OCBC TREASURY RESEARCH

Daily Market Outlook

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Wait and See Mode

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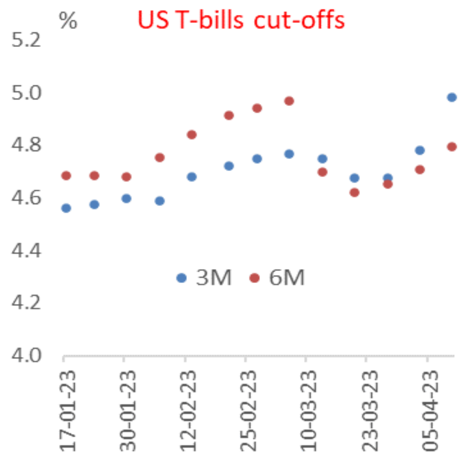
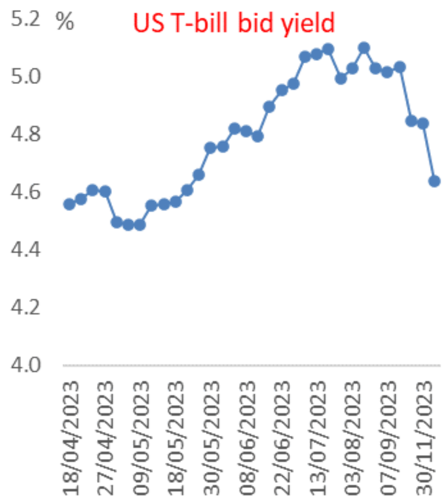
- **UST** yields went up during NY session as market added to rate hike expectation, with Fed funds futures now pricing in more than a 70% chance of a 25bp hike at the May FOMC meeting. Rate cut expectations and recession concerns continued to limit the upside to yields. The steepening in the UST yield curve over the past month was pretty much driven by the steepening in the breakeven curve with front end breakeven having fallen substantially; the 2Y breakeven fell from a high of 3.39% in early March to the latest 2.6%. Investors may not want to chase the steepening move for now, as the curve shall be sensitive to inflation prints and expectation. US CPI is released on Wednesday, followed by FOMC minutes, initial jobless claims and PPI on Thursday.

- **US T-bills**. Cut-off at the 3M T-bill auction came in high at 4.98%, with the 3M-6M part of the bill cut-off turning more inverted at a negative spread of 18.5bp. In the secondary market, T-bills that mature in July and August also offer some yield premium, as investors may stay cautious towards the debt ceiling issue. TGA balance fell further to USD110.8bn as of 7 April, after some bills paydown over the past week; bills and coupon net settlement in the next few sessions will nevertheless add back USD18bn to the account and there will be tax receipts this month. The Treasury has said after April tax receipts they might be able to provide a better gauge on the timing of the “x-day”. Meanwhile, usage at the Fed’s o/n reverse repo facility rose to USD2.24trn on Monday.



Source: Bloomberg, OCBC Research

- **DXY. Subdued Range ahead of CPI.** DXY traded higher overnight, in line with our caution for near term corrective rebound. But we also shared that range is likely to stay subdued. DXY was last at 102.4 levels. Bearish momentum on daily chart faded while rise in RSI moderated. We still do not expect any break-out in absence of fresh catalyst. Resistance at 102.80 (61.8% fibo), 103.40 levels (50% fibo retracement of 2023 low to high, 50 DMA). Support at 102(76.4% fibo), 101.5 levels (recent low). This week, focus is on US CPI and PPI are due on Wednesday, Thursday, respectively. Consensus looks for headline CPI to show sequential slippage to 0.2%, from 0.4% MoM and for core CPI to come in lower at 0.4% MoM (vs. 0.5% prior). We look for clues if disinflation trend is bumpy or has grown more entrenched. 30d fed funds futures is now pricing in 71% probability of a 25bp hike at 3 May FoMC. A sharper decline in CPI should dampen market expectations for another hike and this can weigh on USD. Looking on, there will be further market implications as markets contend with policy pause and potentially start to price in earlier pivot. To add, if global growth momentum continues to hold up, then this environment will resemble a goldilocks-like thematic (where growth in neither hot nor cold,



Source: Bloomberg, OCBC Research

monetary tightening has hit a pause or may go into pivot) providing a timely window for higher yielders, IDR, INR to outperform.

- **EURUSD. 2-way Trade.** EUR was a touch softer, traded a low of 1.0830 overnight but has since rebounded. Pair was last at 1.0880 levels. Bullish momentum on daily chart shows signs of fading while decline in RSI moderated. Range-bound trade still expected. Support at 1.0810 (21 DMA), 1.0680 levels (23.6% fibo retracement of Sep low to 2023 high, 100 DMA). Resistance at 1.0980 (previous high) before 1.1030 levels (2023 high).

- **USDJPY. Risk of Short Squeeze.** USDJPY rebounded overnight, in line with our call for the risk of short squeeze. Pair was last at 133.30 levels. Daily momentum shows tentative signs of turning mild bullish but rise in RSI moderated. Likely to see 2-way trades from here. Resistance at 33.80 (38.2% fibo, 100 DMA) and 135.40 levels (23.6% fibo). Support at 132.60 (50% fibo retracement of 2023 low to high), 131.30 (61.8% fibo). Markets were earlier expecting new BoJ Governor Ueda to share or hint at policy normalisation during his press conference yesterday, but it turned out that markets expectations were misplaced.

- **AUDNZD. Tactical Long.** AUDNZD continued to trade higher, in line with our call for tactical long. Last at 1.0710 levels. Daily momentum shows signs of turning mild bullish while RSI is rising. Bias to stay tactical long. Resistance at 1.0720 (21 DMA), 1.0780 (50% fibo retracement of Dec low to Feb high) and 1.0850 (38.2% fibo). Support at 1.0620, 1.0560 levels. We earlier shared that the flush out of stale longs last week provided attractive entry point to go long. Motivation is on the back of RBNZ nearing end of hiking cycle, while RBA may still have room to tighten.

- **USDSGD. Firmer but Subdued.** USDSGD firmed but price action remains subdued in absence of fresh catalyst. Pair was last at 1.3315 levels. Bearish momentum on daily chart shows signs of fading while RSI rose. Some risks to the upside in the near term. Resistance at 1.3340 (50 DMA), 1.3375 (23.6% fibo retracement of 2022 high to 2023 low) and 1.3400/15 (21, 100 DMAs). Support at 1.3240 (recent low), 1.32 and 1.3160 levels. S$NEER is 1.23% above model-implied mid. Key focus on MAS policy decision this Friday (14 Apr, 8am SG time), alongside the release of 1Q Advanced GDP. Reuters poll on banks and our telegram poll on subscribers of our channel are fairly consistent, as respondents are about 3-way split between upwards recentring, slope increase and no move for this this particular MPC. We are calling for an upward recentring of the policy band as core inflation remains elevated and is expected to remain high while there are also risks of upward pressure to oil and food prices. Bear in mind, Singapore imports more than 90% of our food from more than 170 countries and region. Some degree of relative SGD strength can help to reduce imported inflation.

- **HKD rates**. The 1Y and 2Y HKD IRS jumped by 20bp at open today, not so much as a reaction to the FX intervention, but as a catch-up play after the holidays. The aggregate balance (interbank liquidity) will fall to HKD66bn after the latest FX intervention. We remain of the view that the HKMA may consider moving liquidity from the bills market to the interbank market should Aggregate Balance fall below a certain level – HKD50bn can be a reference as we explained previously. The sheer size of the bills market (HKD1.2trn) means HKD liquidity is unlikely to get extremely tight for a sustained period. Still, we expect HIBOR to go higher on tighter liquidity and expected Fed rates hike, before falling in 2024; this shall point to some more upside to the 1Y HKD IRS, while we are roughly neutral at the 2Y HKD IRS at current level.

- **KRW rates** were little changed after BoK's decision to leave its key policy repo rate unchanged which had been widely expected; but rates were paid up as the post-meeting press conference went on. The MPC statement in the outlook paragraph keeps the opinion that "uncertainties surrounding the policy decision are judged to be high" and "it warranted to judge whether the Base Rate needs to rise further". Today's decision was unanimous, but 5 board members out of 6 are open to a terminal rate of 3.75%. Also, Governor Rhee said the market excessively price in rate cuts. On the potential rate hike part, we prefer to see this as reflecting the intention to maintain some flexibility when the Fed is not confirmed done with its tightening cycle, rather than as being the base-case at the BoK. Our view remains that the BoK is likely done with rate hikes in the current cycle. On rate cuts, we share the view that the easing cycle is unlikely to come soon.

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