

Daily Market Outlook

25 June 2024

Less Hawkish Rhetoric

- **USD rates.** UST yields edged lower overnight, without an obvious trigger except Mary Daly's comments about the labour market. Price actions were overall limited while Fed funds futures pricing was little changed at 48bps of cuts by year-end. Daly commented that job vacancies have been sliding down the Beveridge curve without increasing unemployment because it was at the steep part of the curve; she opined that "going forward, this benign relationship...may be coming to an end." She cited April 2024 data saying that we are "getting very near" the flatter portion of the Beveridge curve where any labour market slowing that happens additionally "could" translate into higher unemployment. And "at this point, inflation is not the only risk we face". She sounded more dovish than before by bringing up this outlook for the labour market. We had noted earlier that in the Fed's Beige book, all districts reported either negligible to modest job gains, or no changes in employment. Indeed, recent data including disappointing retail sales and the April drop in real personal spending may suggest the strong consumption is finally losing some steam. Services inflation – which arguably is more related to domestic factors including wages and consumer confidence - has been sticky. Further easing in services inflation will likely require the labour market to loosen. In this regard, market keenly awaits May PCE/core PCE deflators on Thursday. On the liquidity front, usage at the Fed's o/n reverse repo edged up further to USD436bn on Monday, while TGA balance has stayed high at USD736bn.
- **DXY. *Watching Data.*** USD slipped overnight on somewhat less hawkish Fed rhetoric. Mary Daly warned that US labour market is near a point, where further slowing in job vacancy could mean higher unemployment. Goolsbee said that it may be appropriate to start thinking about whether policy is putting too much pressure on the economy. He also noted the growing divergence with other central banks like ECB which have already begun to lower rates and that it is worth wondering where the US is on their restrictiveness scale, which he later said that it is at "somewhat historic" restrictive level. Indeed, Chapter 11 filing and delinquency rates in US are on the rise towards pre-covid but short of GFC levels. Loans growth has also somewhat plateaued as credit conditions tightened. This week, the focus is on PCE core (Fri). Softer core CPI, PPI readings in May is building expectations for core PCE to print softer. A weaker

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than expected print should raise hopes for Fed rate cut. This should also temper USD gains, but hotter print may continue to fuel USD momentum. DXY was last at 105.45 levels. Mild bullish momentum on daily chart intact but RSI fell. Some pullback not ruled out. Support at 105.20 (50 DMA), 104.80/90 (61.8% fibo retracement of Oct high to 2024 low, 21 DMA) and 104 (50% fibo). Resistance at 105.75 (76.4% fibo). 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. Day ahead brings CFNAI, Conference Board and Richmond Fed manufacturing index.

- **EURUSD. 2-Way Risks.** EUR rebounded amid broad USD pullback. ECB's Schnabel said that the 'last mile' of disinflation is pricing bumpy and risks of new inflation jolts means that the ECB has to stay flexible on interest rates. Pair was last at 1.0740 levels. Bearish momentum on daily chart shows signs of fading while RSI rose slightly. Some risks to the upside but 2-way trades still likely ahead of French election risks. Support at 1.0660/70 levels (recent low) before 1.06 levels. Resistance at 1.0770 (50 DMA), 1.0810 (38.2% fibo retracement of 2024 high to low, 100 DMA). The main focus is on French elections in the short term. The concern is still on the potential fiscal direction far-right parties may be taking and if the 'cohabitation' outcome comes into play. This is when the President and PM are from opposing parties. French legislative elections can be complex and involves 2 rounds of voting, whereby the first round (30 Jun) eliminates all candidates who fail to garner 12.5% of the vote. Anyone who scores >50% of the vote with a turnout of at least a quarter of the local electorate automatically wins. The second round (7 Jul) is a series of run-offs between 2 or more candidates (depending on the result of the first round). According to latest poll result published on Saturday (Ipsos survey conducted 19-20 Jun), France's far right Rassemblement National (RN) party and its allies were seen leading first round with 35.5% of the vote. Left wing New Popular Front alliance (NPF) was in second place with 29.5% of the vote. President Macron's centrist alliance was seen in 3rd place with only 19.5% of votes. Results of the first-round elections should be out before markets reopen on 1 Jul. Depending on the skew of the results, knee-jerk impact on EUR can vary but is likely to be skewed to the downside, unless outcome surprises with Macron's Ensemble coalition winning a larger share.
- **USDSGD. Recent Range Still Holds.** USDSGD slipped, amid broad USD pullback. Pair was last at 1.3520 levels. Mild bullish momentum on daily chart intact while RSI slipped. Sideways trade looks likely. Support at 1.35 (21 DMA), 1.3460 (50% fibo), 1.3420 levels. Resistance here at 1.3530/40 levels (50 DMA, 61.8% fibo retracement of Oct high to Jan low), 1.3560. Our estimates show S\$NEER was at 1.88% above model-implied midpoint. Recent CPI report shows core inflation remains sticky at 3.1% y/y. S\$NEER may

continue to trade in the upper half of its band as MAS's policy stance (appreciation stance) should persist due to stickiness of core CPI.

- **CNY rates.** PBoC net injected CNY214bn of liquidity to the market via OMOs this morning ahead of half-year end. CGBs have stayed supported, as market continues to expect policy support while the risk sentiment is somewhat subdued. Implied CNY rates remain low compared to IRS, NCD rates and CGB yields. For example, 12M implied CNY rate was last at 0.82%, versus AAA NCD rate at 2.02%, providing more than SOFR+100bps pick-up. On the offshore DF curve, T/N and 1W points were paid up during London hours, which coincided with spot almost touching the 2% cap. The 1W DF point went higher again this morning after some transient dip. Investors may want to turn cautious again regarding risk of sporadic jumps at front-end points. At the back end, offshore-onshore spread in the points widened further, to 1111pips at the 12M; full impact of 20% forward reserve requirement is estimated at around 900pips at the 12M tenor. It is a bit ambiguous as to whether the offshore curve would be pulled down by the onshore curve at this juncture as the RHS momentum at the front-end may have some spillover onto the back end.



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