

Daily Market Outlook

4 June 2024

Still Watching Data

- USD rates.** USTs rallied for a third day as US data printed soft again. May ISM manufacturing came in weaker than expected at 48.7 points, with new orders dipping to 45.4 points while prices paid also eased to 57.0 points. Long-end USTs outperformed, as 10Y real yield fell by 9bps and breakeven also edged lower. The pattern has continued in that some of the Q1 data were revised downward while April/May data came in softer, which point to a more conducive environment for the Fed to deliver some rate cuts in the later part of the year. Fed funds futures added further to rate cut expectations, now pricing in a total of 41bps of cuts this year, not far away from our revised base-case of two 25bp cuts. Granted, there is still a line-up of data including May ISM services, April factory orders/final reading of durable goods orders, May non-farm payroll and labour market report. The 10Y yield last traded near our end-quarter forecast of 4.35% and we monitor if the yield manages to stay in this lowered range of 4.35-4.50%. Beyond the near term, we maintain our expectation for the 10Y UST yield to end the year at around 4.05%. The liquidity condition has turned more constructive this week, with heavy net coupon bond supply out of the way; net bills settlement is at a modest USD17bn. Usage at the Fed's overnight reverse repo was USD387bn on 3 June; bank reserves stood at USD3.41trn as of 29 May.
- DXY. Will 104 Support Breaks?** USD extended its move lower this morning as US data continues to come in softer. ISM manufacturing slumped. Prices paid, new orders all came in softer while construction spending declined on sequential basis. Not forgetting, last Fri, personal income and spending also eased and more importantly, core PCE slowed on sequential terms (0.2% m/m vs. 0.3% prior). The string of softer data reinforced our view that US exceptionalism narrative is moderating, and that Fed remains on track to lower rates this year. AXJ FX traded on a firmer footing, with KRW, THB leading recovery this week. Looking on, the focus is on JOLTS job openings (today), 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 41bps cut for the year, slightly more than before those data release (31bps cut as of 28 May). DXY was last seen at 104.10 levels. Daily momentum shows

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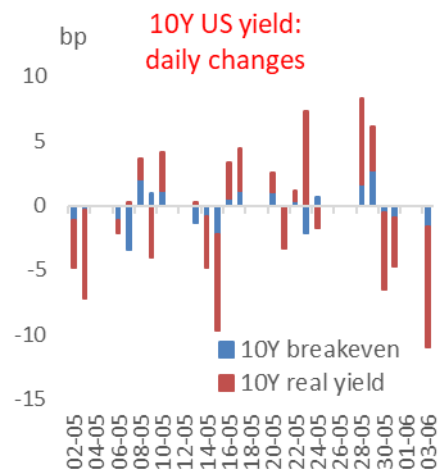
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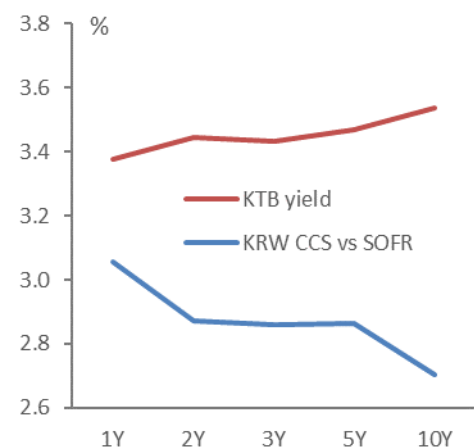
Source: Bloomberg, OCBC Research

signs of turning mild bearish while RSI fell. Consolidation likely with slight risks to the downside. Support here at 104 (50% fibo). Decisive break here puts next support at 103.20 (38.2% fibo). Resistance at 104.40 (200 DMA), 104.80 (61.8% fibo retracement of Oct high, 21 DMA), and 105.10 (50 DMA).

- **EURUSD. Bulls Stalled at 1.0930 Resistance.** EUR rose to more than 2-month high amid broad USD pullback after ISM manufacturing slumped. Pair was last at 1.0910 levels. Daily momentum turned mild bullish but the rise in RSI moderated. Range-bound trade still likely ahead of ECB event risk. Resistance at 1.0930 (61.8% fibo), 1.10 levels (76.4% fibo). Support at 1.0790/1.0810 levels (21 DMA, 38.2% fibo retracement of 2024 high to low), 1.0730 (23.6% fibo). Focus this week on ECB meeting (Thu). 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. Markets are expected to look for clues beyond June meeting.
- **USDJPY. Eyes on 21DMA.** USDJPY finally eased from recent high, tracking the move lower in UST yields. Ministry of Finance reported last week that Japan spent a record JPY9.8tn (or US\$62.2bn) during 26 Apr – 29 May 2024 to defend the JPY. This amount exceeded the total amount of JPY9.2tn and JPY9.1tn, used in 2022 and 2011, respectively. The scale of intervention demonstrated Japan's readiness to defend the JPY but officials cannot be burning resources repeatedly. Intervention can be an option to slow the pace of depreciation but not a tool to reverse the trend. Hence, for USDJPY to turn lower more meaningfully would require the kindness of the greenback or for BoJ to signal an intent to normalise urgently (rate hike or increase pace of balance sheet reduction). This morning, BoJ Governor Ueda said that they will adjust degree of easing if price trend rises, and that monetary policy won't be hampered by considerations over government finance. Near term risks for USDJPY are 2-way in light of upcoming FOMC (focus on dot plot for future expectations) and BoJ MPC (16 Jun). We are looking for a hike at the upcoming MPC in Jun. Inflation has also been on target and shunto wage negotiations for 2024 reported wage growth at 5.17% average, much higher than previous years. JPY OIS are also implying 36bps hike by end-2024. Pair was last at 156.35. Daily momentum shows early signs of turning bearish while RSI eased. Slight bias to the downside Key support here at 156.20 (21 DMA). If decisively broken, next support comes in at 154.75 (50 DMA). Resistance at 157.40, 158 levels.
- **USDSGD. Range-bound.** USDSGD fell, tracking the pullback in UST yields. Pair was last at 1.3465 levels. Daily momentum shows signs of turning bearish but decline in RSI moderated. Recent range

should still hold. Support at 1.3460/80 (50% fibo, 100 DMA), 1.3390 (38.2% fibo). Resistance at 1.3530 (50 DMA, 61.8% fibo retracement of Oct high to Jan low), 1.3560 levels. Our estimates show S\$NEER at +1.78% above model-implied midpoint.

- SGD rates.** Following feedback from primary dealers, MAS will not be holding a mini-auction on 26 June. The decision was in line with expectations, given the market has just digested the 30Y Green SGS (Infra) and the new 2Y SGS (MD), while the reopening of 5Y SGS (MD) is forthcoming. Bidding interests were seen at long-end SGS, amid decent asset-swap pick-up. But likely because of these flows, the SGD basis curve has shifted higher over the past month. At current levels, asset-swap pick-up is still decent, albeit not as wide as before; pick-up (before bid/offer spreads) was last at around SOFR+95bps at 20Y SGS and around SOFR+65bps at 10Y SGS. Focus today is 4W MAS bills, 12W MAS and 6M MAS FRN auctions. SGD liquidity appears to have become tighter at the 1M covering month-end and quarter-end; 1M implied SGD rate traded at 3.72% this morning, which may lead to a higher cut-off at the 4W MAS bills potentially towards the 4% mark. 3M rate was similar to the level at the previous auction and as such cut-off at the 12W MAS bills may come in within the range of 3.85-3.88%. As for the T-bills auction on Thursday, 6M implied SGD rate traded at 3.59% this morning, 2bps lower than the level at the previous 6M T-bills auction on 23 May. The spread between cut-off and market implied rate has narrowed and we expect cut-off at this week's 6M T-bills at 3.60-3.65%.
- KRW rates** were offered down 3-6bps across the curve, taking cue from the USD rates market while domestically May CPI came in a tad softer than expected. CPI slowed by more than expected to 2.7%YoY versus 2.9%YoY while sequential inflation was 0.1%MoM accelerating less than expected. Meanwhile, activities data earlier printed strong, with May exports growing by a decent 11.7%YoY and manufacturing PMI edging higher to 51.6 points. This goldilocks situation may allow the BoK to cut rates sometime later this year. BoK was on the wire this morning commenting that they continue to expect CPI to gradually slow down as projected, but further monitoring is needed due to uncertainty. The KRW market is pricing in no to one rate cuts this year – varying across instruments of FRAs and front-end KRW IRS, which look mildly on the hawkish side compared to our base-case of two 25bp cuts. Although UST-KTB yield differentials are wide, asset-swap pick-up may sustain the differentials at current levels with 10Y KTB providing around SOFR+80bps.



Source: Bloomberg, OCBC Research



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