

Daily Market Outlook

25 July 2024

China Cut MLF Rate; MAS to Hold

- **DM rates.** The **UST** curve pivotal steepened for a second day, as investors held onto rate cuts expectations while long-end real yield edged higher upon the firm PMI prints. The PMI outcome was mixed to a tad firmer than expected, with services PMI rising to 56 points the highest since March 2022; manufacturing PMI dipped to 49.5 points though. 10Y real yield rose to 2.01% while breakeven was little changed, underpinning our view that real yield is likely the main driver for the 10Y nominal yield. US 10Y real yield looks elevated at current level; 10Y UST shall see support at the 4.30-4.33% level in terms of yield. Q2 GDP/core PCE price index, June durable goods orders, and initial jobless claim are released tonight. The **Gilt** curve pivotal steepened as well, as July PMIs reflect resilience in the UK economy. Manufacturing PMI printing 51.8 points the highest since July 2022 while services PMI improved to 52.4 points; new orders rose to 54.8 points from 51.5 points prior. GBP OIS pricing of BoE policy rate was little changed, as the market had earlier pared back expectations; last priced a 46% chance of a 25bp cut at the August MPC meeting.
- **DXY. Mixed.** USD traded mixed this morning, with weakness pronounced vs. safe-haven proxy FX, including JPY, CHF while USD strength was seen against high-beta FX, including AUD, NZD, KRW. Ongoing sell-off in global equities and the worry there may be further unwinding is spilling over to FX sentiments. Data focus next on US GDP (tonight) and core PCE (tomorrow). Softer print may even boost an outside chance of a Fed cut soon. Former Fed official Dudley called for lower rate as soon as at next week's FoMC. DXY was last seen at Last seen at 104.24. Bearish momentum on daily chart is fading but RSI turned lower. Bearish crossover observed as 21 DMA cuts 50, 100 DMAs to the downside. Support at 103.98 (50% fibo), 103.65 (recent low). Resistance at 104.80/90 (61.8% fibo retracement of Oct high to 2024 low, 21, 50, 100 DMAs).
- **USDJPY. Bearish but Oversold.** USDJPY extended its decline amid unwinding of short JPY trade while 2y UST yields continued to trade near recent low. Markets are also increasingly confident that a BoJ hike is imminent at upcoming MPC (31 Jul), consistent with our view. There is also expectations that BoJ may taper its bond purchase program. The combination of BoJ normalisation and Fed possibly cutting is a case of monetary policy divergence and should

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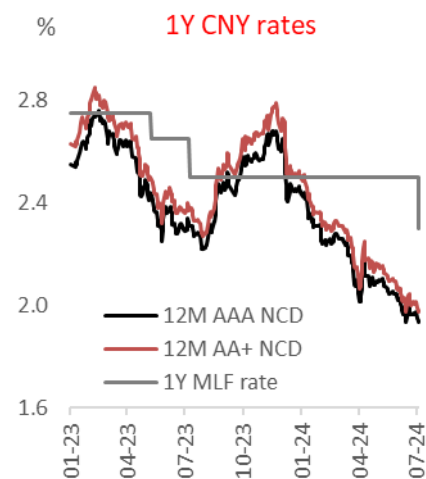
Global Markets Research and Strategy

Source: Bloomberg, OCBC Research

underpin USDJPY downside. The risk is that BoJ fails to live up to expectations and JPY sell-off risks a sharp correction upwards. Pair was last at 152.80. Bearish momentum on daily chart intact but RSI dipped into oversold conditions. Next support at 151.55 (200DMA), 151.1 (50% fibo retracement of 2024 low to high). Resistance at 153.66 (61.8% fibo), 155.42 (100 DMA).

- USDSGD. MAS Likely to Hold.** Policy decision is due tomorrow morning (Fri 8am). Though core inflation eased to 2.9% y/y in Jun, it remains well above historical averages (5y at 2.2%, 10y at 1.7%). We expect MAS to maintain policy status quo again at the upcoming July MPC meeting as prevailing appreciating path of the S\$NEER policy band remains appropriate, given the core CPI profile. MAS-MTI's view is for core inflation to stay on a gradual moderating trend over the rest of the year and step down more discernibly in Q4 2024, as import cost pressures continue to decline and tightness in the domestic labour market ease. They also highlighted 2-way risks to the inflation outlook. On the upside, "fresh shocks to global commodity prices and more persistent-than-expected tightness in the domestic labour market". On the downside, "sharper-than-projected downturn in the advanced economies which could induce a general easing of inflationary pressures". MAS-MTI also noted that the official full-year CPI forecast is being reviewed and will be updated in the upcoming meeting. **We believe an easing stance can be considered when core CPI eases more. This can take place by a slight reduction in policy slope, and we do not rule out this occurring at the Oct MPC should CPI profile pans out.** We estimated the S\$NEER at ~1.81% above our model-implied mid. Recent observation shows S\$NEER appears to fluctuate in 1.5% to 1.9% above model-implied mid (vs. previously when the \$NEER appears to fluctuate in 1.3% to 1.7%). On this note, S\$NEER strength may linger and only fade at some point this year when core inflation in Singapore start to ease in 4Q. Historically there is a positive correlation between the change in S\$NEER and MAS core inflation. i.e. to say if core inflation does ease materially, then there is no need for the S\$NEER policy to be so tight. USDSGD trades near recent lows, thanks to lower USDJPY while USDRMB held steady. Pair was last seen at 1.3445 levels. Daily momentum is flat while RSI rose slightly. Consolidation likely. Support at 1.3410, 1.3390 (38.2% fibo retracement of Oct high to Jan low). Resistance at 1.3460 (200 DMA < 50% fibo), 1.35 (50, 100 DMAs).

- CNY rates.** PBoC granted CNY200bn of MLF this morning, at a rate of 2.30% versus the previous 2.50%, i.e. cutting the MLF rate by 20bps. There are a few takeaways from this morning's operation. 1/ The MLF was done when there is no near-term maturity, showing that PBoC intends to send the easing signal. 2/ The cut in the MLF rate is of a bigger magnitude than the cut in 7-day OMO reverse repo rate, primarily because the MLF rate was at an



Source: Bloomberg, OCBC Research

elevated level compared to the costs of some other source of funds, e.g. 12M AAA NCD rate was last at 1.94%. 3/ PBoC probably judge that there is still merit in extending MLF as one of the funding sources for banks, for now. Repo-IRS were offered down by 1-2bps thus far, while the 2Y CGB yield edged lower by 1bp nearing the 1.50% handle, which is also the floor of the interest rate. We maintain a steepening bias of the CGB curve and continue to expect the 5s30s segment to play come catch-up.



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