

Daily Market Outlook

27 May 2024

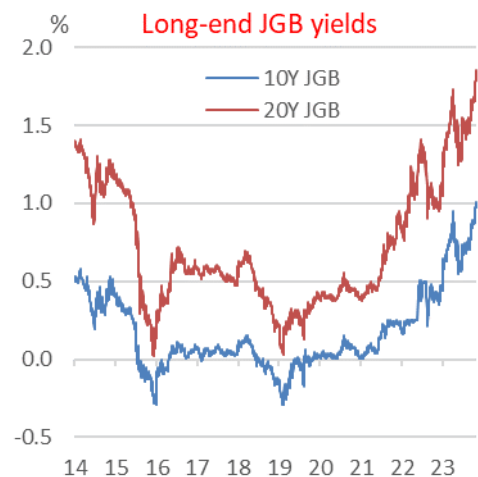
Slow Start

- USD rates.** USTs ended Friday little changed, with yields mostly doing a round trip and the curve mildly flatter. Yields rose upon the firmer prints of April durable goods orders, but the reaction did not last. Inflation expectations as measured by the University of Michigan survey were revised downward from initial readings, which did not move the market much. This shortened week brings the auctions of USD69bn of 2Y, USD70bn of 5Y and USD44bn of 7Y coupon bonds, with a net coupon bond settlement of USD155bn as maturity is on the light side, which renders the liquidity environment a bit challenging. We monitor if 10Y yield will stay in a range below the 4.5% mark. At the shorter end, April PCE deflator and core deflator are released on Friday, which may dictate as to whether Fed funds futures will hold onto the pricing of between one and two 25bp rate cuts this year.
- JPY rates.** Mid-to-long tenors JGB yields continue to trade with an upward bias. At a prepared speech this morning, Ueda commented that the BoJ has made progress in moving inflation away from zero and lifting inflation expectations, “but we must now re-anchor them, this time at the 2% target”. Our interpretation is that the job for the BoJ now is to keep inflation from deviating from 2% to the upside. To recap, the recent updates on Shunto result showed average wage increase at 5.17%, and that for small companies (with <300 employees) was also high at 4.66% which may be seen as meeting the BoJ’s criteria for delivering another interest rate hike. Our base-case is for additional 20bps of rate hikes for the rest of the year, and we now see the June MPC meeting as a live one for a potential 10bp hike. Long-end JGB yields have been moving to higher ranges; we see the next support for the 10Y JGB at the 1.15-1.25% area in terms of yields, making reference to the high in the 10Y JPY OIS attained in late October/early November and the currently high 20Y JGB yield, while assuming some mean reversion.
- DXY. Consolidation.** USD retreated despite the move higher in UST yields. Softer USD may well be in reaction to improved risk appetite as equities rebounded. DXY was last seen at 104.70. Bearish momentum on daily chart is fading but RSI fell. Consolidation with bias to the downside. Support at 1.0430/40 (100, 200 DMAs) and 104 (50% fibo). Resistance at 104.80 (61.8% fibo retracement of Oct high), 105.00/10 (21, 50DMAs). In the

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Source: Bloomberg, OCBC Research

interim, higher yields may allow for some USD strength but it is likely that USD should still be confined to recent range of 104 – 105 until the next set of catalyst comes along. Core PCE (Fri) will be the main focus this week, apart from consumer confidence (Tue) and second read of 1Q GDP (Thu). Softer data this week should help to dent USD's momentum. But the week is likely to start slow with US and UK markets out for holidays today.

- **EURUSD. Firmer.** EUR traded a touch firmer amid broad pullback in USD. The better-than-expected negotiated wage growth data for 1Q does not seem to affect ECB's decision on timing of first cut in June but likely this data may have added some uncertainty to ECB's rate cut trajectory beyond June. Bundesbank President Nagel told Bloomberg TV that the ECB should probably wait till Sep for any subsequent cut if there is a rate cut in June, reiterating his caution against easing too quickly. De Cos is also looking for first cut in June but cautioned beyond that while Schnabel echoed similar – warned against lowering borrowing cost too quickly. Earlier, we had flagged how growth conditions in the Euro-area is slowly stabilising and that a re-rating story may not have been adequately priced into EUR. A better growth story in Euro-area and fewer ECB cuts should be supportive of EUR's upward trajectory. EUR was last at 1.0850 levels. Mild bullish momentum on daily chart intact while RSI rose. Risks slightly skewed to the upside for now. Resistance at 1.0870 (50% fibo), 1.0930 (61.8% fibo). Support at 1.0790/1.0810 levels (21, 200 DMAs, 38.2% fibo retracement of 2024 high to low), 1.0730 (23.6% fibo).
- **USDSGD. Bias to Sell Rallies.** USDSGD traded a touch softer as the pair remain stuck to their recent range in absence of catalyst. Pair was last at 1.35 levels. Mild bearish momentum on daily chart intact while RSI dipped. Range-bound trade likely but bias remains to sell rallies. Bearish crossover observed as 21 DMA cut 50 DMA to the downside. 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 +1.62% above model-implied midpoint.
- **USDPHP. Elevated; Pullback Risk.** USDPHP has been consolidating near its recent highs amid widening yield differentials in favour of US. Markets have pushed back on the timing of first Fed cut and reduced rate cut expectation. But BSP Governor Remolona recently spoke about 2 cuts, with the first cut possibly taking place as early as in Aug. We also noted that BSP officials had earlier indicated that the Peso's decline will not prompt the BSP to raise rates. PH inflation peaked at 8.7% in 1Q 2023 and has been on disinflation trajectory until recently when inflation resumed its uptick to 3.8%. Current PH inflation sits near upper bound of BSP's inflation target range of 2% - 4% but yet BSP Governor struck a

somewhat dovish tone at its recent MPC on 15 May. The dovish BSP guidance and divergence with US and some of the monetary policies in the region, including BI, BNM, MAS, BoK and even BoT may well subject the PHP to relative softness against USD and its peers, including INR, IDR. USDPHP was last at 58.07. Mild bullish momentum on daily chart is fading while RSI shows signs of easing. Corrective pullback not ruled out. Support at 57.70 (21 DMA). Resistance at 58.30 (recent high), 59 levels.

- **CNY rates.** Repo-IRS and short-end CGB yields edged up at open this morning. Hope for imminent monetary easing may have faded further after industrial profits printed firmer, while liquidity is on the tight side going into month-end. Last Friday, the second special bond auction - CNY40bn of 20Y - garnered decent demand. Again, the paced-out auction schedule was helpful. In addition, the 20-30Y part of the curve was fairly flat and hence investors might find some relative value at Friday's 20Y bond, while there was asset allocation needs with soft loan demand and a largely subdued risk environment. We maintain a mild steepening bias to the CGB curve across the 10s30s segment as after all, a slew of supply is coming in the months ahead; we continue to expect the 2s10s part to trade steadily in the near term. On the offshore DF curve, back-end CNH points fell on Friday, before rebounding halfway up this morning; a reversal of the downtrend which started since mid-April has not come yet before USD rates embarked on a sustained downtrend. At the front-end, bidding interests did not appear strong, but we still prefer to stay cautious as CNH liquidity remains one of the tools to stabilize spot.



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