Daily Market Outlook

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No Hawkish Surprise

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- **USD rates.** UST yields retraced from session highs and ended a tad lower, as there was no hawkish surprise from Powell while ISM Services Index printed softer than expected. Fed funds futures priced a total of 71bps of rate cuts for this year and priced the chance of a 25bp cut by the June FOMC meeting at 64%. Headline ISM Services Index unexpectedly fell to 51.4 points from 52.6 points prior; more importantly, the prices paid component eased to 53.4 points from 58.6 points prior, mitigating worries over resurging inflation pressure. Powell's prepared speech pretty much echoed his recent messages that the Fed does not rush to cut but still see cutting rate at some point this year as appropriate. Regarding the recent inflation prints, Powell opined that these do not materially change the overall picture – interpretation is that Fed's expectation for disinflation to continue has not changed. Meanwhile, ADP employment change printed high at 184K while the previous month's figure was revised upward. The combination of resilient economic activities and broad disinflation trend may be best described, by Kugler, as a scenario where "further disinflation can be accomplished without a significant rise in unemployment". This is also consistent with our notion that firm economic activity *per se* does not argue against easing, as long as the implication on inflation is not material. On that note, market brace for payroll and labour market report including hourly earnings this Friday. On the UST curve, short end breakevens stay elevated with 1Y at 4.03% and 2Y at 2.74%, leaving downside room should any data print come in being supportive of the disinflation narrative. We maintain a steepening bias to the curve.

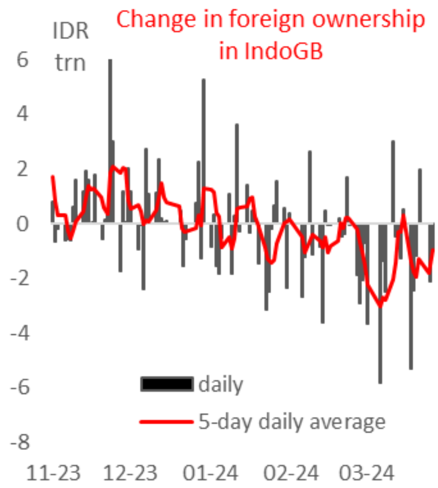
- **DXY. *Asymmetric Response to Data.*** USD turned lower overnight after ISM services disappointed. Fed Chair Powell's comments overnight did not contain any new hawkish messaging. He reiterated that recent bump in inflation did not materially change the overall picture – this can be interpreted as dovish to some extent as he downplayed the data. Importantly, his speech reaffirms the message that Fed is likely to lower rates at some point this year, but policymakers are just waiting for more evidence to confirm that inflation is moving sustainably down towards 2%. The USD moves overnight were consistent with our view that the *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. From a risk-reward perspective, the tactical bias is to sell USD on rally.* This is evident overnight when USD reacted modestly to the upside surprise in ADP employment but reacted more negatively to the disappointment in ISM services. Data focus shifts to payrolls report (Fri). DXY was last at 104.22 levels. Bullish momentum on daily chart is fading while RSI fell from near overbought conditions. Consolidation likely, with slight bias to the downside. Support at 104 (23.6% fibo retracement of 2024 low to high), 103.40 levels (100 DMA, 38.2% fibo) Resistance at 104.50, 105 (double top). Expect quiet trades in Asia as key markets (China, HK, TW) are closed today.

- **EURUSD. *CPI Estimate in Focus.*** EUR extended its rebound overnight amid broad pullback in the USD. This is despite Euro-area CPI coming in softer than expected for Mar (headline at 2.4% vs. 2.5% expected). Partly, the softer CPIs seen in France, Italy and Germany may have pre-empted markets for a softer print yesterday. On ECBspeaks, De Cos said first cut in Jun is his central scenario. Earlier, Holzmann said that Jun cut is possible but not Apr. Pair was last at 1.0840 levels. Bearish momentum on daily chart faded while RSI rose from near oversold conditions. Risks skewed to the upside. Resistance at 1.0870/80 levels (21, 100 DMAs, 38.2% fibo), 1.0930 levels. Support at 1.0795 (50% fibo retracement of Oct low to Jan high), 1.0715 (61.8% fibo).

- **USDJPY. *Subdued.*** USDJPY continued to trade in subdued range near recent highs despite the USD pullback seen vs. other FX. Pair was last at 151.68 levels. Mild bullish momentum on daily chart waned while RSI is near-overbought conditions. Resistance remains at 152 (triple top). Decisive break out could trigger more buy flows. Support at 150.80, 150.15 (21 DMA) and 149.70 (50 DMA). We remain cautious of intervention especially if moves are rapid or excessive. That said, moves in the past couple of sessions were 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 turned lower, in line with our call to sell rallies. Move lower tracked the USD decline post ISM services data. Pair was last at 1.3480 levels. Bullish momentum on daily chart is fading while RSI fell from overbought conditions. 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). Resistance at 1.3530 (61.8% fibo, interim double top). Bias remains to lean against strength into US data releases. S$NEER was last at +1.67% above our model-implied mid.

- **IndoGBs** traded sideway with mild selling pressure on Wednesday taking cue from the UST market and the dollar strength. Bond outflows continued, amounting to IDR4.7trn over the 5 trading days to 2 April; foreign holdings stood at IDR807.6trn or 14.14% of outstanding as of 2 April. Meanwhile, there were some buying interests from non-bank domestic investors and continued support from Bank Indonesia. IndoGBs may continue to trade in ranges into the holidays, while there is no auction until 23 April. The last SRBI auctions back on 22 March returned SRBI rates at 6.71807%, 6.71214% and 6.89869% for the 6M, 9M and 12M tenors, remaining at premium over short-end bonds. This backdrop will likely cap bond rally near-term.



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