

## Daily Market Outlook

8 May 2024

### Consolidation

- **USD rates.** UST yields edged lower overnight, while demand at the 3Y coupon bond auction was solid. Fed Kashkari commented that it is too soon to declare inflation progress has stalled and rate cut this year is “certainly still a possibility” but then he also opined that rates will likely be on hold for an extended period and if needed the Committee can hike rate further. Kashkari expected two cuts at the last dot-plot update and now he said he is anywhere between no cut and two cuts. Essentially, Kashkari is trying to cover every scenario and hence market kind of shrugged off his comments that they do not shed more light on the monetary policy outlook. Fed funds futures pricing was little changed, still at a total of 43bps of cuts this year. Last night’s 3Y coupon auction went well, garnering a bid/cover of 2.63x versus 2.50x prior, with indirect accepted higher at 65.5% versus 60.3% prior. As we have been highlighting, the key is the auctions of the 10Y coupon bond (tonight) and the 30Y coupon bond (Friday). After recent rallies, 10Y UST may face some resistance at 4.40%; further downside to yield would need breakeven and/or real yield to break out of recent ranges.
- **DXY. Consolidation.** USD inched higher in quiet trade overnight. Week ahead sees no tier-1 data but only Fedspeaks. We would be watching out for any shift in tone post-FOMC. Barkin said he expects high interest rates to slow the economy further and cool inflation to 2% target. He added that the full impact of higher rates is yet to come. Kashkari singled out housing inflation as a potential indicator that neutral interest rates may be higher in the short term. He added that rates are likely on hold for extended period. DXY was last seen at 105.55. Bearish momentum on daily chart intact shows signs of fading while RSI rose. Consolidation likely intra-day. Resistance at 105.75 (21 DMA), 106.20, 106.50 levels (interim double top). Support at 104.60/80 (61.8% fibo retracement of Oct high, 50 DMA), 104.00/20 levels (50% fibo, 100, 200 DMAs). Given a slight positive shift in external growth environment outside of US, and skewed market pricing for fewer Fed cuts, we think risk-reward may favour for USD strength to adjust lower. But USD correction may also not be significant as US growth still holds up and USD remains an attractive carry play. Further USD weakness would require the blessing of weaker US data, in particular price/wage-related ones and or Fed’s hawkish rhetoric to softens.

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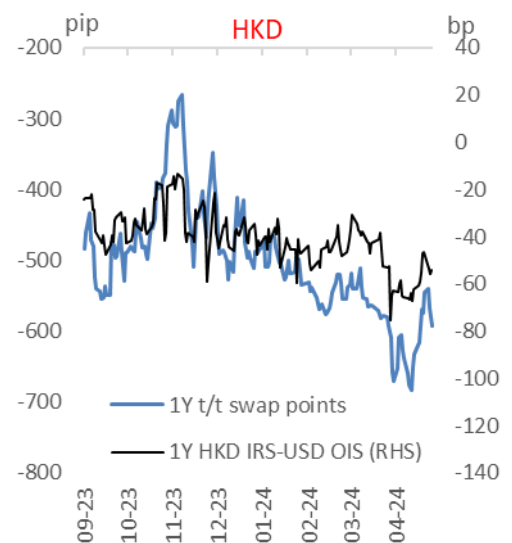
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- **EURUSD. Bulls Looking Lethargic.** EUR slipped, in line with our caution that EUR bulls were looking lethargic. Pair was last seen at 1.0740. Bullish momentum on daily chart intact but RSI fell. Support seen at 1.0705/10 (21 DMA, 61.8% fibo retracement of Oct low to Jan high), 1.0660 levels. Resistance at 1.0790/95 (50% fibo, 50, 200 DMAs), 1.0840 (100 DMA). Consolidation likely in 1.0700 – 1.0790 range. On ECBspeak overnight, Nagel said that structural forces could keep inflation higher. He cited demographic trends that may lead to persistently higher wage growth. De Cos said that ECB can start to lower rates next month should there be no more jolts to consumer prices. He added that ECB should continue to apply a data-dependent approach with decisions adopted meeting by meeting, without committing to a specific path for rates.
- **AUD rates.** RBA kept OCR unchanged at 4.35% as widely expected. The MPC statement kept the forward guidance as “not ruling anything in or out” in line with our expectation but against some market expectation for a hawkish tilt back to the pre-March statement version. There was a mild, subtle change in the rhetoric as the statement added that the Board “will remain vigilant to upside risks” of inflation and that inflation is easing “more slowly than previously expected”. That said, this may be better seen as nothing more than the prudence that a central bank has to maintain. Overall, the outcome was less hawkish than expected. Bank bills futures rose – implied rates fell by 5-6bps for near contracts – initially. However, at the press conference, Governor Bullock revealed that the board did discuss a hike; she opined that the RBA doesn’t need to hike but will if needed. Rates market pared back some of the initial reactions. ACGB yields fell again this morning, and market priced out rate hikes; Bank bills futures rose, now pricing a virtually flat rate profile through to year-end. Market reaction to the RBA outcome should be mostly done at current levels. We continue to expect the next move to be a cut, but investors may need to be patient for a more sustained downtrend in AUD rates and yields to kick in, given that inflation may stay high near-term, and the RBA is unlikely to pivot to the dovish side ahead of the curve. We have pencilled in one 25bp cut in Q4.
- **AUDUSD. Buy Dips on Pullback.** AUD fell post-RBA decision yesterday, in line with our caution for *risk of markets unwinding some of that hawkish hopes of a hike and this may dampen AUD’s bullish momentum*. While market disappointment should translate into a near-term pullback for AUD but we doubt the pullback will be significant as USD and US rates are likely to settle into range. Medium term, we still favour a constructive outlook on AUD on the back of RBA likely to be on hold for longer (possibly one of the last 1 or 2 major central banks to cut rates), higher commodity prices and tentative signs of stabilisation in China’s bumpy recovery. AUD was last at 0.6570 levels. Bullish

momentum on daily chart remains intact but RSI fell. Further retracement to the downside not ruled out but we look for dips to buy into. Support at 0.6500/40 levels (61.8% fibo retracement of Oct low to Dec high, 21, 50, 200 DMAs), 0.6460. Resistance at 0.6640 (38.2% fibo).

- USDJPY. 2-Way Trades.** USDJPY resumed its climb overnight as carry trade returns. Still-wide UST-JGB yield differentials remains a key driver underpinning USDJPY moves. A reversal of the trend would require BoJ to signal an intent to normalise urgently or Fed to cut. That said, intervention risks remain real and hence we've been calling for 2-way trades in USDJPY. As much as markets may try the upside, we believe authorities are likely to remain active and should at least attempt to limit the high (i.e. lower high to ensure the intervention efforts are not wasted). Failing which, FX policy credibility would be at risk. Pair was last at 155.20. Bearish momentum on daily chart intact shows signs of fading while RSI rose. Near term risks skewed to the upside. Resistance at 156, 158 levels. Support at 154.80 (21 DMA), 152.00/40 levels (50 DMA, 23.6% fibo retracement of 2023 low to 2024 high).
- USDSGD. Consolidation.** USDSGD inched higher overnight but range remains confined to recent range. Pair was last at 1.3560 levels. Daily momentum is bearish but RSI rose. 2-way consolidative price action still likely. Bias to lean against strength. Resistance at 1.3590 (21 DMA), 1.3620 (76.4% fibo). Support at 1.3530 (61.8% fibo retracement of Oct high to Dec low), 1.3490 (50, 200 DMAs). Our model estimates show S\$NEER was at 1.53% above model-implied midpoint.
- HKD rates.** Front-end HKD rates mildly outperformed USD rates on Tuesday, and the t/t swap curve edged lower alongside. While back-end points primarily reflect interest rates differentials, at current spot level, the 1Y forward outright is very near the convertibility undertaking. If spot does not move out of recent range, chasing back-end points lower is not preferred. At the very front end, risk may also be a tightening of HKD liquidity going into the dividend payout period – more for June than this month though if past seasonality is any guide. HKMA's Discount Window was tapped at HKD1bn yesterday; front-end HKD rates will stay volatile given low Aggregate Balance. Moving slightly out to the 1M to 3M tenors, HIBORs have rebounded from April lows after the broad downtrend that started in December. Weak HKD loan demand (HKD loan-to-deposit ratio was 83.2% at end-March) and the absence of stronger inflows into HKD assets apart from the usual Southbound Stock Connect flows explained the softness of HKD rates. The dynamics may be shifting, with potential recovery in HKD loan demand and the prospects of more inflows into HKD assets. These shall lead to some upside bias to HIBORs near-term; further ahead, these factors shall prevent HKD IRS from falling too rapidly as and when USD rates fall in a more sustained manner.



Source: Bloomberg, OCBC Research



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