Daily Market Outlook

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RBA to Hold

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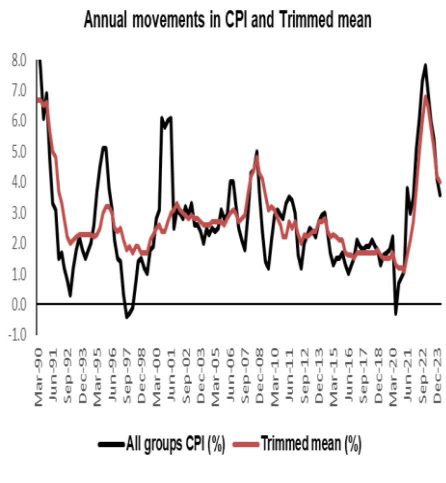
- **DXY. *Watching IP, Retail Sales Data.*** USD traded mixed, with strength seen vs. most AXJs and high-beta FX while USD softness was seen vs. CHF, gold overnight. Various themes including high for longer and French political anxiety have added to the mixed play while sentiment was not risk-off as equities in US rose to record high. On Fedspeaks, Harker said that 1 cut in 2024 was appropriate based on outlook but he also didn't rule out 2 or no cuts in 2024 amid uncertainty. DXY was last at 105.35. Mild bullish momentum on daily chart intact while 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). 2-way trade likely in the range of 104.80 – 105.80 in absence of key catalyst. This week's data release on industrial production, retail sales data (Tue) and prelim PMIs (Fri) will shed further light on how the US exceptionalism narrative pans out.

- **AUDUSD. *RBA in Focus Today (1230pm SGT).*** We expect RBA to remain on hold and to be amongst the last few DM central banks to cut rate. Sticky inflation and still-tight labour market are some of the reasons for RBA to stay on hold. Recent release of RBA minutes also noted that inflation risks had risen somewhat and there are risks that CPI stays above target for longer. RBA also said that returning inflation to target remains highest priority. That said, we still expect 1 cut from RBA sometime later this year. Economic growth has already slowed to a crawl in 1Q as high cost of living and high interest rate burden weighed on household spending. Governor Bullock also indicated that if economy is much weaker, the RBA will be ready to ease. She also added that the labour market is easing on several measures. Overall, our assessment is that disinflation path should remain on track. Moderation in wage growth should ease concerns of price-wage spiral and reinforce our view that the RBA remains on track to lower rates in the later part of the year. AUD was last at 0.6617. Daily momentum is mild bearish while RSI is flat. 2-way trades likely. Support at 0.6580 (50 DMA), 0.6550 (200 DMA). Resistance at 0.6630 (21 DMA), 0.67 levels.



Source: ABS, OCBC Research

- **EURUSD. *Cautious.*** Decline in EUR somewhat stabilised after France’s Le Pen said she will work with Macron if she wins legislative elections. She also added she will not seek Macron’s resignation. Her moves were seen as conciliatory in light of the possible cohabitation scenario (this is when the President and PM are from opposing parties), and in attempt to appeal to a wider group of voters. That said, there is no room for complacency. Demonstrators took to the streets, with violent protests reported nationwide. Elsewhere, the newly formed Popular Front coalition is also gaining ground, according to polls. 10y OATS-Bund spread further widened to +78bps. We remain cautious of how French political risk may still weigh on EUR intermittently until we get a clearer outcome on 30 Jun and 7 July. EUR was last at 1.0725 levels. Bearish momentum on daily chart intact while RSI turned lower. Support here at 1.0720/30 levels (23.6% fibo). Break puts next support at 1.0650 levels. Resistance at 1.0810 (38.2% fibo retracement of 2024 high to low, 21 DMA), 1.0870 levels (50% fibo).

- **EURCHF. *Bearish but Oversold.*** Short EURCHF remains a popular trade to express a view on election anxiety in France and the SNB possibly maintaining a hold at this week’s MPC. Till date, the cross has already fallen >3% from its peak in late-May and has gone past the 50% retracement level of the run up this year. SNB chief had indicated that SNB sees "small upward risk" to the central bank's inflation forecast. He added that if this risk were to materialise, then their monetary policy would be deemed more accommodative than intended. And that would also be associated with a weaker CHF, which could be counteracted by selling foreign currency, which implicitly can mean buying CHF on the other side of the equation. This can contribute to CHF strength. Indeed, inflation fell to a low of 1% in Mar and subsequently has ticked higher. Last at 1.4%. SNB’s comments, inflation uptick and signs of economic activity picking up slightly may suggest that an SNB rate cut may be delayed to Sep meeting. That said, the upcoming meeting on Thu remains a close call. Cross was last at 0.9540 levels. Momentum remains bearish on daily chart though RSI is near oversold conditions. Bearish crossover observed as 21DMA cuts 50DMA to the downside. Support at 0.9510 (61.8% fibo), 0.9420 levels (76.4% fibo). Resistance at 0.9590 (50% fibo retracement of 2024 low to high), 0.9670 levels (38.2% fibo, 100 DMA). Some stabilisation in French politics may help the cross to consolidate in the 0.9510-0.9590 range while renewed anxiety closer to election day may see downward pressure returning.

Short EURCHF a Popular Trade to Express View on French Elections/SNB

Source: Bloomberg, OCBC Research

- **USDJPY. *Upside Risk; Intervention Not Ruled Out.*** USDJPY continued to trade higher after BoJ was perceived to be in no hurry to normalise policies. At its MPC (last Fri), BoJ kept policy rate on hold and said it will reduce bond purchases without offering specifics. It will maintain their guidelines for JPY6tn a month and will defer to next meeting on bond buying plans. We had argued that the BoJ should have wasted no time in normalising policies as shunto wage outcome have met expectations and inflation has been on target. But perhaps, Governor Ueda wants to pre-empt markets since rate hike possibility was mentioned during his press conference. We still see risks of USDJPY mounting a challenge into the 158-160 arena, and any rapid pace of rise in USDJPY should raise the risks of intervention, especially when the pair has started to diverge from the directional move in treasury yields and yield differentials. That said, intervention is at best an option to slow the pace of depreciation and not a tool to reverse the trend. For USDJPY to turn lower more meaningfully would either require the kindness of the greenback or for BoJ to signal an intent to normalise urgently (rate hike or increase pace of balance sheet reduction). And none of the above appears to be taking place. As such, the path of least resistance for USDJPY may still be to the upside, for now. Pair was last at 157.64. Daily momentum is showing a mild bullish bias though rise in RSI slowed. 2-way trades likely. Resistance at 158, 160. Support at 156.80 (21 DMA), 155.80 (50 DMA).

- **USDSGD.** ***Range.*** USDSGD firmed, tracking the bounce in USD. Pair was last at 1.3520 levels. Mild bullish momentum on daily chart intact 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. Resistance at 1.3530/40 levels (50 DMA, 61.8% fibo retracement of Oct high to Jan low), 1.3560. Support at 1.3460 (50% fibo), 1.3420 levels. Our estimates show S$NEER was at 1.86% above model-implied midpoint.

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