

Daily Market Outlook

10 June 2024

Payrolls Surprise; Election Jitters

- **USD rates.** UST yield rebounded by more than 15bps at most tenors upon the strong prints of non-farm payrolls. Fed funds futures pushed back interest rate cut expectation, to a total of 36bps of cuts this year, from 50bps priced before payroll. Payrolls from the establishment survey rose by 272K, pushing up the 6-month average to 255K. The household survey showed full-time job losses at 625K and part-time job gains at 359K in May; unemployment rate edged up to 4.0%. The overall picture was more mixed than the payroll alone suggested but regardless, market reacted more to payroll as usual. This week's focus is June CPI/PPI and FOMC outcome. The bar is low for the median dot on the dot-plot to move from implying three rate cuts to two rate cuts this year, which is a likely scenario judging from recent Fed official commentaries. The bar is a lot higher for the median dot to shift to reflect one cut – precisely because of this, a one-cut median dot will be seen as a fairly hawkish outcome. Again, the driver for long end yields was real yield; 10Y real yield was up by 13bps on Friday while 10Y breakeven was up by 2bps; unless CPI surprises a lot, the 10Y breakeven is likely to stay around the 2.3% level which looks fair, and any downside to 10Y UST yield would rely on real yield contribution.
- **DXY. Bulls Looking for Catalyst to Sustain Rally.** USD jumped on hotter than expected labour market report – hourly earnings rose 0.4% m/m (vs. 0.3% expected) while NFP printed 272k (vs. 180k expected). The timing of first cut has been pushed out to Nov/Dec, from Sep (before NFP release). Focus this week on CPI release this Wed, Jun FOMC/dot plot (Thu morning). While Fed is not expected to cut, the dot plot and press conference will be closely scrutinised for further clues with regards to when the Fed may move. Markets are somewhat already expecting a shift to 2 cuts. A much hawkish adjustment of dot plot to 1 cut may see USD strength persist for a longer while. DXY was last seen at 105.18. Daily momentum turned mild bullish while RSI rose. Resistance at 105.50, 105.80 (76.4% fibo). Support at 104.80 levels (61.8% fibo retracement of Oct high), 104 (50% fibo).
- **EURUSD. Heavy Bias.** EUR fell sharply amid USD rebound post-blockbuster NFP print. EUR extended its decline after German Chancellor Olaf and French President Macron suffered defeat in the European Parliament elections. Though the European vote

Frances Cheung, CFA

Rates Strategist

FrancesCheung@ocbc.com

Christopher Wong

FX Strategist

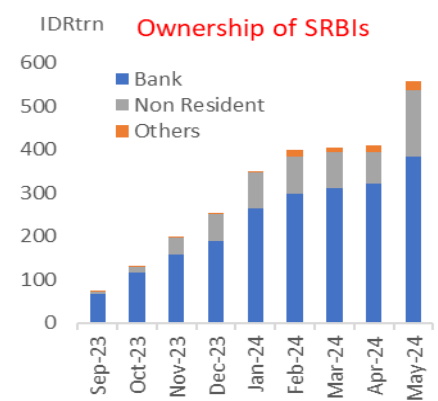
ChristopherWong@ocbc.com

Global Markets Research

Tel: 6530 8384

outcome has no bearing on French national politics, the poor results still resulted in President Macron calling for a surprise snap legislative election. Macron already lacks a majority in French parliament and has struggled to get any bill through the National Assembly. Two rounds of voting would take place on 30 Jun and 7 Jul. Elsewhere, Belgium PM De Croo has resigned after poor showing in General Elections with less than 7% of the vote. The worry of the surge in support for far right somewhat materialised over the weekend. While European Council takes precedent over European parliament when it comes to foreign policy, the members of the European parliament have the powers to shape policies on climate, migration, industry, defence and security. They will also be able to vote on what should be prioritised in the EU budget, and that can indirectly affect policies like providing aid for Ukraine. On net, election risk remains fluid and deserves a close watch as the past decade has shown that rise in far-right sentiments in Europe can undermine EUR. What may be less damaging this time is that the far right wants to remain in EU and do not want to leave the EUR, unlike the past. So in a way, election uncertainty may affect policies (climate, immigration, etc.) and sentiments more than it does to EUR directly. Near term outlook for EUR still hinges on US CPI data and Fed policy this week. EUR was last at 1.0770 levels. Daily momentum turned mild bearish while RSI fell. Support at 1.0730 (23.6% fibo), 1.07 levels. Resistance at 1.0810 (38.2% fibo retracement of 2024 high to low, 100 DMA), 1.0850 (21 DMA).

- USDSGD. Double Whammy.** USDSGD rose sharply amid rebound in USD, UST yields while EUR fell on election jitters. Pair was last at 1.3535 levels. Daily momentum turned mild bullish while RSI rose. Resistance at 1.3530/40 levels (50 DMA, 61.8% fibo retracement of Oct high to Jan low), 1.3560 and 1.3620 (76.4% fibo). Support at 1.3450/60 (50% fibo, 1.3420 levels. Our estimates show S\$NEER easing to 1.67% (vs. +1.84% above model-implied midpoint last Fri). US CPI data and FOMC will be the key event drivers for USD. Another hawkish print or hawkish repricing would add to USD upside.
- IndoGBs** opened weaker this morning taking cue from the US market, and ahead of the domestic bond auction on Tuesday. The conventional bond auction comprises the reopening of FR101 (2029 bond), FR100 (2034 bond), FR098 (2038 bond), FR097 (2043 bond), FR102 (2054 bond) and bills. Indicative target is IDR22trn with potential upsize to IDR33trn, but we do not expect an upsize given comfortable fiscal positions. There were inflows into both IndoGBs (including bills) and SRBIs during May. Foreign investors bought a net IDR77trn of SRBIs during May, bringing ownership to 27.26% of outstanding, after two months of mild reduction in holdings. Foreign flows into IndoGBs were IDR17trn during the month, with holdings at 14.06% at end-May (and latest at 14.05%). SRBI rates at auctions have retraced from the 8 May



Source: Bank Indonesia, OCBC Research

highs, but these rates stayed attractive compared to short-end bond yields, which attracted domestic demand as well. Banks bought IDR64trn of SRBIs in May; this compared to their IDR88trn reduction of holdings of IndoGBs during the month. SRBI rates fell further this month thus far, last coming in at 7.15857%, 7.33499%, and 7.37647% for the 6M, 9M and 12M tenors at the auction on 7 Jun. If the downtrend in the rates continues, then inflows may slow.



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

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.: 193200032W