# Daily Market Outlook

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## USTs remained in ranges; Yen rallied

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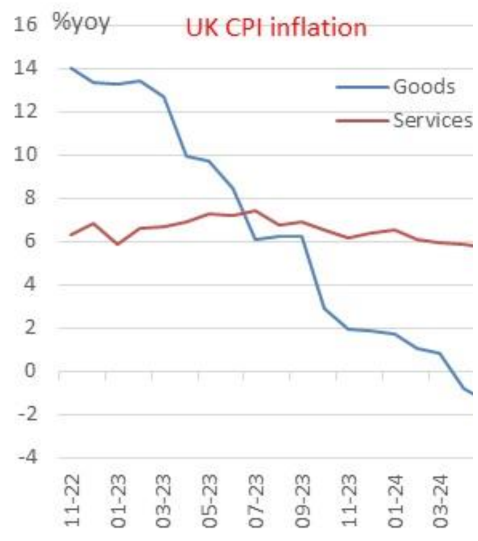
- **USD rates**. USTs did a round trip from London hours to NY hours, ending the day 1-2bps higher. Waller opine that the Fed is getting closer to cutting rates, but they are not there yet – he even needed to look for "data over the next couple months". His comments echoed some of his peers, including Williams who earlier opined that he would like to see more evidence in the coming months. This rhetoric is not more dovish than what is priced by the market of a September rate cut. Meanwhile, the Fed released its July edition of the Beige Book. The survey noted that prices increased at a modest pace overall, with a couple Districts noting only slight increases. "Almost every District mentioned retailers discounting items or price-sensitive consumers only purchasing essentials, trading down in quality, buying fewer items, or shopping around for the best deals." These observations were in line with that made in the June Beige Book that there was pushback on price increases by consumers. On the labour market, most Districts reported employment was flat or up slightly, while a few Districts reported modest employment growth; "several Districts reported some slowing of wage growth due to increased worker availability and less competition for workers". So, the labour market is adjusting, but gradually. Overall, the economic backdrop has become more constructive for the Fed to start the easing cycle, but there does not seem to be a sense of urgency at this point of time. We continue to see range-trading in USTs near-term, with range for the 10Y yield seen at 4.10-4.30%.

- **GBP rates**. Market reaction to June CPI was mixed, as was the inflation outcome itself. Headline CPI came in at 2.0%YoY and core CPI at 3.5%YoY, both the same as in May, against consensus for a mild easing. Nevertheless, month-on-month CPI inflation eased to 0.1% versus 0.3% prior, while RPI and PPI output inflation eased. The main drag to YoY inflation in June was again the category of housing, water, electricity, gas and other fuels, due to the energy price cap. On balance, market pared back expectation of an August rate cut, to 37% from 48% priced a day ago. The Labour government have promised to bring in "a genuine living wage that accounts for the cost of living" and lower the eligible age to 18 from 21, referring to the National Living Wage, *aka* minimum wage. Our base-case is for YoY CPI inflation to hover around the already low 2% level, premised on low energy prices, which should be good enough for the BoE to deliver two 25bp cuts by year-end. We have highlighted upside risk arising from wage growth and



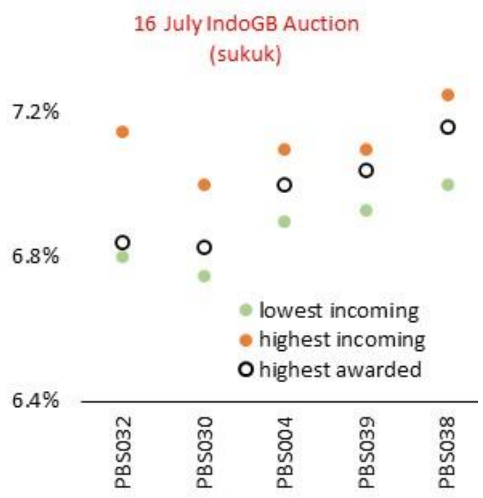

Source: CEIC, OCBC Research

hence resilient consumers, which may reduce the room for rate cuts in 2025.

- **XAUUSD.** Gold extended its recent rally, reaching another record high on Wednesday. The rally of late has been largely driven by the increased rate cut expectation on the Fed, falling UST yields, and investors positioning for a growing likelihood of a second Trump presidency. With metal maintaining a role as portfolio diversifier and being an attractive hedge against geopolitical risks, risks are skewed to the upside for gold prices and the technical setup also favours a continued bullish outlook. We also expect more traditional ETFs to increase holdings once the Fed starts to cut rates later this year, which could be the catalyst for the next tailwind. For now, as long as gold prices (XAU/USD) holds above the $2300/oz (100 DMA) support, bulls keep the agenda.

- **USDJPY** fell sharply yesterday with most of the decline coming after London market opened. While FX intervention cannot be ruled out, the notion of divergent monetary policies coming nearer and possibly wider is gaining traction. In additional, Trump described the weak JPY as “a big currency problem” in a Bloomberg interview and Japan’s Digital Transformation Minister Kono had also argued that the central bank needs to raise rates in response to a weak Yen. JGB yields edged higher, with short-end JGBs underperforming this morning probably as investors added marginally to expectation for a near-term rate hike. Our base-case is for a 10bp hike in the BoJ Target rate on 30 July, which is 56% priced by the market. More importantly, the BoJ may tweak its monthly bond purchase target, from JPY6.0trn to JPY4.0-4.5trn to start passive QT, pointing to upside to the 10Y JGB yield. We continue to see the next support for the 10Y JGB at 1.15-1.25% in terms of yield. Back to USDJPY, we watch the next support at 155.13 (100DMA) and then 152.83.

- **IndoGBs** traded sideways on Wednesday morning but turned mildly bullish in the afternoon. The sukuk auction on Tuesday garnered incoming bid amount of IDR27.7trn, higher than those at the previous five auctions. IDR10trn of bonds were issued as per target. Cut-offs were near the lowest incoming bid levels for PBS32 (2026 sukuk) and PBS30 (2028 sukuk). Separately, Bank Indonesia kept policy rate unchanged at 6.25% as widely expected. The near-term policy focus is Rupiah stability, which is not surprising. BI said it would continue to use SRBI as a tool to stabilize the Rupiah. During the five trading days to 15 July, banks reduced holdings of IndoGBs (including bills) by IDR80trn, non-bank domestic investors reduced holdings by IDR9trn; BI and foreign investors increased their holdings. Foreign holdings have been gradually built up, but stronger comeback of foreign demand probably requires USD rates to fall further.



Source: DJPPR, OCBC Research

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