Daily Market Outlook

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Payrolls Surprise; Election Jitters

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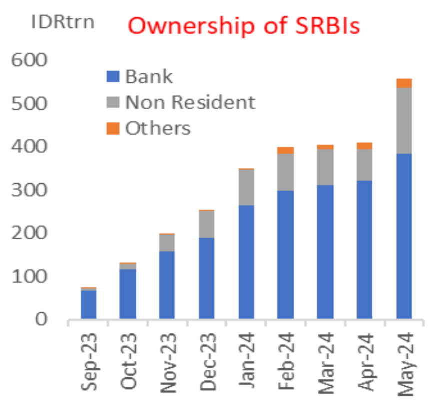
- **USD rates**. UST yield rebounded by more than 15bps at most tenors upon the strong prints of non-farm payrolls. Fed funds futures pushed back interest rate cut expectation, to a total of 36bps of cuts this year, from 50bps priced before payroll. Payrolls from the establishment survey rose by 272K, 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 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.

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