Daily Market Outlook

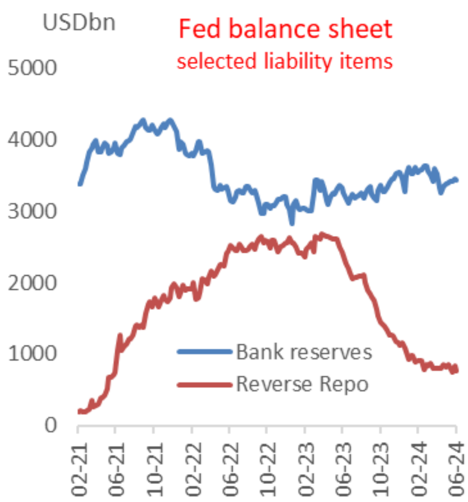
26 June 2024

Cautious

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
ChristopherWong@ocbc.com

- **USD rates**. USTs traded in ranges overnight in the absence of fresh catalyst. Conference Board survey came in a tad softer, with more data prints to come including new home sales, continuing claims, durable goods orders and PCE/core PCE deflators. Fed commentaries were somewhat balanced; while Bowman sees upside risk to inflation and the need to keep rates elevated for some time, Cook on the other hand opined that "with significant progress on inflation and the labor market cooling gradually, at some point it will be appropriate to reduce the level of policy restriction to maintain a healthy balance in the economy". Our base-case is a total of 50bps of Fed funds rate cut by year-end, likely starting from the September FOMC meeting. On supply, the USD69bn of 2Y coupon bond auction went well, garnering a bid/cover ratio of 2.75x versus 2.41x prior; indirect accepted was higher at 65.6% versus 57.9% prior. There remain the sales of USD70bn of 5Y and USD44bn of 7Y coupon bonds for the rest of the week. The sizes of these auctions are the same as those in May and April; TBAC has recommended the same sizes in the Aug-Oct period as well. We assume additional funding needs from the wider fiscal deficit estimates (USD400bn) to come mainly from bill issuances which shall be manageable. First, the liquidity condition has stayed largely supportive with bank reserves last at USD3.4trn (as of 19 June), reverse repo last at USD765bn (19 June) of which o/n reverse repo at USD436bn (24 June). Second, TGA balance is on the high side at USD784bn (24 June); there is room for US Treasury to adjust its target (USD850bn for 3Q24) lower if need be. Third, QT taper *per se* shall lead to some downward adjustment to refunding needs; QT via Treasury securities will amount to USD175bn for the June-December period, instead of USD331bn, in our estimates. On balance, the current level of 10Y UST yield looks roughly fair to us.



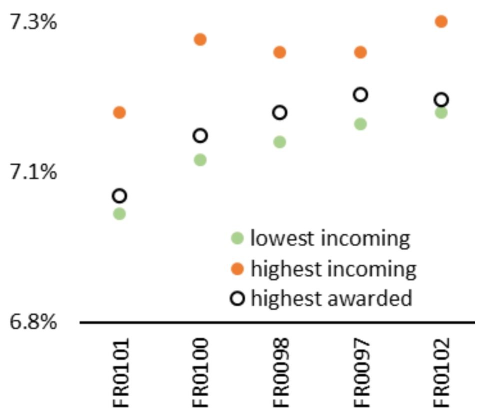
- **EURUSD. *2-Way Risks.*** The main focus for EUR is on French elections in the short term. The concern is still on potential fiscal direction far-right parties may be taking and if the 'cohabitation' outcome comes into play. This is when the President and PM are from opposing parties. To give it some context, even before the announcement for snap elections, S&P had already downgraded France's credit rating to AA- from AA on the back of concerns that higher than expected deficits would push up debt. For France, its debt to GDP is around 111% and deficit to GDP is at 5.5%, much higher than the average in the euro-area of about 4% and Germany's about 2% deficit of GDP. A populist government may potentially seek to raise public spending and markets may not view this positively against the debt, deficit backdrop. France's deficit may take longer to recover and debt to GDP may grow further, risking another credit downgrade. This is probably what may be driving the wide oat-bund yield differential and may potentially weigh on EUR. 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 (IPSO 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 (NPF) alliance 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. Long story short, polls are pointing to a big defeat for Macron and is suggesting a hung parliament at the moment. 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. The other swing surprise that would be outright negative for EUR would be a >50% win for either the far right or leftist coalition (not our base case). EUR 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).

- **USDCNH. *Pattern Continues.*** The recent USDCNY fixings have followed a pattern that continued to reinforced out view that authorities are pursuing a measured pace of RMB depreciation. Change in daily fix on average is about +17pips since 19 Jun (about 6 days) vs. average daily change of about 4.5pips/day since May2024. Higher USDCNY fix and wider CNH-CNY spread gives the impression there could be further weakening in RMB ahead. Weaker RMB and JPY have negative spillover effects on AXJs. USDCNH was last at 7.2917. Momentum is bullish while RSI rose. Risks skewed to the upside. Resistance at 7.30, 7.31 levels. Support at 7.2705 (21 DMA).

- **USDSGD.** ***Watching 1.3560 Resistance.*** USDSGD firmed amid weakness seen in RMB and JPY while USD stays broadly supported. Pair was last at 1.3550 levels. Mild bullish momentum on daily chart intact while RSI was flat. Sideways trade looks likely. Resistance at 1.3560, 1.3620 (76.4% fibo). Support at 1.3530/40 levels (50 DMA, 61.8% fibo retracement of Oct high to Jan low), 1.35 (21 DMA), 1.3460 (50% fibo). Our estimates show S$NEER was at 1.82% above model-implied midpoint. Recent CPI report shows core inflation remains sticky at 3.1% y/y. S$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.

- **IndoGBs** rallied after the conventional bond auction result came out. The conventional auction received strong incoming bid amount of IDR56.4trn (biggest since the 13 March auction). IDR23trn of bonds were awarded, exceeding the indicative target of IDR22trn. Most of the incoming bids went to FR101 (2029 bond) and FR100 (2034 bond) as usual. Cut-offs were noted to be near the lowest incoming bid levels for FR101 (2029 bond) and FR102 (2054 bond). The solid auction result may underpin the stabilization in IndoGBs which we have been looking for. YTD gross financing amounted to IDR541trn including retail and international bonds, which is on track assuming no change to fiscal deficit target. Next coming up is the sukuk auction on 2 July with an indicative target of IDR11trn. Bond outflows in the five days to 24 June amounted to IDR7.3trn; foreign holdings stood at IDR80trn or 13.84% of outstanding as of 24 June.

25 June IndoGB Auction



Source: DJPPR, OCBC Research

- **CNY rates**. PBoC net withdrew CNY28bn of liquidity from the market via OMOs this morning upon heavy maturity, probably as market has mostly prepared for half-year end. With the risk sentiment staying subdued while expectation is still for some form of monetary policy support, there are safe haven flows into CGBs as there is probably a lack of better investment alternatives as seen by investors at the momentum. We however caution against chasing long end yields lower; at these levels, yields appear overly low compared to potential GDP growth. In offshore, front-end FX swap points edged higher briefly again on Tuesday. While it was not so much of a spike, investors may turn cautious regarding risk of sporadic jumps at front-end points given pressure on spot. Back-end CNH points fell upon the mildly higher USD rates while the offshore-onshore spreads are wide. That said, we prefer to stay neutral at the back end as there may be spillover from any RHS pressure at the front-end in the near term.

- **SGD rates**. The 4W MAS bills cut off at 3.95% while the 12W MAS bills cut off at 3.93%, both around 20bps above implied SGD rates levels which were within expectation. Today's focus is the reopening of 5Y SGS (non-benchmark); size is SGD2.6bn with MAS intending to take SGD300mn. We expect demand to be fair only, with the 2s5s part being more inverted than other parts of the curve while asset swap pick-up is more favourable at longer tenors.

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
Cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Macau Economist
HerbertWong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
LavanyaVenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
Ahmad.Enver@ocbc.com

Jonathan Ng
ASEAN Economist
JonathanNg4@ocbc.com

Ong Shu Yi
ESG Analyst
ShuyiOng1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
ChristopherWong@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
WongHongWei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
MengTeeChin@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics ad is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.: 193200032W