

Daily Market Outlook

2 April 2024

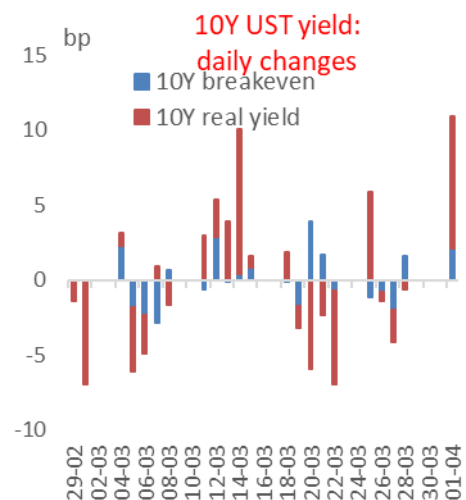
Markets Responsive to Data

- USD rates.** UST yields rose across the curve upon the print of firm ISM manufacturing index. Real yield was the main driver of nominal yield movement overnight, both at the short and long end, and rightly so given data were mainly on economic activities although there was a price component as well. 2Y breakeven was little changed; 10Y breakeven was up by 2bps while 10Y real yield was up by 9bps. ISM price paid picked up, and subsequently, market pared back rate cut expectation, with Fed funds futures pricing a total of 68bps of rate cuts this year, and the chance of a 25bp cut by the June FOMC meeting at 63%. These pricings fluctuate day by day and the market will continue to be responsive to the data; next lining up are JOLTS job opening, ISM services, and non-farm payrolls. On a multi-month horizon, we continue to look for downside to yields likely driven by short-end breakeven and long-end real yield. On liquidity, usage at the Fed's overnight reverse repo fell by USD153bn to USD442bn on Tuesday, as we noted yesterday there was a relatively heavy net coupon bond settlement of USD124.8bn. The usage may edge back up upon the USD40bn of bills pay down this week. As of 27 March, bank reserves stood at USD3.496trn and reverse repos (all tenors) at USD873bn reflecting a supportive liquidity condition on aggregate.
- DXY. Bid.** USD bulls came to life after ISM manufacturing rose above 50-line for the first time since Oct-2022. ISM prices paid, new orders also rose. Latest data further reinforced the US exceptionalism narrative. 30d Fed fund futures saw further reduction of rate cut expectations: 68bps cut for whole of 2024 (vs. 85bps cut expectations a week ago) while probability of first cut in Jun was down to ~64% (vs. 85%). At this point, USD still present a relative yield advantage and Fed has communicated that they are in no hurry to cut rates. USD may continue to stay supported until Fed's rhetoric makes a dovish tilt or US data starts to show more signs of softening. This puts greater focus on ISM ADP employment, ISM services (Wed) and payrolls report (Fri). Plenty of Fed speaks is also lined up this week, including Fed Chair Powell (Thu). DXY was last at 104.50 levels. Daily momentum is bullish while RSI rose to near overbought conditions. Resistance at 105.30, 105.80 levels (76.4% fibo). Support at 104.80 (61.8% fibo retracement of Oct high to Jan low), 104.50 before 104 (50% fibo).

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
ChristopherWong@ocbc.com

Global Markets Research
Tel: 6530 8384



Source: Bloomberg, OCBC Research

- **EURUSD. Heavy Bias.** EUR fell, in line with our caution for risks to the downside. Move lower came amid broad USD strength. Pair was last at 1.0730 levels. Bearish momentum on daily chart intact while RSI fell. Risks remain skewed to the downside. Support at 1.0715 (61.8% fibo), 1.0690. Resistance at 1.0795 (50% fibo retracement of Oct low to Jan high), 1.0840 (50, 200 DMAs), 1.0875/80 levels (21, 100 DMAs, 38.2% fibo). Recent ECB rhetoric remains dovish. Stournaras said that a total of 100bps cut for 2024 is feasible, if disinflation trend continues until the end of year. Villeroy said that the ECB cannot ignore the economic risks of keeping rates high for too long and should begin cutting at Apr or Jun meeting. Earlier, Panetta said that policy is compressing demand while Cipollone said that ECB should swiftly dial back its restrictive stance if data confirms ECB's forecast for weaker growth and inflation. Kazaks is also supporting Jun cut as inflation dragon is pinned to the ground. Focus this week on CPI estimate (Wed), following softer CPI readings out of France, Italy.
- **AXJ FX. Under Pressure.** The combination of USD strength, fuelled by ISM manufacturing data (overnight) and ongoing RMB and JPY softness may continue to weigh on Asian FX in the interim. On RMB, onshore USDCNY spot continues to drift higher towards the 2% upper band, post-CNY fix. That persistent weakness in onshore CNY has resulted in a negative feedback loop to CNH in the interim. And to some extent, this may be fuelling speculation that China may be allowing for a softer RMB in a slow and measured pace, especially with broad softness seen in most AXJs. TWD, KRW, IDR, THB, SGD are approaching or have approached their year's low (vs. USD) today. We opined that policymakers in the region are probably on standby to smooth excessive volatility. But as a matter of fact, USD remains an attractive carry play and is a safe-haven proxy. We would probably need softer US data or a shift in Fed's rhetoric to dent USD's momentum.

USDJPY. Weak Jawboning. USDJPY continued to inch higher. And not surprisingly, Finance Minister Suzuki is again on the wires. He said it is important for FX to move stably, reflecting fundamentals. USDJPY shrugged off those warnings to trade higher. We remain cautious of intervention especially if moves are rapid or excessive. That said, moves in the past couple of sessions were considered milder as compared to a week ago. While it is of popular belief that 152 may be the line in the sand (given that it capped USDJPY from breaking higher on various occasions in the last 2 years), we think it is also more of the magnitude of the move that may matter. Pair was last at 151.75 levels. Mild bullish momentum on daily chart shows signs of fading but RSI rose to near-overbought conditions. Resistance remains at 152 (triple top). Decisive break out could trigger more buy flows. Support at 150.80, 149.95 (21 DMA) and 149.55 (50 DMA).

- **USDSGD. Supported.** USDSGD inched higher, tracking broad USD moves. Pair was last at 1.3525 levels. Daily momentum is mild bullish while RSI rose. Resistance at 1.3530 (61.8% fibo), before 1.3620 (76.4% fibo). Support at 1.3460/70 levels (200 DMA, 50% fibo), 1.3430 (50 DMA) and 1.3390/1.34 (38.2% fibo retracement of Oct high to Dec low, 21, 100 DMAs). Pair is likely to try to test fresh highs until US data point to downside surprise. S\$NEER was last at +1.583% above our model-implied mid.
- **CNY rates.** Repo-IRS opened mixed this morning. PBoC net withdrew CNY48bn of liquidity via OMOs, upon very light maturity. We continue to look for CNY rates and CGB yields to bottom out, on expected economic recovery, reflation efforts, and long end bond supply. After media revealed President Xi's much earlier comments about PBoC buying bonds, market contemplates the actual implication, while waiting for the first batch of ultra long end bonds to come to the market. For one, we highlight what was being quoted is buying and selling bonds under open market operations. OMOs buying and selling is not QE, as it will usually be done in a repo/reverse repo arrangement. There should be no ambiguity on this front. We do not assume there will be outright PBoC buying unless it is officially announced; instead, we believe most of the CNY1trn of special bonds will be sold to the public. On the FX swap curve, front-end CNH points shall stay supported as the authorities try to cap spot. Onshore 12M implied CNY rate has stayed low, last at 1.25%, compare favourably to NCD rates, with the 12M AAA NCD rate last at 2.24%.
- **IndoGBs** traded within ranges on Monday despite the weak Rupiah. Q2 issuance target has been announced at IDR170trn; there are five conventional and five sukuk auctions in the quarter; the quarter target will be consistent with individual auction size of IDR22-24trn for conventional and IDR10-12trn for sukuk which are within usual ranges. In Q1, gross issuances amounted to IDR230.088trn, near the original target of IDR240trn. The supply outlook stays neutral. On flows, during March (as for 28 March), holdings of IndoGBs fell across banks, non-bank domestic investors and foreign investors, partly because outstanding IndoGBs itself fell. Meanwhile, Bank Indonesia increased its holdings. IndoGB-UST yield spreads widened somewhat, but these spreads are still unlikely to garner strong foreign flows. We have a stable outlook for IndoGBs near-term.
- **SGD rates.** SGD OIS were 1bp lower across the curve on Monday. After a period of SGD rates underperformance, SGD rates are likely to outperform USD rates today in a rising rate environment. Today brings the auctions of 4W and 12W MAS bills; 1M and 3M implied SGD rates were both trading at around 3.71% this morning. SGD liquidity appears to have improved, which may lead to mildly lower cut-offs at MAS bills auctions today especially for

the 4W bills. We expect 4W cut-off to come nearer 4% and 12W cut-off nearer 3.90%. On bond side, buying was mainly seen at the short end yesterday.



Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Herbert Wong
Hong Kong & Macau Economist
HerbertWong@ocbc.com

Jonathan Ng
ASEAN Economist
JonathanNg4@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
MengTeeChin@ocbc.com

GLOBAL MARKETS RESEARCH

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
LavanyaVenkateswaran@ocbc.com

Ong Shu Yi
ESG Analyst
ShuyiOng1@ocbc.com

Christopher Wong
FX Strategist
ChristopherWong@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
EzienHoo@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
Cindykeung@ocbc.com

Ahmad A Enver
ASEAN Economist
Ahmad.Enver@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
WongHongWei@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.: 193200032W