

Daily Market Outlook

28 June 2024

Core PCE before French Election Risk

- **DXY. Watching Core PCE.** DXY eased off recent highs, alongside the dip in UST yields. Third reading of 1Q GDP report reinforced the view of growing strains on US consumer. Personal consumption was revised down to 1.5% (vs. 2% prior). Data focus today on PCE core (830pm SGT). Softer core CPI, PPI readings in May should see core PCE print lower. A weaker 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. Elsewhere we are also watching the US presidential debate (9am SGT) as we write. Immigration and inflation are likely to be amongst some of the topics markets will be keeping an eye on. DXY was last at 105.89. Bullish momentum on daily chart intact while RSI was flat. Resistance at 106.20. Support at 105.20 (21, 50 DMAs), 104.80 (61.8% fibo retracement of Oct high to 2024 low). Quarter-end and month-end flows may distort price action today.
- **EURUSD. 2-Way Risks to Persist.** First round of French legislative election takes place on 30 Jun (Sunday). France's National Assembly has 577 seats. For an absolute majority, a party needs 289. Anyone who scores >50% of the vote with a turnout of at least a quarter of the local electorate automatically wins a seat. Candidates who fail to garner at least 12.5% of the vote will be eliminated. Those who won >12.5% of the votes will go into the second-round face-off on 7 Jul. As of 27 Jun, polling firm Harris Interactive Toluna predicted 250 to 305 seats for far right Rassemblement National (RN) party and its allies while Ifop-Fiducial suggested 260 seats. Other polls suggest that turnout this year could be higher at around 60%. Polls continue to show consistency in the order: RN most popular followed by left wing party and then Macron's party is far behind. 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 Monday Asia time. 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). 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

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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. EUR was last at 1.07 levels. Bearish momentum on daily chart shows signs of fading while RSI was flat. 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).

- **USDJPY. Markets Still Eyeing Intervention.** USDJPY continued to power through 161 this morning. This is the highest level since 1986. There are expectations that Japanese authorities could soon intervene. While the level of JPY is one factor to consider, officials do focus on the pace of depreciation as the intent of intervention is to curb excessive volatility. Falling and relatively lower realised vols vs previous intervention periods suggest that officials may adopt wait-and-see approach, alongside verbal jawboning instead of direct market intervention. That said, if realised vols start to pick up or USDJPY sees a rapid move towards 164-165, then actual intervention risks can potentially pick up. In the interim, USDJPY will look to USD, core PCE data for directional cues. 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 161.05. Bullish momentum on daily chart intact while RSI in in 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). At the same time, Nikkei reported that the Finance Ministry has appointed Atsushi Mimura as its new vice finance minister for international affairs, as Kanda retires (31 Jul). Mimura will also be the new Japan FX chief. Other new appointments include: Hirotsugu Shinkawa replacing Eiji Chatani as vice finance minister while Hideki Ito will replace Teruhisa Kurita as head of the Financial Services Agency. We monitor if intervention rhetoric, SOPs may change going forward.
- **USDCNH. Relief.** USDCNH slipped after USDCNY fix came in lower this morning, breaking the past 7day trend of fixing higher everyday. Pair was last at 7.2980. 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). That said, apart from today, the recent USDCNY fixings have followed a pattern that continued to reinforce our view that authorities are pursuing a measured pace of RMB depreciation. Change in daily fix on average was about +17.4pips (19 Jun – 27 Jun) 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. Elsewhere, China announced third plenum will be held on 15 – 18 July to set long term policy on a wide range of economic and political issues.

- **USDSGD. *Watching US Data for USD Cues.*** USDSGD continued to trade near elevated levels. Pair was last at 1.3585 levels. Mild bullish momentum on daily chart intact but rise in RSI moderated. 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 has been easing. Last at 1.64% above model-implied midpoint. Near term focus on US core PCE tonight. Higher than expected print may fuel USD's upward momentum but a downside surprise should drag the USDSGD lower.



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