Daily Market Outlook

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SGS auction; China bond flows

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- **USD rates**. USTs stabilised after days of sell-off, with yields down 6-8bps across the curve; both breakevens and real yields edged lower. Some investors might have judged that the current market pricings are hawkish enough and were attracted by the higher yields. The 20Y coupon bond auction went well overnight, with cut-off coming in at around 2bps below pre-auction market level; bid/cover ratio went higher to 2.82x versus 2.79x prior and indirect accepted higher to 75.7% versus 73.5% prior. We earlier cited factors which might be supportive of USTs which included *a tighter financial condition working back towards the Fed's easing agenda* after some bumps in inflation, and *potential safe-haven flows* should geopolitical tensions stay. However, at the current juncture, market may still have relatively low conviction that the Fed is in a position to start cutting rates. For a more meaningful downward adjustment in long-end yields, some moderation in economic activities is probably required. For now, range for the 10Y UST yield is seen at 4.45-4.70%.

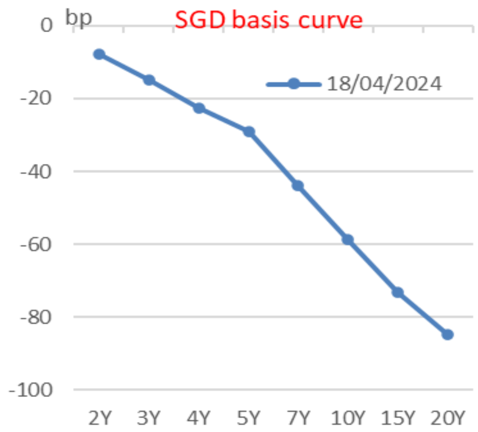
- **DXY. *Bid.*** Risk assets, including equities, and most currencies came under pressure this morning on escalating tensions in middle east. Oil prices rose above $90/bbl while safe haven proxies including gold, Treasuries, USD, CHF and JPY caught a bid. While policymakers in the region and US have collectively taken a more proactive stance to calm FX markets, the escalation of geopolitical tensions this morning un-nerved sentiments. High-beta FX, including AUD, NZD and KRW were amongst the worst hit and may continue to trade under pressure on fears of tit-for-tat from Iran into the weekend. DXY was last seen at 106.28 levels. Bullish momentum on daily chart intact while RSI is near overbought conditions. Resistance at 106.70, 107.40 (Oct high). Support at 105.76 (76.4% fibo retracement of Oct high to Jan low), 105 levels.

- **USDCHF. *Bearish Divergence Playing Out.*** USDCHF continued to trade lower, in line with our call. Flare up in geopolitical tensions and the possible repercussion it may have on energy and commodity prices may impact inflation, especially if this persists for longer. And we know that the SNB was earlier concerned about importing inflation. In the event that global inflation re-accelerates, then we do not rule out a temporary pause in CHF weakness as SNB may go on a cautious stance and revert to preferring a stronger FX to curb imported inflation. Also, CHF may also stand out as a safe haven proxy. Pair was last at 0.9074 levels. Daily momentum turned slight bearish while RSI fell. Bearish divergence on MACD, RSI is playing out. Risks remain skewed to the downside. Support at 0.9060 (21 DMA), 0.8920 (50 DMA). Resistance at 0.9150, 0.9240 levels. That said, barring short term corrective moves, we still favour a long bias in the medium term.

- **USDJPY. *Bearish Divergence?*** USDJPY fell to a low of 153.59 amid decline in UST yields, sparked off by reports on strikes on Iran. As of writing, some of those losses have eased. State TV in Iran reported that Isfahan nuclear site is completely safe. USDJPY was last at 154.30. Bullish momentum on daily chart intact but RSI eased from overbought conditions. Bearish divergence may be forming on MACD. Some signs of pullback are emerging. Support at 152.50 (21 DMA), 150.90 (50 DMA). Resistance at 155, 156.40 (138.2% fibo of Nov high to Jan low). There should be self-inflicted caution as USDJPY approaches those levels. Yesterday, Japan's top currency official Kanda said that G7 reaffirmed its commitment to past G7 policy responses, including exchange rates. Some interpreted this as a green light for Japan authorities to intervene while some may see it as BoJ buying time before its next MPC on 26 Apr. At the same time, there was also a joint statement following a trilateral meeting between Finance ministers of Japan, Korea and US. The statement mentioned that the 3 countries will continue to consult closely on FX market developments in line with existing G20 commitments while acknowledging the serious concerns of Japan and Korea with regards to the sharp depreciation in JPY and KRW. Taken together, we opined that these actions may be sufficient to setup a psychological resistance for the USD.

- **USDSGD. *Sell Rallies.*** USDSGD rose in early trade following news of strikes in Iran. But pair has since eased slightly. Last at 1.3640 levels. Bullish momentum on daily chart intact but shows some signs of fading while RSI fell from overbought conditions. Retracement risks not ruled out. Support at 1.3530 (61.8% fibo retracement of Oct high to Dec low). Resistance at 1.3660/70 levels. Our model estimates show S$NEER slipped. Last at 1.52% above model-implied midpoint. We reiterate our view that S$NEER is likely to continue trading on the strong side given MAS' appreciating policy stance and sticky core inflation profile.

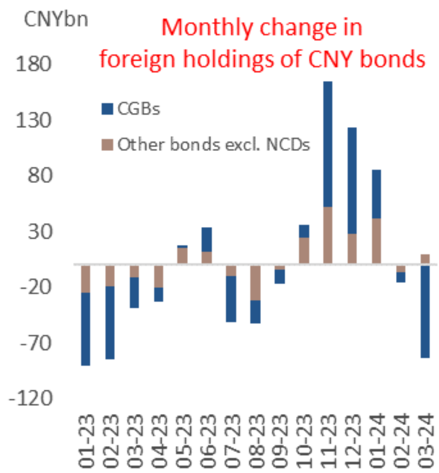
- **SGD rates**. Thursday's 1Y T-bills cut off at 3.58%, in line with our expectation of around 3.55%. With the 1Y T-bill cut-off at 3.58% and a 6M rate at 3.75% (the last 6M T-bills cut-off), the implied 6M6M rate is at around 3.35%, pointing to expectation for around 40bps of drop which looks roughly fair. The size of the upcoming 10Y SGS auction (new benchmark with maturity on 01 May 2034) will be announced on 22 April Monday; an auction size of SGD2.7-3.0bn will keep gross supply on track with our full year expectation



Source: Bloomberg, OCBC Research

of SGD28-30bn. We expect the auction to garner solid demand. Investors may take advantage of the recent upticks in yields, while the SGS supply outlook is always neutral to supportive given minimal reliance on proceeds to fund fiscal spending. Pick-up from asset swapping into the 10Y SGS has remained appealing, last at SOFR+68bps. On the curve, it remains that it gets more favourable when USD-funded investors move further out the curve, as both the SGD OIS curve and the SGD basis curve are inverted. Asset swap pick-ups were last at SOFR+33bps for 5Y SGS, SOFR+68bps for 10Y SGS, and SOFR+99bps for 20Y SGS; these are for reference only without taking into account bid/offer spreads.

- **CNY rates.** Outflows from onshore CNY bonds (excluding NCDs) increased in March, amounting to RMB73.7bn versus RMB15.3bn in February. Bond outflows worsened primarily because of unfavourable yield differentials. UST-CGB yields differential widened in February and hence came March it appeared unfavourable for foreign investors to add to CGB positions which saw outflows of RMB83.3bn in the month. Inflows into NCDs stayed heavy at RMB118.8bn in March versus RMB95.8bn in February, with investors swapping USD into CNY and investing in short-term CNY instruments for the yield pick-up. We expect asset-swap flows to slow. FX hedging costs remain low, but NCD rates have fallen steadily resulting in narrower asset swap pick-up. Meanwhile, positioning is likely on the heavy side after months of hefty flows, which may limit foreign investors' appetite for short-term CNY assets at this juncture.



Source: CEIC, OCBC Research

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