolidation is not ruled out in the interim. Support at 4.7180 (38.2% fibo). 4.7110 (50, 100 DMAs) and 4.6915 (50% fibo). Resistance at 4.7515 (23.6% fibo retracement of Dec low to Feb high), 4.7670 (21 DMA). BNM MPC in focus on Thu – expect status quo on policy – little impact on FX.
- CNY rates.** China announced 2024 GDP growth target at “around 5%”. Budget deficit is set at 3%, as the government plans to issue CNY1trn of ultra-long tenor special bonds. Special LGB (local government bond) quota is set at CNY3.9trn this year versus CNY3.8trn last year. The CNY1trn special bond is as expected, while special LGB quota is not particularly high likely constrained by local government finances.

The support announced thus far today may not be as massive as some in the market might have hoped for. Nevertheless, these still reflect additional fiscal support and taking a step back, we shall also count the extra CNY1trn of bond proceeds from Q4 last year, the impact of which will be mostly felt this year. The 30Y CGB yield was up by 2bps thus far as a response to the additional supply, while continued expectation for monetary policy support and the still subdued risk sentiment is capping short-end yields, underlining our view for a steeper yield curve. Repo-IRS traded a tad softer while equity indices were down. We may need to be more patient waiting for a material turnaround in the risk sentiment.

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