# Daily Market Outlook

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## Europe Takes Centre Stage

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- **DM rates**. USTs rallied for a fifth day, following Canadian government bonds upon Bank of Canada policy rate cut while US data printed mixed. US ADP employment change printed lower than expected, but May ISM services index rebounded to a better-than-expected 54.5 points from 49.4 points prior, with improvement in employment and new orders; prices paid on the other hand edged lower to a still high 58.1 reading. At the Bank of Canada, the expected 25bp policy rate cut was accompanied by dovish remarks, which drove the 2Y yield lower by 12bps. Macklem commented "reasonable to expect further cuts" if inflation eases, and the MPC statement has it that "recent data has increased our confidence that inflation will continue to move towards the 2% target". He also revealed that officials had discussed impact on the CAD from rate cut; he opined that history shows periods of considerable divergence from US and the BoC does not need to move in lockstep with the Fed; that while there is a limit to such divergence, it is "not there yet". CAD OIS is pricing in additional 53bps of cuts for the rest of the year. BoC dovishness is spreading to other markets at Asia open this morning, with ACGB yields lower by 4-5bps across. ECB decision is coming up next, where a 25bp cut is widely expected; however, the interest rates path ahead is less straight forward, with recent data not decisively arguing for back-to-back rate cuts. Our base-case for the ECB remains as a total of 75bps of cuts this year including the expected 25bp cut later today.

- **DXY. *Awaiting Payrolls Tomorrow.*** USD and UST yields continued to trade near recent lows. ADP employment came in softer, and previous number was revised lower. It has also come to our observation that recently released US data, including factory orders, job openings, personal income, spending, etc. have been keeping up with the trend in seeing downward revision to prior month data. Nonetheless, the series of softer US data reinforced our view that the US exceptionalism narrative is in moderation, and that Fed remains on track to lower rates this year. Softer UST yields should provide a breather for AXJs, including KRW, JPY. But more importantly, markets are trying to seek greater reassurance from US payrolls (on Fri) and FOMC (next week). 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 (13 Jun), 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 104.13 levels. Daily momentum is bearish RSI fell. 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 surprisingly take another leg down south. Today brings trade balance, initial jobless claims and continuing claims.

- **EURUSD.** ***ECB Today.*** Decision out at 815pm (SGT), followed by Lagarde's press conference at 845pm (SGT). 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. Moving on, European parliamentary elections take place (6 – 9 June). Approximately 400mio 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 election outcome 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), 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. Pair has somewhat traded subdued after hitting more than 2-month high earlier this week. Pair was last at 1.0892 levels. Daily momentum is mild bullish while RSI rose. Resistance at 1.0930 (61.8% fibo), 1.1010 levels (76.4% fibo). 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).

- **XAUUSD.** ***Bullish Pressure Returning.*** The corrective pullback in gold may have completed its course. Gold bulls appeared to gear up momentum after US data continues to come in softer while Bank of Canada becomes the next major central bank to join the rate cut party. ECB may potentially be the next tonight while focus is on when the Fed joins the party. While Fed is not likely to cut next week, markets will be scrutinising the dot plot, press conference to look for clues. Our house view still expects the Fed to lower rate this year. XAU was last at 1367 levels. Bearish momentum on daily chart is fading while RSI rose. Risks now skewed for rebound. Next resistance at 2382, 2400 levels. Support at 2340 (50 DMA), 2310/20 levels. Elsewhere, we had earlier pointed to XAUXAG on a bullish divergence. The move higher may also have completed in course, hitting above key resistance of $78.90. Cross last seen at 77.84. Bullish momentum intact but RSI shows signs of turning bearish. Retracement not ruled out. Support seen at 77.27, 75 levels. Resistance at 79.20, 80.10 levels.

- **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.

- **MGS** traded on the firm side on Wednesday amid global bond rallies, but underperformed USTs in line with our view for MYR rates underperformances against USD rates on a downtrend. MYR forward points were paid up alongside, when liquidity appears on the tight side. To recap, although the statistics are lagging, outstanding Ringgit liquidity placed with BNM fell to MYR109bn at end-April. We continue to expect 3Y MGS yield to stay stable near-term, and to grind gradually lower towards the 3.30% level by year-end, with room for the spread between 3Y yield and OPR to narrow mildly while our base-case is for OPR to remain unchanged this year. This morning's focus is the reopening of the 20Y MGII (14 August 2043 bond), with an auction size of MYR3bn and private placement of MYR2bn. The bond was quoted at 4.17/4.12% yesterday and was still around these levels this morning.


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