Daily Market Outlook

24 May 2024

Slightly Risk-Off

- **USD rates**. UST yields rose overnight on the strong PMI prints, as market stayed responsive to the data. Fed funds futures mildly pared back rate cut expectation, to a total of 35bps of cuts this year versus 40bps priced a day ago. Gilt and Bund yields rose as well taking cue from the US market, despite their own PMIs had printed in-line with or softer than expectations earlier in the sessions, against the CB decoupling narrative. Back to USTs, real yield was again the main driver for long-end yields, with the 10Y real yield up 7bps on the day, while 10Y breakeven still hovered around the 2.3% level which we have seen as a fairly stable anchor for now unless inflation surprised materially to either side. Next week, there is net coupon bond settlement of USD155bn which renders the liquidity environment a bit challenging; we monitor if the 10Y UST yield will stay in a range below the 4.5% mark.

- **DXY. *Durable Goods Orders Today.*** USD jumped in response to higher yields overnight. Recent comments from Fed officials, stronger than expected PMI data resulted in a push-back on expectations for Fed cut trajectory. For the year, markets are just pricing in 35bps cut (vs. 44bps cut a week ago). These developments reinforced the view that markets remain sensitive to data. The data also served as a reminder that the current high for longer rates environment may persist for a longer period. In the interim, higher yields may somewhat weigh on sentiments and undermined risk proxies including Asian equities, Asian FX including KRW, THB. Near term, durable goods orders tonight is in focus but the bigger focus is on core PCE next Fri. A softer print should dent USD's momentum. DXY was last seen at 105. Bearish momentum on daily chart is fading but rise in RSI moderated. Resistance here at 105.00/15 (21, 50DMAs). Support at 104.80 (61.8% fibo retracement of Oct high), 1.0440 (200 DMA) and 104 (50% fibo).

- **XAUUSD. *Corrective Pullback Underway.*** Gold experienced volatile price movements this week, reaching a new high of 2450 on 20th May. The unexpected softness in the US CPI brought back hopes of rate cuts while geopolitical concerns lingered. However, these gains have been reversed as a result of recent hawkish comments from Fed officials, FOMC minutes, and stronger-than-expected US PMI data. These developments have reminded market participants that the current high interest rate

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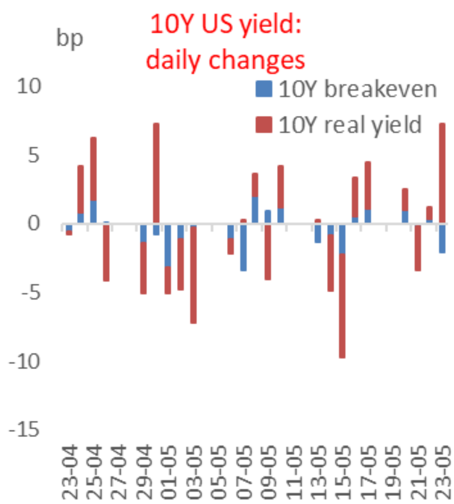


Source: Bloomberg, OCBC Research

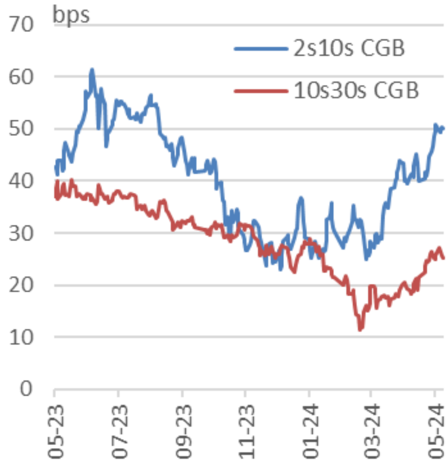
environment in the US may persist for a longer period, thereby diminishing the attractiveness of gold in the short term. In the near term, we anticipate gold volatility to stabilize following a period of volatile trading. Currently, gold stands at 2327 levels. The daily momentum has turned bearish, and the Relative Strength Index (RSI) has declined. Furthermore, we have observed a potential bearish divergence on the MACD, along with the formation of a double top pattern. These factors suggest a potential setup for an interim top. Support levels at 2310 (50-day moving average) and 2275 (38.2% Fibonacci retracement of the low to high range from 2024). On the other hand, resistance levels are seen at 2342/47 (21-day moving average, 23.6% Fibonacci) and 2420 levels. Respect the momentum, prefer to buy dips.

- **EURUSD.** ***Slippage.*** EUR had traded higher on better-than-expected PMI and ECB wage data but erased gains into NY close. Softer EUR was due to resurgence in USD strength, which came on the back of US data and hawkish Fedspeaks. EUR was last at 1.0810 levels. Bullish momentum on daily chart is fading while RSI fell. Risks remain skewed to the downside for now. Support at 1.0780/95 levels (50% fibo retracement of Oct low to Dec high, 50, 200 DMAs), 1.0715 (61.8% fibo). Resistance at 1.0880 (38.2% fibo), 1.0900/40 levels. On ECBspeaks, Guindos said that 25bps cut in Jun is a 'prudent approach' and there is no decision on the number of ECB moves or on magnitude of cut. Villeroy said that ECB is still on course for June cut after data as he warned not to over-interpret ECB's negotiated wage growth data, which picked up to 4.7% in 1Q, from 4.5% in 4Q 2023. ECB noted that wage pressures look set to decelerate in 2024.

- **GBPUSD.** ***Bulls Taking a Breather.*** GBP fell as services PMI dropped to 52.9 (vs. 54.7 estimate) while USD strength undermines. Pair was last seen at 1.2690 levels. Bullish momentum on daily chart shows signs of fading while RSI fell from near overbought conditions. Near term risks skewed to the downside. Support at 1.2634 (100 DMA), 1.2580/90 levels (21, 50 DMAs, 50% fibo). Resistance at 1.2720 (61.8% fibo retracement of Jul high to Oct low).

- **USDSGD.** ***Bias to Sell Rallies.*** USDSGD drifted higher, tracking the rise in UST yields and USD. Pair was last at 1.3520 levels. Bearish momentum on daily chart shows signs of fading while RSI rose. Near term risks to the upside but bias remains to sell rallies. Resistance at 1.3530 (21, 50 DMAs, 61.8% fibo retracement of Oct high to Jan low). Support at 1.3450/60 (50% fibo, 100 DMA), 1.3390 (38.2% fibo). Our estimates shows S$NEER at +1.61% above model-implied midpoint.

- **SGD rates**. 6M T-bills cut off at 3.65%, which was 5bps lower than the 3.7% prior and at the low end of our expected range. Recent bills auction outcome may reflect increased expectation for rates to soften on a multi-month horizon. First, the spread between 6M T-bill cut-off and FX swap implied rate narrowed further; Second, 12M MAS cut-off held steady on 21 May, pointing to a lower implied 3M3M rate. The size of the 2Y SGS reopening on 29 May has been announced at SGD2.9bn with MAS intending to take SGD300mn. The 2Y SGS sales shall be readily absorbed, with bond/OIS spread (OIS minus SGS yield) appearing on the low side making reference to historical bond/IRS spread. 2Y BSS was last at around -23bps; the two-year median of bond/IRS spread was 25bps; applying a 30bp spread after considering MMR adjustment spread and historical SOR-SORA basis levels, it gives -5bps. Moreover, bond/swap spreads tended to be wider at higher rates and yields levels. For USD-funded investors, interest may still be at the longer end of the SGS curve. Asset-swap pick-up (before crossing bid/offer spreads) was last at around SOFR+70bps at 10Y SGS and SOFR+120bps at 20Y SGS.



Source: Bloomberg, OCBC Research

- **CNY rates**. CGBs and short-end repo-IRS traded with limited price action this morning, ahead of the CNY40bn of 20Y special bond auction. We maintain a mild steepening bias across the 10s30s segment of the CGB curve as after all there is additional supply albeit being paced out, and a stable view towards the 1s10s and 2s10s segments as hope for imminent monetary easing faded. On the offshore DF curve, back-end points fell overnight primarily a function of USD-CNY rates differentials; front-end cash has stayed flush but given where spot is now especially compared to fixing, sporadic jumps in front-end CNH points will not be surprising

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