# Daily Market Outlook

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## Markets Mark Time

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- **DM rates**. OATs and Bunds were under selling pressure as reaction to political development over the weekend; peripheral spreads widened mildly. Impact on fiscal positions is far from clear but for now investors put a risk premium across. There were spillovers onto Gilts and USTs. Long-end UST yields ticked up by a 2-3bps but Treasury futures opened a tad stronger in Asian this morning. There were 3M and 6M US T-bills auction overnight; the 6M sales garnered decent demand with bid/cover at 3.09x probably as investors tried to lock in the 6M rate which was only 8.5bps below the 3M rate, while Fed rate cuts are still on the cards. Tonight, there is the auction of 3Y coupon bonds, followed by 10Y and 30Y later in the week. Net coupon settlement is USD68.5bn on the week, not as heavy as two weeks ago and the sizes of 10Y and 30Y are mildly lower according to plan. On the other hand, the sales face challenges with proximity to CPI and FOMC. In UK, April labour market report is out this afternoon, which may show persistent wage growth pointing to the risk of our base-case for the BoE to cut rates in August. GBP OIS has pushed back the timing of the first 25bp cut, now fully pricing it by the November MPC meeting instead of the August MPC meeting priced just a month ago.

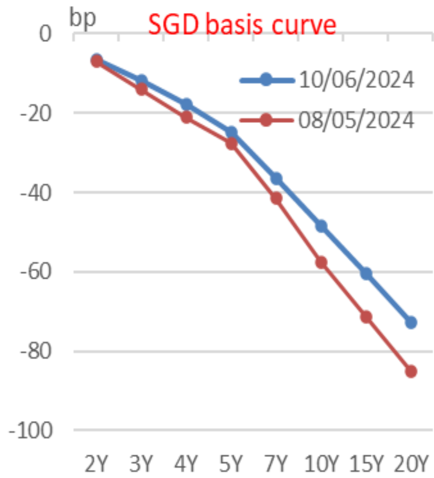
- **DXY. *Subdued ahead of CPI Tomorrow.*** USD held on to gains as effects of the surprise payrolls lingered. Markets may stay cautious and adopt wait-and-watch in the lead-up to key event/ data risks this week – CPI report (Wed) and FOMC (Thu 2am SGT). While Fed is not expected to cut, the dot plot 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 more hawkish adjustment of dot plot to 1 cut may see USD strength persist for longer while risk proxies, including Asian FX may come under pressure. But a shift to 2 cuts would be of little surprise and the USD may well ease slightly while risk proxies may enjoy a relief rally. But before that, CPI report (on Wed) will provide some volatility. Consensus is looking for headline to slow to 0.1% m/m and for core CPI to hold steady at 0.3%. While softer data should help to dent USD's momentum, the risk is that the data comes in hotter than expected. The latter would un-nerve sentiments and result in higher yields and USD. DXY was last seen at 105.12. Daily momentum is mild bullish while the rise in RSI moderated.

Support here at 105. Break below puts next support at 104.80 levels (61.8% fibo retracement of Oct high), 104 (50% fibo). Resistance at 105.50, 105.80 (76.4% fibo).

- **EURUSD. *Consolidate.*** EUR continued to trade near post-election lows as political uncertainty weighs on sentiments. While European parliament elections have concluded, vote count is still underway. The 2 groups in the far right - European Conservatives and Reformists (ECR) and the Identity and Democracy (ID) group, will control 131 seats. If these groups were to form a single group, it would be the second largest force in Parliament, behind the traditionally dominant European People's Party. And we have long pointed out that the past decade has shown that rise in far-right sentiments in Europe can undermine EUR. 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. 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 in the past, when there were European countries were talking about exit from Euro club. To some extent, election uncertainty may affect policies (climate, immigration, etc.) more than it does to EUR directly. Though the European vote outcome has no bearing on national politics, French President Macron felt somewhat compelled to call for a snap Legislative election as he already lacks a majority in French parliament and has struggled to get any bill through the National Assembly. Two rounds of voting will happen on 30 Jun and 7 Jul, ahead of the Paris Olympics. French election uncertainty may still weigh on European assets and EUR in the interim. But that said, EUR's outlook in the near term still hinges on US CPI data and Fed policy this week. EUR was last at 1.0768. Daily momentum is bearish but decline in RSI moderated. 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). While the path of least resistance may be to the downside, we see chance that EUR may consolidate in 1.0720 – 1.0820 for now.

- **USDSGD. *Breaking Out Soon.*** USDSGD remains better bid, with UST yields near recent high. Expect SGD to trade cautious, alongside most Asian FX in the lead-up to US CPI report (Wed) and FOMC decision (Thu). Pair was last at 1.3535 levels. Daily momentum is mild bullish while RSI rose. Risks to the upside. Moving average compression observed – this usually precedes an expansion in volatility or break out. Resistance here 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 1.3460/80 (50% fibo, 21, 100, 200 DMAs), 1.3420 levels. Our estimates show S$NEER easing to 1.68% (vs. +1.84% above model-implied midpoint last Fri).

- **SGD rates**. Implied SGD rates and swap points fell on Monday on the higher USD rates, while liquidity turned flusher at the front end. Today brings the auctions of 4W and 12W MAS bills. Implied 1M and 3M SGD rates were trading around the 3.70% and 3.67% levels respectively this morning. The 4W bills cut-off may ease from the 3.98% at last week's auction with the tenor back then covering quarter-end and half-year end. We expect the 4W cut-off at 3.90-3.95%, and the 12W cut-off at 3.80-3.85%. On bond side, long-end SGS outperformed on the curve; asset swap flow into long-end SGS was likely one of the factors that has pushed up SGD basis over the past weeks. The higher SGD basis together with some mild bond outperformance over swap have narrowed asset swap pick-up at the 20Y SGS, to a still decent SOFR+95bps from as wide as SOFR+130bps or more in early May. Asset swap pick-up at 10Y SGS was around SOFR+70bps.



Source: Bloomberg, OCBC Research

- **CNY rates**. The 30Y CGB continued to underperform on the curve in line with our view. This week's focus is the new issuance of the 50Y CGB, amid other CGB supply. Repo-IRS traded on the soft side this morning, while expectation is mulling for some deposit rate cuts. Implied rates and swap points fell across, on higher USD rates. 12M implied CNY rate was last at 0.96%, versus AAA NCD rate at 2.04%, providing more than SOFR+100bps pick-up. On the offshore DF curve, back-end CNH points fell, but offshore-onshore spreads stayed wide at 1000pips+. Full impact of the onshore 20% forward reserve requirement is estimated at around 900pips now given the higher implied USD rate. As such, the off-onshore spread in the forward points may be here to stay for now.

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