Daily Market Outlook

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Sideways

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- **DXY. *Range.*** USD traded modestly softer as US retail sales disappointed. US retail sales rose by 0.1% MoM in May following a downwardly revised 0.2% drop in April, falling short of the 0.3% growth consensus. Core retail sales, excluding autos, gasoline, and building materials, rose 0.4% MoM, slightly below the 0.5% MoM consensus. And recall that in earlier data release, US personal income, spending have started to ease and in the 1Q GDP report, consumer spending was revised downward. Overall, multiple data point to growing signs of strains in US consumers. For the week remaining, focus is on jobless claims (Thu) and prelim PMIs (Fri). Softer data should weigh on USD. On Fedspeaks, Musalem acknowledged that recent data on real consumer spending and nominal retail sales have mostly underwhelmed. He also said that he will need to observe a period of favourable inflation, moderating demand and expanding supply before becoming confident that a reduction in rate is appropriate. He added these conditions could take months and more likely quarters to play out. Separately, Collins said Fed should be patient as it considers when to lower rates despite encouraging data on inflation. DXY was last at 105.23. Mild bullish momentum on daily chart intact while RSI moderated. Support at 104.80 (61.8% fibo retracement of Oct high to 2024 low), 104 (50% fibo). Resistance at 105.50, 105.75 (76.4% fibo). 2-way trade likely in the range of 104.80 – 105.50 in absence of key catalyst.

- **EURUSD. *Cautious*.** EUR traded steady overnight amid USD's modest pullback. French election uncertainties remain a key risk factor to watch. The concern is still on potential fiscal direction far-right/ leftist parties may be taking. But for now, there appears to be relative calm. 10y OATS-Bund spread has narrowed to +77bps from high of 83bps on Mon. France's Le Pen has indicated that 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. We remain cautious of how French political risk may spillover to sentiments, growth and the EUR. Pair was last at 1.0740 levels. Bearish momentum on daily chart intact but shows early signs of waning while RSI was flat. Resistance at 1.0810 (38.2% fibo retracement of 2024 high to low, 21 DMA), 1.0870 levels (50%

fibo). Support here at 1.0720/30 levels (23.6% fibo). Break puts next support at 1.0660 levels.

- **USDCHF. *50-50 Risks Going into SNB MPC Tomorrow.*** USDCHF traded lower, in part due to softer USD and in part due to safe-haven proxy for French election risks. Key event this week on SNB meeting (Thu). 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 remains a close call. Pair was last at 0.8845 levels. Bearish momentum on daily chart intact while RSI has fallen towards oversold conditions. Next support at 0.8780 (50% fibo retracement of 2024 low to high), 0.8730 levels. Resistance at 0.8890 (200 DMA, 38.2% fibo), 0.8960 (100 DMA).

- **AUDUSD. *Supported.*** AUD inched higher overnight amid USD pullback. Pair was last at 0.6664. Mild bearish momentum on daily chart is fading while RSI rose. Slight risks to the upside. Resistance at 0.6700/20 levels. Support at 0.6590 (50 DMA), 0.6550 (200 DMA). RBA kept cash rate on hold at 4.35% as widely expected yesterday. RBA Governor Bullock made some points: 1/ near-term path for interest rates was 'not obvious'; 2/ reiterated the Board was 'not ruling anything in or out'. She admitted that a hike was debated at the last meeting, but the probability of a hike was not increasing and noted the word 'vigilant' in the post-meeting statement was not meant to signal a hiking bias. Overall meeting outcome remains in line with our view that RBA is likely to stay on hold for longer due to sticky inflation and still-tight labour market. But in a broader scheme of things, the disinflation path should remain on track. Moderation in wage growth should ease concerns of price-wage spiral and support our view that the RBA remains on track to lower rates in the later part of the year.

- **USDJPY. *Intervention Not Ruled Out.*** USDJPY continued to trade near recent highs despite the pullback in USD seen elsewhere. Pair was last at 157.85. 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). 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.

- **USDSGD. *Sideways.*** USDSGD eased, tracking the moves in USD but price movement remains confined to recent range. Pair was last at 1.3510 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 1.89% above model-implied midpoint.

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