Daily Market Outlook

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Heavy Data Week

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- **DM rates**. Bunds and Gilts yields fell on Friday as PMIs in the Eurozone and UK printed softer than expected across. The bond rallies spilled over onto early trading in USTs. UST yields rebounded from session lows as US PMIs themselves came in stronger than expected, ending the day little changed. Fed funds futures price a total of 47bp cuts by year-end, which looks fair to us. The data calendar is heavy this week in the US, comprising the Conference Board Survey, new home sales, durable goods orders, pending home sales, personal income/spending, and PCE/core PCE deflators, among others. There is a line-up of Fed speakers as well. Market reaction to June's FOMC outcome suggests that investors may pay more attention to the data themselves than official comments. On liquidity, there is USD31bn of bills paydown and USD49bn of coupon bond settlement this week. Usage at the Fed's overnight reverse repo edged up to USD421bn on Friday, continuing to hover around the 400bn mark. Overall, the liquidity condition is supportive.

- **DXY.** Focus on PCE Core This Week. DXY firmed for a 3rd consecutive week. Better than expected prelim PMIs and still-hawkish Fedspeaks were the main drivers underpinning USD strength. Elsewhere slippage on EUR somewhat affected sentiments. This week the focus shifts to PCE core (Fri). Softer core CPI, PPI readings in May is building expectations for core PCE to print softer. A weaker than expected print should raise hopes for rate cut. This should also tamper USD gains, but hotter prints may continue to fuel USD momentum. DXY was last at 105.79. Mild bullish momentum on daily chart intact while RSI rose. Risks skewed to the upside. Resistance at 105.75/80 levels (76.4% fibo). Breakout puts 106.20, 106.50 in focus. Support at 105.20 (50 DMA), 104.80/90 (61.8% fibo retracement of Oct high to 2024 low, 21 DMA) and 104.50 (200 DMA). We also note that ½-yearly end and month-end flows may have the potential to distort price action later this week. US presidential debate on Fri (9am SGT) may also be of interest to FX and rates markets.

- **JPY rates**. The Summary of Opinions for the June MPM suggested that the BoJ delayed additional policy rate hikes as it would like to wait for confirmation from the data. Meanwhile, there is a strong intention to reduce JGB purchase amounts. The central bank said "any change in the policy interest rate should be considered only after economic indicators confirm", for example, CPI has clearly started to rebound. And "it is difficult to say at this time that the results of this year's annual spring labour-management wage negotiations have been reflected in wage statistics". This mentality explained the status quo decision at the June MPM. Nevertheless, the base-case shall still be for further monetary tightening, as the BoJ continues to see “steady progress has been made toward achieving the prices stability target”; and if their outlook materializes, “the Bank will raise the policy interest rate and adjust the degree of monetary accommodation.” The central bank opined that “upside risks to prices have become more noticeable,” and if deemed appropriate, “it should raise the policy interest rate not too late”. On balance, we expect the policy rate to be hiked to 0.2-0.3% by year-end. In terms of balance sheet policy, the Summary of Opinions commented “it is appropriate for the Bank to make a sizeable reduction in the purchase amount [of JGBs] in a predictable manner”. The BoJ stopped short of deciding on a specific plan at the June meeting, planning to collect views from market participants in order to “reduce the purchase amount of JGBs to a greater extent”. Hence again, there was simply a delay in the decision. We continue to see support for the 10Y JGB at the 1.15-1.25% area in terms of yield.

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