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Daily Market Outlook

Disinflation Meets Oil

Sim Moh Siong
FX Strategist
(G10 & oil)

Christopher Wong
FX Strategist
(Asia & precious metals)

- ***Disinflation Meets Oil****: Softer US inflation data further pared Fed tightening expectations and supported risk sentiment. However, higher oil prices and Middle East tensions are limiting USD downside. With USD upside lacking fresh fuel, carry trades remain the market's preferred trade for now.*

- ***UK Fiscal Tightrope****: Hope of a fiscally conservative Chancellor appointment has supported GBP, but persistent fiscal constraints limit the currency's upside. Growing spending demands and limited fiscal room could soon shift attention from optimism to execution risks.*

- ***Further downside in USDCNY is dependent*** on USD softness extending and the fix continues to validate spot moves. *That said, soft data may still limit the pace of RMB gains.*

- ***KRW gains extended as corporate-led repatriation*** *and broader exporter USD selling provided the initial catalyst, while softer USD conditions helped sustain the move.*

Disinflation Meets Oil: A second consecutive downside inflation surprise in the US further reduced expectations of near-term Fed tightening, driving front-end Treasury yields lower and supporting risk-sensitive currencies. However, gains in longer-duration assets remained restrained as higher oil prices and geopolitical risks continued to weigh on sentiment.

The case for a July Fed rate hike weakened further, with markets now pricing in just 2bps of tightening, down from 11bps on Monday. Softer-than-expected US PPI data, both headline and core, reinforced the disinflation narrative. The report also suggested that prices of certain electronic components used by US manufacturers stabilised in June, helping to ease concerns that the AI investment boom could generate broader inflation pressures.

Even as US inflation proves more benign than initially feared, the follow-through from a weaker USD and lower US yields may be limited until there is greater clarity on energy-related supply risks. Crude oil prices extended their gains as the US intensified military action against Iran, raising concerns over potential disruptions to global oil supplies. President Trump pledged to escalate attacks until Iran ceases hostilities against vessels in the Strait of Hormuz and agrees to reopen the waterway.

While we continue to expect modest USD appreciation by year-end, near-term upside momentum is likely to remain constrained in the absence of fresh catalysts. For now, this environment should remain supportive of carry trades.

UK Fiscal Tightrope: All eyes are on incoming UK Prime Minister Burnham's choice of Chancellor and the government's economic agenda. GBP and gilts rallied after reports that Burnham is likely to appoint Shabana Mahmood as Chancellor, rather than a candidate viewed as less fiscally conservative. We continue to expect a fiscally responsible shift to the left. However, competing demands, including higher defence spending and reversing cuts to unprotected departments, could prove difficult to accommodate within the current fiscal framework. This creates a key tension heading into the Autumn Budget and next year's Spending Review.

The OECD echoed these concerns in its latest UK outlook, warning that fiscal discipline remains essential. It highlighted high public debt, elevated interest costs, and rising healthcare and social care spending pressures as key constraints on fiscal flexibility. Against this backdrop, we believe the recent EURGBP correction is likely to run out of steam. We continue to expect the cross to recover towards 0.87 in the coming months, consistent with our broader range-bound view on GBP.

RMB. **Led by USD decline, and PBoC validation**. USDCNY extended its decline as softer US CPI, PPI weighed on the USD and pared back Fed tightening expectations. Firmer PBoC fixings reinforced the move, suggesting policymakers are comfortable allowing some gradual RMB appreciation rather than actively pushing the currency higher. China's large June trade surplus provides a supportive flow backdrop, with market chatters of exporter USD sell flows, though this is better viewed as a possible amplifier than a confirmed driver. Near term, further downside in USDCNY may depend on USD softness extending and the fix continuing to validate spot moves. China's soft domestic growth backdrop and scope for further policy easing should still limit the pace of RMB gains. USDCNH last seen at 6.7690 levels. Bearish momentum on daily chart intact while RSI shows signs of turnaround from near oversold conditions. Support at 6.7540 (year-to-date low). Decisive break may open room for 6.72 – 6.74 area. Meantime, resistance at 6.7860/ 6.79 (21, 50 DMAs)

KRW. Flow-led gains extend. USDKRW continued to move lower, with corporate FX supply providing the initial catalyst and broader USD softness creating a more conducive backdrop for the decline to extend. Expectations of repatriation linked to SK Hynix's US fundraising initially drove the move, while exporter and shipbuilder forward selling has since added to USD supply. Foreign equity flows have also improved at the margin (week-to-date +USD675m net equity inflows), easing a source of USD demand. Softer US inflation and firmer BoK expectations (markets expect 25bp hike at upcoming MPC today) further reinforced the move and likely prompted some unwinding of long-USDKRW positions.

USDKRW may stay offered while these conversion flows continue, though the pace of decline could slow as the anticipated supply is progressively priced. Elevated oil prices and continued overseas investment demand may still limit the extent of KRW gains. USDKRW last seen at 1490 levels. Bearish momentum on daily chart intact though RSI is near oversold conditions. Support here at 1484, 1473 levels (200 DMA, 61.8% fibo retracement of 2026 low to high). Resistance at 1497 (100 DMA), 1512 levels (50 DMA).

Technical Levels Table

	EURUSD	USDJPY	GBPUSD	USDCHF	AUDUSD	NZDUSD	USDCAD	XAUUSD	USDSGD	USDPHP	USDINR
Resistance 3	1.1605	163.21	1.3849	0.8229	0.7100	0.5955	1.4152	4181	1.2997	61.86	96.67
Resistance 2	1.1528	162.69	1.3671	0.8148	0.7049	0.5897	1.4100	4117	1.2947	61.76	96.43
Resistance 1	1.1495	162.44	1.3605	0.8101	0.7027	0.5874	1.4071	4089	1.2919	61.72	96.35
Spot	1.1470	162.08	1.3542	0.8048	0.7010	0.5847	1.4038	4056	1.2885	61.69	96.27
Support 1	1.1418	161.92	1.3427	0.8020	0.6976	0.5816	1.4019	4025	1.2869	61.62	96.12
Support 2	1.1374	161.65	1.3315	0.7986	0.6947	0.5781	1.3996	3989	1.2847	61.55	95.97
Support 3	1.1297	161.13	1.3137	0.7905	0.6896	0.5723	1.3944	3926	1.2797	61.44	95.73
Bollinger Band											
Bollinger Upper	1.1480	162.82	1.3535	0.8135	0.7019	0.5841	1.4279	4203	1.2975	61.95	96.21
Bollinger Lower	1.1353	161.08	1.3116	0.8026	0.6862	0.5592	1.4056	3966	1.2886	60.83	93.94

Source: Bloomberg, OCBC Group Research. Potential resistance and support levels are identified based on pivot points

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