Daily Market Outlook
14 June 2024

BoJ in Focus Today

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| * **DXY.** ***Range.*** USD traded choppy overnight, as it dipped on softer than expected PPI, but losses were entirely reversed into NY close after EUR took a hit. Headline and core PPI came in lower than expected at -0.2%, 0% m/m (vs. 0.1% and 0.3% expected). Recall that a day ago, core CPI was at its slowest pace since Aug 2021. Latest set of CPI, PPI prints are encouraging as it points to disinflation and reinforces our house view for 2 cuts. DXY was last at 105.24. Mild bullish momentum on daily chart intact while rise in RSI moderated. Resistance at 105.50, 105.75 (76.4% fibo). Support at 104.80 (61.8% fibo retracement of Oct high to 2024 low), 104 (50% fibo). Range of 104.80 – 105.80 may still hold intra-day but the risk is on Europe, given near term uncertainty amid French elections, may pose some upward pressure on USD, CHF.
* **USDJPY. *Focus on BoJ Today.*** USDJPY continued to trade near recent highs; last at 157.23. Daily momentum is not indicating a clear bias though RSI rose. 2-way trades likely. Resistance at 158, 160. Support at 156.50 (21 DMA), 155.35 (50 DMA). On BoJ, 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.
* **EURUSD. *Sideways*.** EUR came under pressure overnight as French election uncertainties weighed while IP fell 3% y/y in Apr. 10y OATS-Bund spread further widened to +69bps. 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. Elsewhere, French left, including the Greens have agreed to form a ’Popular Front’ coalition. The developments leave President Macron sandwiched between the leftist coalition, Popular Front and the Far Right National Rally Party (which by far polls ahead of everyone in early polls). Overall, French political risk is expected to weigh on EUR intermittently until we get a clearer outcome on 30 Jun and 7 July. EUR was last at 1.0740 levels. Bearish momentum on daily chart intact while RSI was flat. 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. * **EURCHF. *Bearish but Oversold.*** Election uncertainty in France and the SNB possibly maintaining a hold at next week’s MPC have made short EURCHF a popular trade. The cross has already fallen >3% from its peak in late-May and is now at the 50% retracement level of the run up this year. Cross was last at 0.9598 levels. Momentum remains bearish on daily chart while RSI is near oversold conditions. Bearish crossover observed as 21DMA cuts 50DMA to the downside. Key support here at 0.9590 (50% fibo retracement of 2024 low to high). Break puts next support at 0.9510 (61.8% fibo), 0.9420 levels (76.4% fibo). Resistance at 0.9670 (38.2% fibo, 100 DMA).
* **USDSGD. *Range Awaiting Breakout.*** USDSGD was a touch firmer, tracking the bounce in USD. Election uncertainty in France would influence the EUR and that may have spillover impact on SGD. Pair was last at 1.3510 levels. Mild bullish momentum on daily chart faded while RSI is flat. Sideways trade looks likely. 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 strengthened to 1.82% above model-implied midpoint (vs. 1.72% yesterday).
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