# Daily Market Outlook

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## Breather

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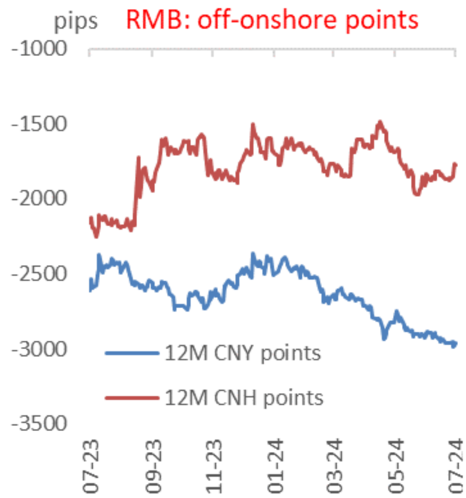
- **USD rates**. USTs rallied overnight as ISM services printed on the weak side. The FOMC minutes showed that FOMC members remained highly data-dependant but they spent a fair bit of time discussing how the labour market had become less tight. Market did not react much to the minutes. On the data front, June ISM services came in weaker than expected across components; notably, headline index dipped to 48.8 points, new orders to 47.3 points and employment to 46.1 points. This backdrop may be conducive to easing services inflation pressure. June ADP employment change also came in lower than expected, although the previous month's figure was revised mildly higher. Given the recent softness in data prints, investors will become even keener to watch payroll and the labour market report. In this regard, we note that the FOMC minutes mentioned that some participants observed that "the monthly increase in employment consistent with labor market equilibrium might now be higher than in the past because of immigration". Six-month average of non-farm payroll change was last at 255K (as of May 2024) which was not too far away from the 200K+ levels in the years 2013-2019. In comparison, Fed funds target rate ranged between 0.25% and 2.50% in those years. If FOMC members perceive the equilibrium level of employment is higher now, then the labour market may already be in equilibrium and the current rate levels are probably overly restrictive. Fed funds futures pricing was little changed, at 48bps of cuts by year end; chance of a 25bp cut by the September meeting was last priced at 80%. Overall, pricings look fair to us.

- **DXY. *US Markets Closed for Holiday.*** USD fell for a second consecutive session after ISM services slumped into contractionary territory. New orders, employment also surprised, falling into contraction zone (below 50). Echoing Powell's recent remarks in Sintra that Fed has made "quite a bit of progress" toward cooler inflation, the FOMC minutes released overnight emphasized on "modest further progress" in recent months though inflation remained elevated. Several participants noted that with the labor market normalising, a further weakening in labour demand may now generate a larger unemployment response than in the recent past. This is consistent with recent comments made by Fed Chair Powell and Mary Daly, who spoke about this Beveridge curve. On the data metrics, US exceptionalism narrative has been softening. And markets would be looking forward to Friday's NFP or even next Thu's CPI report. A softer print should help to sedate USD bulls. To add, seasonality trend favours USD retracement in July and a softer data print is probably what is needed for that to transpire. DXY was last at 105.28. Bullish momentum on daily chart faded while RSI fell. Support here at 105.20 (50 DMA), 104.80 (61.8% fibo retracement of Oct high to 2024 low, 100 DMA) and 104.50 (200 DMA). Resistance at 105.80 (76.4% fibo), 106.20.

- **EURUSD.** ***Short Squeeze Continues.*** EUR continued to build on recent gains, riding on the pullback in the USD and on increasing odds that Le Pen's party may not win an absolute majority at the second-round run-off this Sunday. So far, French media reports show that more than 200 candidates from both left-wing alliance and Macron's coalition have pulled out of the race in their constituencies. This is not uncommon as some candidates may deliberately drop out of the race to prevent a vote split to give their ally greater chance to stop the far right from advancing. This means there will only be 100 or less 3-way races instead of over 300 and the remainder will be 2-way run-offs on 7 Jul. Out of the 577 seats in the National Assembly, Marine Le Pen's party needs 289 seats to win an absolute majority. Latest Harris Interactive poll estimates that her party would get 190-220 seats, well short of the 289 needed. Left-wing coalition was again seen in second place with 159-183 seats projected and President Macron's centrist alliance was in 3rd spot with 110-135 seats. So just based on polls, a hung parliament outcome may be a base case scenario now. That said, we still cannot rule out an outside chance that Le Pen may well gather enough support after all, election risks are fluid and polls are just polls. Sentiments can shift between now and Sunday. For EUR, the opportunistic shorts are feeling the squeeze this week. Last at 1.0790. Daily momentum turned bullish while RSI rose. Key resistance at 1.0810 (38.2% fibo retracement of 2024 high to low, 100 DMA). A decisive close above 1.0810 may well get a push higher towards 1.0870 (50% fibo) or even 1.0930 (61.8% fibo). Anything beyond that would require the help of a softer USD. Support at 1.0730/50 levels (23.6% fibo, 21 DMA), 1.0660/70 levels (recent low). We should expect to see more 2-way risks with US NFP data in mind on Fri evening. Round 2 results should be in by the time Asia opens on Mon (8 Jul). A hung parliament would be a lesser evil for EUR than a right-wing majority.

- **USDSGD.** ***Breather.*** USDSGD continued to trade lower. The back-to-back drop in USD is providing a breather for some AXJ FX, including KRW, THB, SGD. And markets are likely to be looking forward to US NFP (Fri) and US CPI report (next Thu). Another softer print should add to USD downside and help with recovery momentum for AXJ FX. That said, RMB, JPY moves are also eyed. Persistent drop in RMB and JPY may still dampen momentum and limit recovery in AXJ FX. Pair was last at 1.3530 levels. Mild bullish momentum on daily chart is fading while RSI fell. Risks modestly skewed to the downside. Support here at 1.3520/30 levels (50 DMA, 61.8% fibo retracement of Oct high to Jan low), 1.35 (100 DMA) and 1.3460 (50% fibo). Resistance at 1.3590, 1.3620 (76.4% fibo) and 1.3670 (2024 high). Our estimates show S$NEER was last at 1.8% above model-implied midpoint.

- **CNY rates**. PBoC continued to withdraw liquidity via daily OMOs, in line with the usual practice of mopping up liquidity which had been injected before quarter-end. CGB yields were up by 1-2bps this morning, reflecting some cautiousness among investors but overall, the market is stable. Although monetary operations may not have a significant, long-lasting impact on the bond market, the signal is also important at this point of time. We continue to avoid duration risk because of the supply outlook, of long-end yields being overly low compared to growth, and of the authorities' reflation efforts. In offshore, front-end CNH points were paid up intra-day, alongside upward pressure on spot. Investors may want to guard against risks of sporadic jumps at front-end CNH points. At the back end, offshore-onshore spread at the 12M at 1100pips is wide compared to around 900pips implied by the full impact of the 20% risk reserve requirement; the onshore curve may start to act as a pull factor at this point although there may be some spillover from the RHS momentum at the front-end.




Source: Bloomberg, OCBC Research

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