Daily Market Outlook

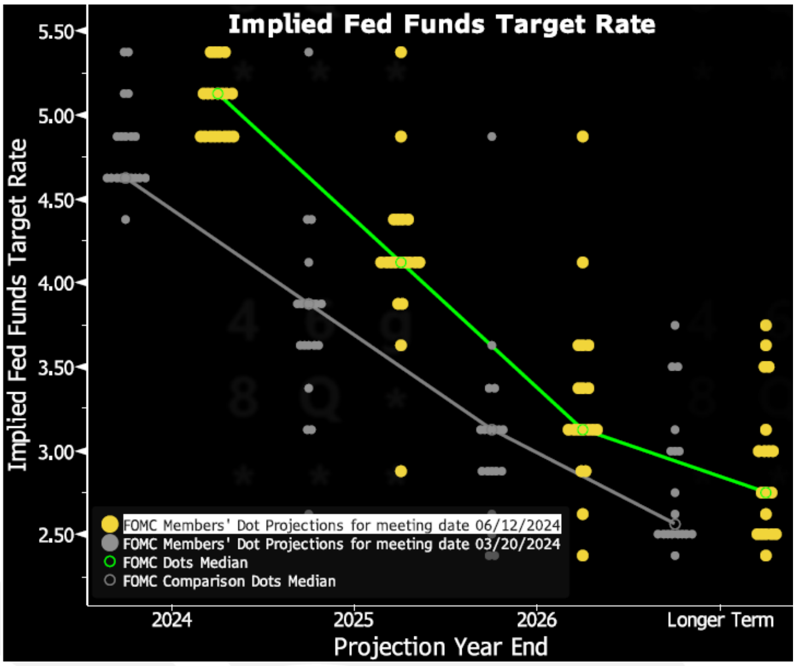
13 June 2024

USD Settles Back Into Range

Christopher Wong
FX Strategist
ChristopherWong@ocbc.com

Global Markets Research
Tel: 6530 8384

- **DXY. *Hawkish Dots Meet Calmer CPI Print.*** DXY fell on softer than expected CPI print, but losses were somewhat partially retraced post-FOMC. The dot plot showed that officials are now only expecting 1 cut for 2024 (vs. 3 cuts in earlier projection). For 2025 and 2026, officials are now expecting 4 cuts in each of those year (vs. 3 cuts previously). Cumulatively, the amount of cuts over 2024-26 remain unchanged at 225bps. So, the adjustment is a pushback in rate cuts as dot plot overall still show that officials are looking for cuts but to come later and not now. Accompanying statement also noted a slight change in language to acknowledge progress with disinflation ("modest progress toward the Committee's 2 percent inflation objective" in recent months vs. "a lack of further progress").

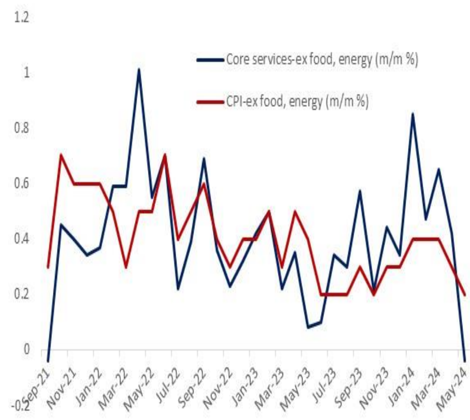


Source: Bloomberg

Some highlights of the press conference include:
1/ Fed officials still need to see more good data to bolster confidence that inflation is returning to 2% target before they decide it is time to cut rates. 2/ But Powell did inject some variability in saying that Fed is "prepared to respond" if the labour market weakens unexpectedly or if inflation falls faster than expected (a reactive rather than proactive stance or perhaps even

happy to be behind the curve for now). 3/ When asked about whether a Sep rate cut is still possible if inflation continues to come in softer, even though only 1 cut was forecasted, Powell cautioned against reading the different scenarios in the dot plot as a definitive plan. He added that 15 of the 19 members backed either 1 or 2 cuts and either option was "plausible". This reminds us of what he had said previously that the dot plot projections do not represent a plan or commitment. It is based on officials' assessment and expectations of where rate may be. Over the years, we have seen how dot plot can change, depending on data. 4/ Powell also tried to bring up the point that even if there are fewer cuts in the median this year, there is one more next year. If we look at cumulative quantum of rate cut expectations over 2024-26, it is still indicating 225bps cut (no change from previous dot plot). So, while the dot plot revision may seem hawkish, Powell's comments may not be as hawkish. He also referred to the last Fri's NFP in saying that sometimes you cannot reconcile the difference – NFP showed much larger job gains than survey on households which has shown no employment increase over the past year. At point of writing, we observed that markets have actually increased their expectations towards 2 cuts this year (vs. before FOMC, when markets were closer to 1.5 cuts). Going back to the CPI release before FOMC, the month-on-month print in core was at its slowest pace since Aug 2021. Airfares, car insurance and prices of discretionary consumer goods fell. Shelter inflation picked up modestly and is still the main component keeping the core CPI up. But core CPI ex shelter was at 1.9% y/y, down from 2.1%. Overall, it is an encouraging inflation report that points to disinflation and should still support our house view for 2 cuts. DXY closed the session lower. Last at 104.67. Mild bullish momentum on daily chart shows signs of easing while RSI fell. Resistance at 105.50 held up and should continue to serve as key resistance for now. Support at 104 (50% fibo) still hold up. We see a fair chance of DXY re-settling back into its 104 – 105.50 range until the next set of catalyst comes along. Today brings initial, continuing claims and PPI data.

US CPI Easing



Source: Bloomberg, OCBC Research

- **EURUSD. *Sideways*.** EUR rebounded overnight, though some of the gains were given up post-FOMC. Pair was last at 1.0810 levels. Mild bearish momentum on daily chart intact but RSI rose. Support at 1.0720/30 levels (23.6% fibo), 1.0650 levels. Resistance here at 1.0810 (38.2% fibo retracement of 2024 high to low, 100 DMA), 1.0840 (21 DMA), 1.0870 levels. With FOMC event risk out of the way, the focus may soon return to French politics. Early polls suggest Macron's party was not amongst the top 2 favourites, but President Macron has ruled out resigning 'whatever the result' of snap elections. 10y OATS-Bund spread is still at its widest levels of +61bps this year. The concern is still on potential fiscal direction far right parties may be taking and if the cohabitation outcome comes into play. This is when the President and PM are from opposing parties. This would complicate policymaking as it would entail a significant shift in responsibility for economic and fiscal policy from the Presidency to the largest political party or grouping in the National Assembly. Overall, French political risk is expected to weigh on EUR intermittently until we get a clearer outcome on 30 Jun and 7 July. Day ahead brings industrial production data.

- **USDJPY. *BoJ's Turn Tomorrow.*** We are on a non-consensus view, looking for the BoJ to hike 10 – 15bps. Inflation has been on target and shunto wage outcome saw higher wage growth than previous year. Average increase was 5.17% and that for small companies was also high at 4.66%. These may be seen as meeting the BoJ's criteria for delivering a second policy hike. As for balance sheet policy, we remain of the view that passive QT can start as soon as sometime this month while a pre-announcement may not be necessary although the BoJ may still want to adjust their "about 6 trillion yen" guidance. USDJPY still takes cues from moves in Treasury yields. For the pair to turn lower meaningfully would require the kindness of the greenback or for BoJ to signal an intent to normalise urgently. For now, Fed doesn't seem to be in a hurry and does not have the reasons to cut even if it wants to while the BOJ is still perceived to be in no hurry to normalise. Given this divergence, the path of least resistance for USDJPY may still be to the upside. One deterrent may be the heightened risk of Yen intervention as the pair has once again come up to the zone when authorities previously intervened in late Apr. Pair was last at 156.65 levels. Daily momentum and RSI are not indicating a clear bias. 2-way trades likely. Resistance at 158, 160. Support at 156.50 (21 DMA), 155.35 (50 DMA).

- **USDSGD. *Back Into Range but Watching Out for MAC.*** USDSGD fell overnight as USD gains fizzled out on softer CPI print, even as Fed's dot plot was revised to reflect only 1 cut this year. That said, Powell's comments post-FOMC press conference may not be as hawkish as some may have expected. Pair was last at 1.3472 levels. Mild bullish momentum on daily chart faded while RSI fell. Risks may seem skewed to the downside. Moving average compression (MAC) observed as 21, 100 and 200 DMAs converge – this usually precedes an expansion in price action or break out. Support at

1.3460 (50% fibo), 1.3420 levels. Resistance at 1.3530/40 levels (50 DMA, 61.8% fibo retracement of Oct high to Jan low), 1.3560. Our estimates show S$NEER at 1.75% above model-implied midpoint.

Macro Research

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

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

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

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

Lavanya Venkateswaran
Senior ASEAN Economist
LavanyaVenkateswaran@ocbc.com

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

Jonathan Ng
ASEAN Economist
JonathanNg4@ocbc.com

Ong Shu Yi
ESG Analyst
ShuyiOng1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
ChristopherWong@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

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

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

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