Daily Market Outlook

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FOMC and BoJ on hold; BoE next

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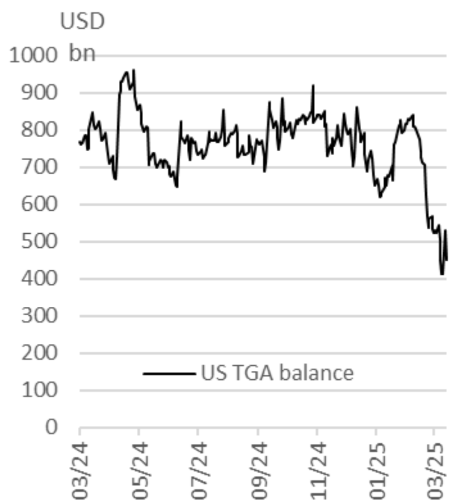
- **USD rates.** USTs rallied upon FOMC decision, as the median dot stayed unchanged despite upward shifts of some dots, while FOMC revised downward GDP forecasts. A few things that we have hoped for panned out nicely, underpinning our view that rates and yields are likely to fluctuate within the current lower ranges compared to levels observed in January. 1/ The outcome is the scenario of "an unchanged median dot (with or without some upward adjustments in individual dots)" which we expected to give a greenlight for market to maintain rate cut pricings. Fed funds futures even added mildly to rate cut expectation, pricing in 66bps of cuts this year versus 59bps priced before FOMC decision; 2/ GDP growth forecasts have been revised downward, more so for 2025 (from 2.1% to 1.7%); 3/ QT pace will slow; the monthly redemption cap on Treasury securities will be reduced from USD25bn to USD5bn starting 1 April (cap on MBS stayed the same at USD35bn) - this decision is understood to be in reaction to the debt ceiling issue. Near-term range for 10Y UST yield remains at 4.20-4.34%; only when the yield breaks decisively on either side we will be eyeing a new range. For Fed funds rate, our base-case remains for a total of 75bps of cuts this year. TGA balance was last at USD450bn on 18 March, while amount of remaining extraordinary measures has been estimated at USD106bn as of 12 March.



Source: Bloomberg, OCBC Research

- **GBP rates.** Gilts traded in ranges ahead of BoE decision. BoE is widely expected to keep its policy Bank Rate unchanged at 4.5%, and as usual the split of votes is one of the focuses. To recap, at the February meeting, the surprise came as two voted for a 50bp cut when the decision was a 25bp cut. Extrapolating this will be a 7-2 vote again, with 7 for a hold and 2 for a 25bp cut. A split that deviates from this "neutral" scenario may trigger some mild market repricing. There are arguments for both dovish and hawkish shifts, between downside risk to growth and upside risk to inflation (which was however partly expected due to higher administered prices). Long-end bond/swap spreads showed signs of stabilization of late, with current spread levels probably seen as providing some support to Gilts for now, when market gave the benefit of doubt to the notion that defence-spending will be deficit neutral. The next key event for the bond market is the Spring Statement 2025, to be released on 26 March.

- **JPY rates**. BoJ kept its policy target rate unchanged at 0.5% as widely expected. The Statement was somewhat balanced. It opined "there remain high uncertainties surrounding Japan's economic activity and prices", and mentioned "some weakness has been seen in part" in Japan's economy. Apart from these, the Statement sounded upbeat on inflation – "with a growing sense of labor shortage, the output gap will improve and medium- to long-term inflation expectations will rise"; and in the "outlook" para it ended with "in particular, with firms' behavior shifting more toward raising wages and prices recently, exchange rate developments are, compared to the past, more likely to affect prices." – that is to say, a weak Yen will exert a bigger upward pressure in inflation than in the past. This assessment on the interactions among wages, prices and exchange rate would be consistent with continued policy normalisation, in our view. Our base-case remains for additional 50bps of hikes for the rest of this year.

- **DXY. *Mixed.*** DXY dipped, alongside the decline in UST yields post-FOMC. DXY was last at 103.38 levels. Bearish momentum on daily chart is fading while RSI shows signs of rising from near oversold conditions. Mild rebound risk is not ruled out. Resistance at 104 (61.8% fibo retracement of Oct low to Jan high), 105 levels (50% fibo, 21, 200 DMAs). Support at 103.10, 102.50 levels (76.4% fibo). Risk of broadening tariff war may potentially weigh on global growth, trade, undermine market sentiments and drag on Asian FX, especially ahead of 2 Apr reciprocal tariff risk. The likes of KRW, JPY and IDR may be undermined in the near term. In addition, there were some concerns of EM contagion risks after Turkish Lira and Colombian Pesos saw a sharp sell-off at one point yesterday, driven by idiosyncratic (domestic) factors. Tariff war and EM contagion fears can bring back memories of the 2018 EM sell-off. This risk reinforces our view that USD may enter into a mixed play – USD gains to be more pronounced vs. selected EM Asian FX and high-beta majors like AUD and NZD while USD may stay sideways or modestly softer vs. G3 majors.

- **EURUSD. *Pace of Gains Moderate.*** EUR dipped before partially retracing losses. TRY sell-off saw some spillover risks to EUR (as European banks do have some exposure to Turkey borrowers but not as much as the 2018 episode). Markets also took opportunity to "sell the fact", after German spending plan cleared the lower house. The spending plan will still need to clear the upper house on Fri. A 2/3 majority is required and there is some uncertainty as the Free voters of Bavaria party has yet to express support for the deal. Any unexpected surprise may have an asymmetrically larger downward pressure on EUR. The German spending plan and hopes of a Ukraine peace deal are positive catalysts for EUR but given the sharp run-up in EUR, and ahead of reciprocal tariff risks on 2 Apr, we continue to caution for risk of near-term pullback. EUR was last at 1.0910 levels. Bullish momentum shows early signs of fading while RSI show signs of turning lower from overbought conditions. Pace of rise may moderate or may even turn lower. Resistance at 1.0940, 1.0970 (76.4% fibo). Support at 1.0820 (61.8% fibo retracement of Sep high to Jan low), 1.0700/20 levels (200 DMA, 50% fibo).

- **GBPUSD. *BoE MPC, Employment Data.*** GBP can be fairly active today due to BoE MPC (at 8pm SGT) and employment data (earlier at 3pm SGT). While BoE is widely expected to keep its policy Bank Rate unchanged at 4.5%, the vote split is the one that should cause some excitement. To recap at the Feb MPC meeting, the surprise came when 2 members voted for a 50bp cut while 7 other members voted for a 25bp cut. In particular, Mann voting for a 50bp cut was a surprise as she is typically a hawk. *The dovish shift then prompted markets to re-assess how a stagflation story may already be playing out for UK economy. BoE halved growth forecast and revised upward inflation projection.* This time round, our rates strategist flagged out that the vote split could be 7 for hold and 2 for cut. A vote split that deviates from this “neutral” scenario may trigger some mild market repricing, in turn having an impact of GBP. Pair was last at 1.30 levels. Bullish momentum on daily chart is fading while RSI is near overbought conditions. GBP bulls need to clear above 1.3050 for gains to gather momentum. Next resistance at 1.3120 levels (76.4% fibo retracement of Sep high to Jan low). Failing which, GBP may revert to retrace lower. Support at 1.2920 (61.8% fibo), 1.2800/25 levels (21, 200 DMAs). That said, bullish crossovers still point to a GBP bull trend remaining intact.

- **USDSGD. *2-Way Trades.*** MAS quarterly MPC meeting is about one month away from now. Judging from our S$NEER model, markets are not expecting a move at the upcoming meeting, at least for now. Next CPI print release is on next Mon (24 Mar). A softer print may move expectations on MAS policy. But MAS policy is only one factor affecting USDSGD. For now, cross currents of tariff uncertainties, fading US exceptionalism, China tech stocks re-rating, Ukraine peace dividend and some EM contagion risk should continue to drive 2-way price action for USDSGD. Pair was last at 1.3305 levels. Daily momentum and RSI indicators are not showing a clear bias. We still look for 2-way trades. Resistance at 1.3370/90 levels (21 DMA, 38.2% fibo retracement of Sep low to Jan high), 1.3470/80 levels (50, 100 DMAs). Support at 1.3300/10 levels, 1.3270 (50% fibo) and 1.32 levels. S$NEER was last seen at 1.20% above model-implied mid.

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