GLOBAL MARKETS RESEARCH

Daily Market Outlook

5 June 2024

US Exceptionalism in Moderation

- **USD rates**. USTs rallied further as JOLTS job openings printed lower than expected. April job openings fell to 8059K in April while March's number was revised downward to 8355K from the initial print of 8488K. Job openings fell by a cumulative 754K over March and April, primarily in the sectors of education & health services, financial activities, and construction, in that order. Fed funds futures added further to rate cuts expectation, to a total of 45bps this year, not far from our revised base-case of 50bps of cuts. 10Y UST yield again moved to around our quarter-end target of 4.35%; the yield was around this level in mid-May and early April. 10Y real yield at 2% is no longer as elevated and before Friday's payroll; bonds may consolidate into Friday's payroll and labour market reports.

- **JPY rates**. JGB yields eased by 2-3bps at open this morning, following the rally in USTs. Otherwise, April cash earnings came in higher than expected at 2.1%YoY, while March's number was revised upward to 1.0% from 0.6% prior. The data are starting to reflect the Shunto results. To recap, Shunto results showed average wage increase at 5.17%, and importantly that for small companies (with <300 employees) was also high at 4.66% which may be seen as meeting the BoJ's criteria for delivering a second policy rate hike. We expect a 10-15bp policy rate hike at the June 14 meeting, which is not priced in by the market. As for balance sheet policy, we remain of the view that passive QT can start as soon as this month while a pre-announcement may not be necessary although the BoJ may still want to adjust their "about 6 trillion yen" guidance. If we assume BoJ purchases bonds according to their most recent offered (to buy) amounts at each bucket, then monthly amounts would be around JPY5.6trn. If BoJ purchases bonds at the lower end of ranges, then monthly amounts could be below JPY5.0trn.

- **DXY.** ***ISM Services, ADP Employment on Tap Today.*** USD was little changed overnight near its recent lows. JOLTS job openings data surprised to the downside – another sign that the labour market is cooling. The string of softer US data reinforced our view that the US exceptionalism narrative is moderating, and that Fed remains on track to lower rates this year. Softer UST yields should allow for a relief for Asian FX. But further recovery from here may require the DXY to break below its lower bound support at 104. This would

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need the blessing of softer US data. This week, we have ISM services, ADP employment (today), 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. While a cut is not expected at the upcoming FOMC, the dot plot guidance/press conference would be key to suss out officials' take on the recent softness in data. DXY was last seen at 104.14 levels. Daily momentum is mild bearish while decline in RSI moderated. Consolidation likely. 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). On net, we may still see range-bound trade until next week unless UST yields take another leg down south.

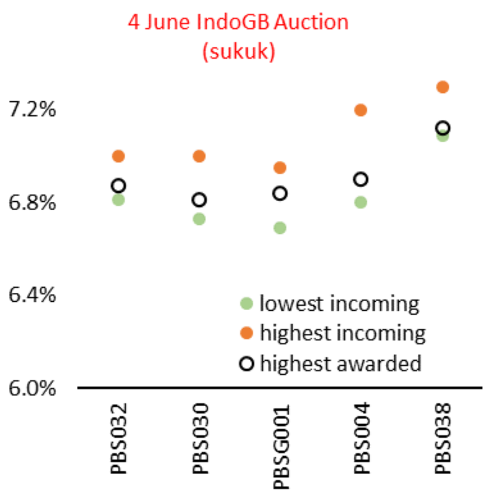
- **EURUSD. *Focus on ECB before European Parliamentary Elections*.** EUR slipped after failing to build on earlier gains. Pair was last at 1.0890 levels. Daily momentum is mild bullish, but RSI is flat. Range-bound trade still likely ahead of ECB event risk on Thu. Support at 1.0870 (50% fibo), 1.0810/40 (38.2% fibo retracement of 2024 high to low, 21 DMA) and 1.0730 (23.6% fibo). Resistance at 1.0930 (61.8% fibo), 1.10 levels (76.4% 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. Elsewhere, European parliamentary elections take place (6 – 9 June). Approximately 400 million European citizens are expected to head to the polls to elect new members of the European parliament. This is the world's second largest democratic vote after India and the recent disappointing result in India suggests that election risks remain fluid and 2-way until the final results are in (as polls painted a somewhat different outcome for India). Also coming up for Europe is national elections in Belgium (9 Jun) and a new government in Netherlands with former spy chief, Dick Schoof named Prime Minister a few days ago (when elections had long concluded on 22 Nov 2023). While European parliament's influence on foreign policy is overshadowed by European Council (made up of leaders from 27 members states), the members of the European parliament have the powers to shape policies on climate, migration, industry, defence and security. They will also be able to vote on what should be prioritised in the EU budget, and that can indirectly affect policies like providing aid for Ukraine. If balance of powers shift to the far-right, then calls for EU to supply military assistance/ aid to Ukraine or Gaza may fall through. Long story short, election risk is worth keeping a close watch as the past decade has shown that rise in far-right sentiments in Europe can undermine EUR.

- **USDJPY. *2-Way Trades; Bias to Sell Rallies.*** USDJPY extended its move lower on a few factors including, an unwinding of carry trades in MXN, ZAR and INR funded by JPY (post-elections), expectations that BoJ may announce slower JGB purchases, higher labour cash earnings/services PMI while UST yields fell further. Pair traded as low as 154.55 overnight before recovering. Last at 155.42. Daily momentum is mild bearish but decline in RSI moderated. Support comes in at 154.80 (50 DMA), 152 (100 DMA). Resistance at 156.20 (21 DMA). 2-way trade likely; bias to sell rallies in light of upcoming FOMC (focus on dot plot for future expectations) and BoJ MPC (14 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.

- **USDSGD. *Turning Mild Bearish.*** USDSGD continued to trade with a heavy bias, tracking the pullback in UST yields. Pair was last at 1.3460 levels. Daily momentum turned mild bearish but decline in RSI moderated. Support at 1.3450/60 (50% fibo) if broken puts next support at 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 +1.87% above model-implied midpoint.

- **SGD rates**. Tuesday's 4W MAS bills cut off at 3.98%, in line with our expectation of "towards the 4% mark" as the tenor covers month-end and quarter-end; 12W MAS bills cut off at 3.85% which was also within our expected range of 3.85-3.88%. On bond side, SGS yields fell by 1-5.5bps on Tuesday, mildly underperforming UST performance the night before, in line with historical pattern and our medium-term view. As for the T-bills auction on Thursday, 6M implied SGD rate traded at 3.60% this morning, similar to the level at the previous 6M T-bills auction on 23 May. The spread between cut-off and market implied rate has narrowed over recent auctions and we expect cut-off at this week's 6M T-bills at 3.62-3.67% with reference to this morning's market level.

- **IndoGBs** strengthened on Tuesday morning taking cue from UST performances the night before, but the rally did not last when the Rupiah weakened through the day after opening stronger. Nevertheless, the sukuk bond auction yesterday garnered decent demand with incoming bid amounts of IDR26.2trn. A total of IDR10trn was awarded, matching the indicative target after the previous 2 sukuk auctions where the total awarded amounts were slightly below indicative targets. Most of the incoming bids went to PBS032 (2026 bond) and PBS038 (2049 bond). Cut-offs were



Source: DJPPR, Bloomberg, OCBC Research

noted to be near the lowest incoming bid levels for PBS038, PBS032 and PBS030 (2028 bond). In the five days to 30 May, banks reduced holdings of IndoGBs (including bills) by IDR21.3trn, other domestic investors increased holdings by 36.3trn, and foreign investors increased holdings by 4.3trn to IDR807trn or 14.06% of outstanding.

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