

Daily Market Outlook

6 May 2024

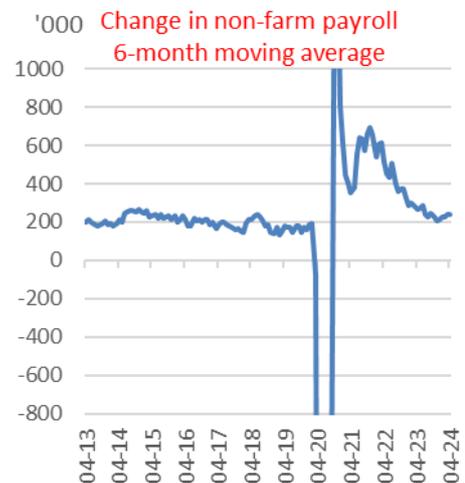
Focus on Auction, Fed’s Loan Survey

- USD rates.** UST yields slid upon the payroll and average hourly earnings releases; yields have since rebounded from session lows and ended the day 6-7bps lower. Average hourly earnings rose by 3.9%yoy, the lowest rate since June 2021; unemployment rate edged higher to 3.9% and underemployment rate higher to 7.4%. Separately, April payroll printed 175K, lower than consensus of 240K, stabilizing the 6-month average at around the 240K mark which was still higher than pre-COVID average. The labour market report and payroll are not particularly weak *per se*, but the April outcome removes some of the heat that was suggested by recent data. ISM services also came in weaker than expected, dipping to below the 50-point threshold. Fed funds futures price a total of 46bps of rate cuts this year, compared to as few as 28bps priced earlier last week. UST yields have fallen by a cumulative 18bps at the 10Y and by 23bps at the 2Y from the highs just before FOMC meeting. From here, market observe UST auction outcomes this week. Coupon bond auctions this week comprise USD58bn of 3Y bond, USD42bn of 10Y bond and USD25bn of 30Y bond. The auction sizes of coupon bonds in the May-Jul quarter are the same as what had been indicated at the previous US Treasury quarterly update, representing confirmation that there will be no further upsize in long-end bond sales compared to the Feb-Apr quarter. For May, the sizes of the 10Y and 30Y coupon bond sales are the same as those in February, which will be downsized mildly in June and July. As such, this week’s sales may be the last obstacle in the near term for long-end bond supply to be cleared. Meanwhile, a slew of FOMC officials is scheduled to speak this week, and it will be interesting to hear their responses to the recent data. Downside for 10Y UST yield is seen at 4.40% mainly via some further adjustment in real yield; upside is seen at 4.65% if both breakeven and real yield edge higher.
- DXY. Tactical Sell Rallies.** USD fell as data surprised to the downside last Fri. Jobs reports showed some signs that the tight labour market may be easing. NFP was a weaker print of +175k (vs. 240k expected), hourly earnings rose 0.2% m/m (vs. 0.3% expected) while unemployment rate unexpected ticked higher (3.9% vs. 3.8% expected). Even ISM services dipped into contractionary territory. Softer US data dampened US exceptionalism narrative and supported our tactical sell USD view. While high for longer narrative remains, the fear for higher for

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
ChristopherWong@ocbc.com

Global Markets Research
Tel: 6530 8384



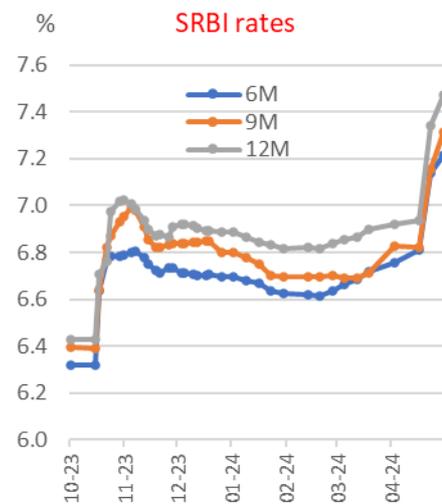
Source: Bloomberg, OCBC Research

longer dissipates. This can be seen as a relief for risk proxies. In addition, strong northbound equity flow to China may also add to positive sentiments. Alongside the pullback in oil prices lately and relative calm with RMB, JPY, some AXJ FX may continue to enjoy a tactical recovery. DXY was last seen at 105.10. Bearish momentum on daily chart intact but decline in RSI moderated. Consolidation likely intra-day. Bias not to chase shorts but to sell rallies. Support at 104.60/80 (61.8% fibo retracement of Oct high, 50 DMA), 104.00/20 levels (50% fibo, 100, 200 DMAs). Resistance at 105.60 (21 DMA), 106.20, 106.50 levels (interim double top). Focus today on Fed's quarterly Senior Loans Officer Opinion Survey (SLOOS) if banks have continued to tighten their lending standards and if loan demand further weaken.

- **EURUSD. Trapped Between 21 and 50 DMAs.** EUR rose amid broad USD pullback but gains were partially returned into NY close. Last seen at 1.0767. Bullish momentum on daily chart intact while recent rise in RSI moderated. Support seen at 1.0710 (21 DMA, 61.8% fibo retracement of Oct low to Jan high), 1.0660 levels. Resistance at 1.0795 (50% fibo, 50DMA), 1.0840 (100 DMA). Consolidation likely in 1.0710 – 1.0795 range. On ECBspeaks, Chief Economist Lane said that the impact of any divergence with the Fed must not be exaggerated. He said that recent euro-area data have made him more certain that inflation is returning to 2% goal, raising likelihood of a first rate cut in Jun. He also added that April services inflation slowdown was an important step. Lane's comments are consistent with prior ECBspeaks, which have somewhat pointed to a Jun cut being consensus but the rate path trajectory beyond that remains uncertain amongst members.
- **USDJPY. 2-Way Trades.** USDJPY rose this morning from 2week lows. US Treasury Secretary Yellen commented on the JPY, saying that it moved 'quite a bit' in short time but declined to comment on whether there was intervention. She later went on to call JPY intervention a 'rumour'. Near term, we still do not rule out 2-way swings as markets may make another attempt to test the upside while authorities are likely to remain active. We reckon authorities should at least attempt to limit the high (i.e. lower high to ensure the intervention efforts are not wasted). Pair was last at 153.85. Daily momentum turned bearish but decline in RSI moderated. 2-way risks expected. Support at 152.00/40 levels (50 DMA, 23.6% fibo retracement of 2023 low to 2024 high), 151 and 149.20 (100 DMA). Resistance at 154.40 (21 DMA), 156 levels. Tokyo is out for holidays today. We caution that thinner than usual market liquidity may exacerbate FX price action.
- **USDSGD. Tactical Short.** USDSGD fell, in line with our caution for the risk of retracement. Move lower was due to broad USD sell-off last Fri, triggered by US data. Weaker than expected labour market report and contractionary ISM services dampened US

exceptionalism narrative. Pair was last at 1.3520 levels. Daily momentum is bearish while RSI fell. Directional bias is skewed to the downside but cautious of near-term bounce given the sharp drop. Bias to lean against strength. Resistance at 1.3530 (61.8% fibo retracement of Oct high to Dec low), 1.3580 (21 DMA). Support here at 1.3490 (50, 200 DMAs), 1.3460 (50% fibo). Our model estimates show S\$NEER was at 1.59% above model-implied midpoint.

- IndoGBs** rallied on Friday but faced some profit-taking flows. At the second SRBI auction after the recent BI policy rate hike, SRBI rates rose further. The rates came in at 7.21528%, 7.31637%, and 7.47046% for the 6M, 9M and 12M tenors respectively; these rates were 8-16bps higher than at the 26 April auction. For 12M SRBI, over the past two auctions after BI rate hike, the rate has risen by a cumulative 53bps; the 7.47% rate renders short-end IndoGBs not appealing. Bond investors are likely to stay cautious ahead of today's sukuk auction given the underwhelming outcome at the last sukuk auction which included the greenshoe option. Today's sales comprise the reopening of PBS32 (2026 bond), PBS30 (2028 bond), PBSEG01 (2029 green bond), PBS04 (2037 bond), PBS38 (2049 bonds) and bills. Indicative target is IDR10trn which is still consistent with quarterly issuance target.
- CNY rates.** Repo-IRS traded on the firm side this morning, while PBoC net withdrew a negligible CNY8bn of liquidity via OMOs with reverse repo maturity concentrating on Tuesday. Long-end CGBs underperformed again, underlining our curve steepening bias. In offshore, implied CNH rates went higher alongside the forward points, but t/n point remained just below par this morning as pressure on spot subsided somewhat as well. Still, sporadic jumps in front-end rates shall not be surprising as offshore liquidity remains as a tool to smooth spot movement, while there have been continued inflows into onshore. Northbound Stock Connect flows amounted to a decent RMB12.81bn thus far, shortly after the market reopened this morning. During the last five trading days before the holidays, Northbound flows amounted to RMB41.1bn. These flows do not tighten CNH liquidity by the same amount given different FX conversion arrangements; but if there is any impact it should be a tightening rather than a loosening.



Source: BI, OCBC Research



Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Herbert Wong
Hong Kong & Macau Economist
HerbertWong@ocbc.com

Jonathan Ng
ASEAN Economist
JonathanNg4@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
MengTeeChin@ocbc.com

GLOBAL MARKETS RESEARCH

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
LavanyaVenkateswaran@ocbc.com

Ong Shu Yi
ESG Analyst
ShuyiOng1@ocbc.com

Christopher Wong
FX Strategist
ChristopherWong@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
EzienHoo@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
Cindykeung@ocbc.com

Ahmad A Enver
ASEAN Economist
Ahmad.Enver@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
WongHongWei@ocbc.com

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