GLOBAL MARKETS RESEARCH

Daily Market Outlook

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Payrolls in Focus

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- **DM rates**. Bund yields rose upon the ECB policy rate cut decision as the central bank "is not pre-committing to a particular rate path"; yields ended the day 2-4bps higher. We see short-end EUR OIS levels as fair, while there is room for bunds to outperform swaps at the short end on a multi-month horizon. USTs traded in ranges overnight as market waited for tonight's payroll and labour market reports. As the rates market already reacted to the recent soft data prints, a downside surprise on payroll is probably needed to further UST rally. Otherwise, some upticks in yields - to the 4.33-4.40% area for the 10Y for example - are likely as investors prepare for the upcoming FOMC and May CPI release just hours before the monetary policy decision. Usage at the Fed's overnight reverse repo was fairly stable, at USD378bn on Thursday. USD58bn of 3Y, USD39bn of 10Y and USD22bn of 30Y coupon bonds are auctioned next week; the 10Y and 30Y sales are downsized from last month as planned. Net coupon bond settlement will be at USD68.5bn, while net bills paydown is at USD19bn.

- **DXY. *Subdued ahead of Payrolls.*** DXY traded a session of 2 halves overnight as gains reversed into NY close while UST yields continued to trade near recent lows. Initial jobless claims, continuing claims rose, adding to signs that labour market tightness is easing. NFP tonight (830pm) will be closely scrutinized. Markets are looking for payrolls to print +180k and average hourly earnings to pick up on sequential basis (+0.3% m/m). Softer print would further reinforce our view that the US exceptionalism narrative is in moderation, and that Fed remains on track to lower rates this year. This should add to USD downside but ahead of FOMC next week, we still expect USD to trade range-bound. DXY was last seen at 104.09. Daily momentum is bearish while RSI fell. Support here at 104 (50% fibo). Decisive break puts next support at 103.20 (38.2% fibo). Resistance at 104.40 (100, 200 DMAs), 104.60/80 levels (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.

- **ECB decision**. The Governing Council decided to lower the three key ECB interest rates by 25bps. On PEPP, the ECB confirmed that it would reduce the PEPP portfolio by EUR7.5bn per month on average in H2-2024, and thereafter discontinue reinvestments; this intention was made back in December 2023. While the main part of their decision was as expected, the MPC statement and the subsequent press conference by President Lagarde came with some elements which might appear hawkish for those who had expected a steady rate-cut path. 1/ ECB revised upward inflation forecasts from March projections, from 2.3% to 2.5% in 2024 and from 2.0% to 2.2% in 2025. 2/ the MPC statement kept the comment that the Governing Council "will keep policy rates sufficiently restrictive for as long as necessary". 3/ Lagarde opined that inflation is expected to decline towards target over "the second half of next year", instead of simply "next year" as previously mentioned. Still, overall, the ECB stance underlines our view for no back-to-back rate cuts. EUR OIS price additional 40bps of cuts for the rest of the year, mostly in line with our base-case for 50bps of cuts.

- **EURUSD. *Cut but Path Unclear.*** EUR traded choppy around ECB decision/presser but bulls managed to win the day. ECB cut rate by 25bp, as widely anticipated but the rhetoric was not as dovish as some may have hoped. Inflation forecast for 2025 was revised higher to 2.2%, Lagarde said that domestic inflation remains high and ECB officials did not give too much forward guidance as they are "not pre-committing to a particular rate path". These are in line with the view that rate cut trajectory beyond June meeting remains unclear. Markets are now pricing in the next cut at the Sep meeting (91% probability) and cumulatively, about 40bps cut for the year remaining. EUR was last at 1.0897 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). Elsewhere, European parliamentary elections are underway (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.

- **XAUUSD.** ***Bullish Pressure Returning.*** Gold extended its run higher as major central banks around the world, including ECB and BoC joined the rate cut party. Hopes are also coming back for the Fed to soon ease rates as US data continued to surprise to the downside. While Fed is not likely to cut next week, markets will be scrutinising the dot plot, press conference to look for further clues with regards to when the Fed may move. Today, the focus is on US payrolls. Softer print will add to hopes that Fed may ease soon, and gold would react positively. XAU was last at 2377 levels. Bearish momentum on daily chart is fading while RSI rose. Upside risks remain. Next resistance at 2390, 2400 levels. Support at 2340 (50 DMA), 2310/20 levels.

- **USDSGD.** ***Watching US Payrolls.*** USDSGD continued to trade near recent lows, tracking the moves in UST yields. Pair was last at 1.3455 levels. Daily momentum turned mild bearish while RSI was flat. Support here 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. US payrolls tonight will be key. A softer print may see the pair undershoot to the downside but still ahead of FOMC next week, we still expect the pair to trade range-bound. Intra-day 1.3430 – 1.35. Our estimates show S$NEER at +1.84% above model-implied midpoint, coming close to the stronger bound of the S$NEER. It has also come to our observation that the recent strength in the S$NEER is also consistent with strength in some of the traditional safe haven FX proxy such as CHF. For those who have gone short S$NEER, one may consider long CHF as a hedge against the basket.

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