GLOBAL MARKETS RESEARCH

Daily Market Outlook

3 June 2024

Relief

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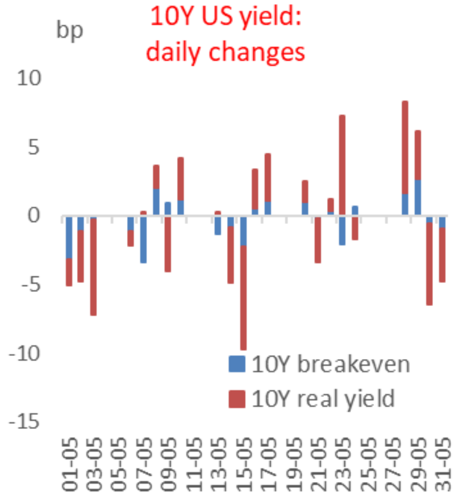
- **USD rates**. USTs rallied as April personal spending and PCE deflator printed in line to a tad softer than expected. Yields ended NY session lower by 3-6bps compared to previous close; Fed funds futures added mildly to rate cut expectation, to 36bps of cuts this year from 34bps priced a day ago and 32bps priced before the Q1 GDP revision. Core PCE deflator slowed to 0.2%MoM, with services deflator having eased while durable goods deflator being a mild drag. Personal spending growth slowed to 0.2%MoM from a downwardly revised 0.7% in March; real personal spending edged down by 0.1% following a downwardly revised 0.4% growth in March. So, the pattern continued with downward revisions to Q1 data while April data printed softer, pointing to a more conductive environment for the Fed to deliver some rate cuts in the later part of the year. The liquidity condition has turned more constructive as well, with heavy net coupon bond supply out of the way; net bills settlement is at a modest USD17bn this week. The data calendar however remains heavy this week, with May ISM manufacturing and services, April factory orders/final reading of durable goods orders, May non-farm payroll and labour market report. We continue to monitor as to whether the 10Y UST yield can stay in a range below the 4.5% mark; long-end yields remain driven more by real yields than breakevens.



Source: Bloomberg, OCBC Research

- **EUR rates** traded on the firm side on Friday upon the May CPI releases, only retracing lower later into the session as US rates fell. Eurozone headline HICP inflation unexpectedly accelerated to 2.6%YoY and core to 2.9%YoY, although the MoM reading came in line at 0.2%. The latest readings are unlikely to undermine ECB's intention to deliver the first interest rate cut at this week's meeting; but the outcome underlines our view that there may not be back-to-back interest rate cuts in the early part of the easing cycle. EUR OIS almost fully priced a 25bp rate cut at this week's MPC meeting, and no cut at the July meeting, which looks fair to us. Further out, we see a small room for dovish adjustment as EUR OIS price a total of 55bps of cuts this year, versus our base-case for 75bps.

- **DXY.** ***More US Data This Week.*** USD extended its move lower this morning on the back of softer US data last Fri. Personal income and spending also eased and more importantly, core PCE slowed on sequential terms (0.2%MoM vs. 0.3% prior). The data reinforced our view that US exceptionalism narrative is softening, and that Fed remains on track to lower rates this year. Asian equities traded on a firmer footing this morning, alongside gains in AxJs. KRW, TWD led recovery. This week, the focus is on ISM manufacturing (Mon), ISM services (Wed), US payrolls report (Fri) before FOMC's dot plot guidance the following week (12 Jun). Another set of softer readings should give markets greater confidence in pricing in more Fed cuts. This in turn should support sentiments (risk proxies) while USD trades on the back foot. Markets have re-priced for 36bps cut for the year, slightly more than before those data release (31bps cut as of 28 May). DXY was last seen at 104.56 levels. Daily momentum is not showing a clear indication for now while RSI fell. Consolidation likely. Resistance at 105.10 (50 DMA), 105.75 (76.4% fibo). Support at 104.80 (61.8% fibo retracement of Oct high), 104.30/40 (100, 200 DMAs) and 104 (50% fibo).

- **XAUXAG. *Bullish Divergence Underway.*** The gold-silver ratio continued to go higher, in line with our technical call for bullish divergence. The rise was driven by softer silver after China NBS PMI surprised to the downside on Fri. Manufacturing PMI slipped into contractionary territory. Silver is both a proxy for precious and industrial demand and the softer China data has some influence via the industrial channel. Cross was last at 76.38 levels. Bearish momentum on daily chart is fading but rise in RSI shows signs of moderation. Bullish divergence observed on MACD, RSI is playing out. Corrective rebound to the upside remains possible in the near term. Resistance at 77.30, 78.90 (21 DMA). Support at 74.61, 72.68 levels.

- **EURUSD. *Subdued ahead of ECB Meeting.*** EUR firmed as core CPI (preliminary) surprised to the upside while USD corrected lower. Focus this week on ECB meeting (Thu) as markets look for clues beyond June meeting. A 25bp cut is widely anticipated. Uptick in core CPI and better-than-expected negotiated wage growth data for 1Q is not likely to affect ECB's decision on timing of first cut but is likely to have added some uncertainty to ECB's rate cut trajectory beyond June. EUR was last at 1.0850 levels. Daily momentum is not indicating a clear bias while RSI rose. Range-bound trade likely ahead of ECB event risk. Support at 1.0790/1.0810 levels (21 DMA, 38.2% fibo retracement of 2024 high to low), 1.0730 (23.6% fibo). Resistance at 1.0930 (61.8% fibo), 1.10 levels (76.4% fibo).

- **USDSGD. *Range-bound.*** USDSGD traded little changed; last at 1.35 levels. Daily momentum and RSI indicators are not showing a clear bias for now. Lacklustre trading in sideways range likely until we get clarity on Fed policy. Resistance at 1.3530 (50 DMA, 61.8% fibo retracement of Oct high to Jan low), 1.3560 levels. Support at 1.3460/80 (50% fibo, 100 DMA), 1.3390 (38.2% fibo). Our estimates show S$NEER at +1.69% above model-implied midpoint.

- **CNY rates**. CGBs opened mixed to a tad weaker with the 30Y bond underperforming thus far. Our view remains that long-end yields are low compared to economic fundamentals. We would initially look for a 10Y yield that is above 2.5%, a level which is still likely below potential nominal GDP growth for years to come. A lack of investment alternative is probably what is sustaining buying into government bonds at the current market environment, but risk-reward may not justify taking on additional duration risk in our view. In offshore, CNH T/N point rebounded from recent trough passing month-end but stayed below par; front-end implied CNH rates are fluctuating in low ranges amid supportive liquidity. RMB11bn of CGBs are to be tendered on CMU on 5 June, which is part of the planned RMB55bn of supply for this year. The auctions comprise RMB3bn each of 2Y, 3Y, and 5Y bonds and RMB2bn of 10Y bonds; all reopening. The bonds are likely to be readily absorbed by the market. RMB deposits at banks in Hong Kong rose by a hefty RMB143.5bn during April to RMB1088.184bn as at end-April.

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