# Daily Market Outlook

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## USD Catch a Bid

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- **USD rates**. UST yields have been rising steadily since Asia open on Wednesday, inspired by the higher-than-expected Australia CPI prints. The bond sell-off was extended into NY session, with yields ending the day 5-10bps higher across in a steepening manner. Earlier in the week, Canada May inflation accelerated as well. The inflation backdrop is not helpful ahead of US PCE deflator release on Friday. Nevertheless, after recent market re-positioning, in-line PCE deflator prints are probably good enough to lend some support to USTs. Overnight, demand at the 5Y coupon auction was fair, with bid/cover at 2.35x and indirect accepted mildly higher to 68.9%. The liquidity condition has stayed largely supportive with usage at the Fed's o/n reverse repo having risen further to USD490bn on Wednesday, while bank reserves stood at USD3.4trn as of 19 June. This backdrop can help buffer the next coupon bond settlement of USD49bn on Friday and USD95bn on Monday.

- **AUD rates**. Cash rates futures fell further earlier this morning after the initial reaction yesterday on the high prints of May CPI inflation. In particular, RBA's preferred measure of trimmed mean CPI inflation picked up to 4.4%YoY versus the 4.1% in April. Bullock at the post MPC meeting press conference had mentioned that Q2/June CPI would be an important one which would give the central bank a much more comprehensive view of what's going on. As such, we would be patient waiting for one more month of data to gauge what "not ruling anything in or out" refers to. For now, we continue to assume the next move to be a rate cut, but it has been our long-held view that the RBA will lag most major central banks in an easing cycle. Cash rates futures price a 66% chance of a 25bp rate hike by the December meeting.

- **DXY. *Bid.*** DXY rose, taking cues from higher UST yields and the run-up in USDJPY above 160-mark. Elsewhere, slippage in EUR also added to gains in the DXY. This week, the focus is on PCE core (Fri). Softer core CPI, PPI readings in May should see core PCE print softer. A weaker than expected print should raise hopes for Fed rate cut. This should also tamper USD gains, but hotter print may continue to fuel USD momentum. DXY was last at 105.97 levels. Bullish momentum on daily chart intact while RSI is near overbought conditions. Resistance at 106.20. Support at 105.20 (21, 50 DMAs), 104.80 (61.8% fibo retracement of Oct high to 2024 low). 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.

- **EURUSD. *2-Way Risks to Persist.*** EUR slipped overnight but losses remain confined to recent range. Pair was last at 1.0690 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 on Sunday. 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 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 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. 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).

- **USDJPY. *Markets Eye Intervention.*** USDJPY rose to 37y high of 160.87 overnight. Higher UST yields was the latest trigger to push USDJPY higher, in line with our caution that USDJPY should continue to mount a challenge above 160. We also expect the rise past 2024 high to test the resolve of Japanese authorities. 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, that would require the USD to turn/Fed to cut or for BoJ to signal an intent to normalise urgently (rate hike or increase pace of balance sheet reduction). 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. Pair was last at 160.41. Bullish momentum on daily chart intact though RSI shows signs of turning lower from near overbought conditions. Next resistance at 161.20 (138.2% fibo projection of 2023 low to 2023), 164 levels. Support at 157.70 (21 DMA), 156.60 (50 DMA).

- **USDCNH. *Pattern Continues to Show Measured Pace of Depreciation.*** USDCNH continued to trade higher amid broad USD rebound into quarter-end and taking cues daily fix. The recent USDCNY fixings have continued to follow a pattern that continued to reinforce our view that authorities are pursuing a measured pace of RMB depreciation. Change in daily fix on average is about +17.4pips since 19 Jun (about 7 days) vs. average daily change of about 4.9pips/day since May 2024. Higher USDCNY fix and wider CNH-CNY spread gives the impression there could be further weakening in RMB ahead. Pair was last at 7.2981. Momentum is bullish though RSI shows signs of easing from near overbought conditions. Resistance at 7.30, 7.31 levels. Support at 7.2705 (21 DMA).

- **USDSGD. *Facing Resistance.*** USDSGD continued to inch higher, with the latest trigger coming from the move higher in global yields, including USTs after recent inflation prints from Australia, Canada show re-acceleration in price pressures. Markets may also be cautious about the potential risk in upcoming US core PCE (Fri), as higher than expected print may surprise and fuel USD’s upward momentum. In addition, renewed weakness in RMB and JPY further undermined Asian FX sentiments, including SGD. That said, we do not rule out quarter/month-end flows distorting some of these price action.  Also, a softer than expected core PCE may also drag USD lower. Pair was last at 1.3570 levels. Mild bullish momentum on daily chart intact while RSI rose. Resistance at 1.3590, 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 1.73% above model-implied midpoint.

- **IndoGBs** traded on the weak side on Wednesday on higher US yields while the IDR was also under pressure amid DNDF maturity. This momentum is likely to be extended into today with the same factors still in play. Beyond the short-term, we continue to look for IndoGB stabilization supported by domestic demand amid a neutral supply outlook. 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. Rates at yesterday's SRBI auctions came in higher again, at 7.28384%, 7.38400% and 7.50583% for the 6M, 9M, 12M tenors respectively. The 12M SRBI rate, for example, has been up by a cumulative 17bps since the low at the 12 June auction.

- **SGD rates**. The 5Y SGS (re-open) auction tailed by 1-2bps cutting off at 3.22%, as we opined yesterday that demand for this non-benchmark was expected *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*. Even at longer tenors, asset swap pick-up has narrowed from recent levels though; pick-up was last at around SOFR+90bps at 20Y SGS and around SOFR+60bps at 10Y SGS. SGS yields were up by 3-5bps across on Wednesday, following USTs. At the very front end, SGD liquidity appears to have become flusher with T/N point falling to -1.9pips this morning. Next key trigger is US PCE deflator; in the scenario where PCE deflator prints in line, we would expect SGD rates to underperform USD rates.

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