Daily Market Outlook

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Asymmetric Risks for USD

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- **USD rates.** UST yields retraced from highs attained during early NY session, to end the day mixed with mid-to-long tenor yields higher while short-end yields were little changed. UST futures opened a tad stronger in Asia morning. Overnight data releases were mixed; February JOLTS job openings came in a tad higher than expected but January's number was revised downward; Factory orders beat expectation; durable goods was slightly softer than expected. Fed funds future pricing was little changed, seeing a 66% chance of a 25bp cut by June FOMC meeting and a total of 69bps of cuts this year. Daly and Mester both opined that three rate cuts this year are reasonable or appropriate, but Mester added that "it is a close call" as to whether fewer cuts will be needed. We note, on the March dot-plot, one dot moving higher will push the median dot higher. This backdrop leaves market contemplating between two and three rate cuts at this juncture, before more evidence showing the disinflation momentum continues. Market likely stay responsive to data prints – ISM services, non-farm payroll and other labour market indicators for the rest of the week, and Powell's speech tonight.

- **DXY. *ADP, ISM Services, Powell in Focus.*** FX markets saw some 2-way moves so far this week as USD gains post-ISM manufacturing data on Monday was partially reversed overnight. It felt like a scenario of US stocks and the USD moving hand-in-hand, but this time, the correlated moves were to the downside. Some unwinding of Fed rate cut bets spooked US equities. 30d Fed fund futures continued to see 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 ~66% (vs. 85%). This puts greater focus on ADP employment, ISM services, Powell's speech (later today) and payrolls report (Fri). Potentially, USD could see asymmetric response to data outcome. For instance, a downside surprise to data may see USD react more to the downside vs. a case when the data comes in in line or slightly better and the USD may just react modestly. From a risk-reward perspective, the tactical bias is to sell USD on rally. 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).

Source: Bloomberg, OCBC Research

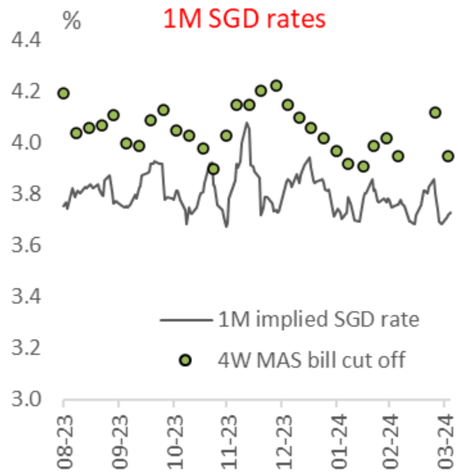
- **EURUSD.** ***CPI Estimate in Focus.*** EUR fell to a low of 1.0725 before the rebound into NY close. Data focus shift to Euro area CPI estimate later today. A firmer print should see markets unwind some of its aggressive ECB cut expectations. And this can lead to EUR rebound. Pair was last at 1.0780 levels. Bearish momentum on daily chart shows tentative signs of fading while RSI rose from near oversold conditions. Risks somewhat skewed to the upside. Resistance at 1.0795 (50% fibo retracement of Oct low to Jan high), 1.0830 (50, 200 DMAs), 1.0870/80 levels (21, 100 DMAs, 38.2% fibo). Support at 1.0715 (61.8% fibo), 1.0690.

- **AXJ FX.** ***Remains Under Pressure.*** Fears of USD strength, 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 today. That persistent weakness in onshore CNY can result 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. That said, some AXJs, including KRW, TWD have rebounded slightly from their year's low (vs. USD) in early trade. We believe policymakers in the region remains on standby to smooth excessive volatility.

- **USDJPY.** ***Subdued; 152 Holds for Now.*** USDJPY continued to trade in subdued range near recent highs. Pair was last at 151.57 levels. Mild bullish momentum on daily chart is waning while RSI is near-overbought conditions. Resistance remains at 152 (triple top). Decisive break out could trigger more buy flows. Support at 150.80, 150 (21 DMA) and 149.65 (50 DMA). We remain cautious of intervention especially if moves are rapid or excessive. That said, moves in the past couple of sessions are 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.

- **USDSGD.** ***Sell Rallies.*** USDSGD gains slowed. Pair was last at 1.3512 levels. Daily momentum is mild bullish, but RSI shows signs of easing from overbought conditions. Resistance at 1.3530 (61.8% fibo, interim double top), 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). Bias to lean against strength into US data releases. S$NEER was last at +1.6% above our model-implied mid.

- **SGD rates.** SGD OIS were paid up by 5-8bps across the curve in a steepening manner on Tuesday, underperforming USD IRS; subsequently, SGD-USD rates spreads turned less negative. SGS, on the other hand, outperformed USTs on the day. SGD basis stayed low, facilitating asset swap flows at the longer tenors. At the shorter end, there may still be room for further widening in bond/swap spread (for bond yield to fall vis-à-vis OIS). At Tuesday's auctions, cut-offs at the 4W and 12W MAS bills came in at 3.95% and 3.93%, 17bps and 2bps lower than the previous cut-offs. We had expected lower cut-offs as SGD liquidity improved but the 4W bills cut-off was still lower than expected. Our medium-term view remains for SGD rates underperformance in a falling rate environment. Near term, however, SGD-USD rates spreads are likely to trade in ranges as the Fed and MAS are yet to ease.



Source: MAS, Bloomberg, OCBC Research

- **CNY rates**. Repo-IRS opened on the soft side this morning. PBoC net withdrew CNY248bn of liquidity via OMOs, mostly from 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. On the FX swap curve, while we have a medium-term upward bias to back-end CNH points, after the recent pick-up, the move may be losing some momentum near-term. First, USD rates refuse to soften on the back of resilient data for now; second, the 12M off-onshore points spread at 1000pips plus is more than the full impact of the 20% forward risk reserve would imply. Front-end CNH points on the other hand, are likely to stay supported with intention to cap spot. Onshore, t/n point stabilised this morning, after dipping to -34pips.

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