OCBC TREASURY RESEARCH

OCBC Bank

Daily Market Outlook

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Breather

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- **UST** yields fell upon the release of softer-than-expected US services PMI/ISM and factory orders, with the curve a tad steeper. Fed funds futures price a 74% chance of a 25bp hike by the July FOMC meeting, versus an 80% chance priced a day ago. Overnight, the 3M and 6M bill auctions garnered strong demand. Cut-offs were below WI levels and lower than those at previous auctions, while bid/cover ratios were high at 3.15x and 3.14x for the 3M and 6M bills respectively. So, delayed supply met with pent-up demand. We remain of the view that T-bill issuances will not have a material (upward) impact on bill yields as these represent delayed supply, US Treasury may pace out issuances or lower cash target, and some funds will be mobilized from the Fed's reverse repos. Indeed, usage at the Fed's o/n reverse repo at USD2.131trn on 6 June was USD123bn lower than the recent peak on 31 May.

- **DXY.** ***Range*****.** USD eased off highs, alongside the pullback in UST yields as US data disappointed to the downside. ISM services – employment, prices paid, new orders all fell while factory orders and durable goods orders came in lower than preliminary readings. That said, USD moves remain restrained, in line with our expectations that recent ranges should still hold ahead of FoMC. Unexpected rebound in US CPI, upward revision to 1Q GDP and somewhat resilient labour market prints still point to some risks that Fed may adopt a hawkish stance at upcoming FoMC (14 Jun) even if the Fed skips a hike. As such, we expect markets to continue to trade on a cautious and selective stance and that may imply that recent range could still hold. Overall, we reiterate that Fed nearing end of tightening cycle typically implies limited room for USD upside. Moreover, dovish expectations have been entirely unwound and we still do not expect Fed to hike that once more but to remain status quo for most of the remainder of the year. Softer US data and more entrenched disinflation trend can help to keep USD bulls from breaking higher. There is still 1 more CPI report next week (13 Jun) before FoMC on 14 June. Moving on, the week is also relatively quiet on the economic data front while Fedspeaks enter into blackout period. DXY was last at 104 levels. Bullish momentum on daily chart shows signs of easing while RSI had eased from overbought conditions. Support here at 104 (61.8% fibo), 103.40 (50% fibo) and 102.75/90 (38.2% fibo, 21, 100 DMAs). Resistance at 104.70 (76.4% fibo retracement of 2023 high to low), 105.15 and 105.65/80 levels (2023 high, 200 DMA).

- **EURUSD**. ***Bounce but Range Likely to Hold.*** EUR rose modestly amid USD pullback, but range remains subdued. Pair was last at 1.0720 levels. Bearish momentum on daily chart shows signs of fading while

RSI rose. Slight risks to the upside. Resistance at 1.0740 (61.8% fibo), 1.08 (50% fibo). Support seen at 1.0640/50 (76.4% fibo retracement of 2023 low to high), 1.06 levels.

- **USDJPY. *Still Looking for Downside Play.*** USDJPY turned lower overnight, tracking moves in UST yields closely. Pair was last at 139.55 levels. Daily momentum is flat while RSI fell. Risks modestly skewed to the downside. Support at 139.60 (50% fibo), 138.50 levels (recent low). Resistance at 140.20 and 142.50 (61.8% fibo retracement of 2022 high to 2023 low). Bias still to play from the short bias. We remained cautious of another verbal intervention should USDJPY's pace of rise proves rapid. Recall that MOF-FSA-BOJ met last Monday, and top currency official said that the government will continue to closely monitor market moves and will take appropriate responses if necessary. We do not expect officials to lean against the wind so soon but to rely on verbal intervention to slow JPY's depreciation pace if need arises. In any sense, intervention typically buys time or delay/slow pace of depreciation. A turn in trend would require UST yields to ease off or a BoJ to shift policy. This puts focus on BoJ MPC next week (16 Jun). Recall at the last BoJ MPC (28 Apr), a policy review was unveiled as expected but the projected timeframe for the review (up to 1 – 1.5years) was much longer than expected. BoJ Governor Ueda did clarify that policy change is still possible during policy review. We opined BoJ is buying time, and this suggests that JPY bulls may have to be more patient. We doubt BoJ will use the full 18 months review duration, but it also appears that the next MPC (16th Jun) may be too soon to expect any policy shift. Nevertheless, we are still in favour of BoJ policy normalisation amid broadening inflationary pressures and wage growth seen in Japan.

- **AUDUSD. *RBA in Focus.*** AUD continued to trade a touch firmer amid USD pullback, rebound in commodity prices including iron ore, copper; in reaction to Bloomberg report that China may be working on stimulus to support China property market while markets appear to be positioning for hawkish hold at RBA meeting (1230pm SG time). AUD was last at 0.6620 levels. Daily momentum turned mild bullish though rise in RSI moderated. Rally appears capped under 0.6625 (21 DMA) for now. A$ needs to clear above several key resistances, including 21DMA, 0.6660 (50 DMA) for bulls to regain confidence. Failing which, AUD could revert to trading lower range. Support at 0.6570 (61.8% fibo), 0.6430 (76.4% fibo retracement of Oct low to Feb high). Elsewhere, the extent of RMB swings remain a risk to watch. Sharp depreciation will undermine AUD but assuming RMB depreciation doesn't turn disorderly, AUD can still ride on the rebound in commodity prices and equity sentiments.

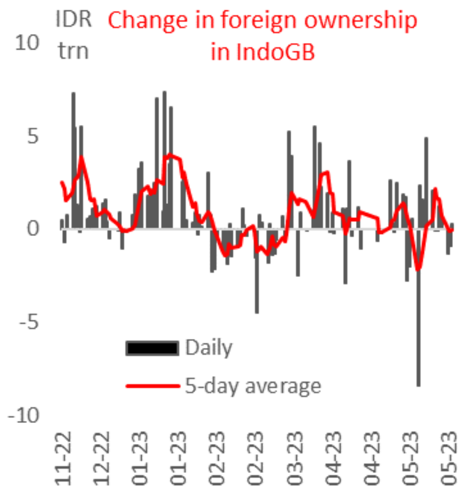
- **USDSGD. *Retracement Underway but Likely Shallow.*** USDSGD eased slightly tracking the pullback in USD overnight. Pair was last at 1.3485 levels. Bullish momentum on daily chart shows signs of fading while

RSI fell. Support at 1.3435 (21 DMA), 1.3380 (23.6% fibo retracement of 2022 high to 2023 low). Resistance at 1.3565, 1.3590 (38.2% fibo). Dip in USDSGD may be shallow for now as markets remain cautious of hawkish Fed at upcoming FoMC next week. Fri's bumper payrolls, unexpected rebound in CPI and upward revision to 1Q GDP still point to some risks that Fed may adopt a hawkish stance at upcoming FoMC (14 Jun) even if officials skip a hike while ongoing RMB softness remains a drag on SGD. S$NEER trades 1.31% above model-implied mid.

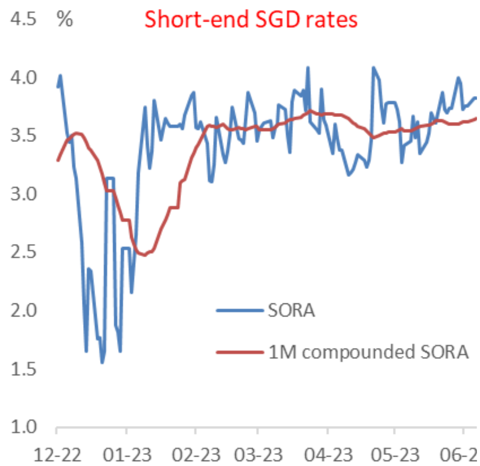
- **USDCNH.** ***Breather.*** USDCNH eased away from recent highs amid pullback in USD, UST yields. Pair was last at 7.1150 levels. Bullish momentum on daily chart shows signs of fading while RSI shows signs of easing from near overbought conditions. Immediate resistance at 7.12, 7.14 (Thu high). Decisive break (on close basis) puts next resistance at 7.20, 7.2150 levels. Elsewhere, support at 7.10, 7.07 levels. Overall, path of least resistance for USDCNH is to the upside considering negative RMB carry, push-back in China reopening momentum (due to weaker China data) and foreign outflows. A pullback in UST yields, USD can help to alleviate pressure on RMB.

- **IndoGBs** held up well after the long weekend, amid the sanguine supply outlook. There was a fiscal surplus of IDR234.7trn as of 30 April, as fiscal revenue reached 40.6% of budget while the MoF managed to spend only 25% of budget. The sukuk auction today has the usual indicative target of IDR9trn; issued amount may not be up to target as there is no funding pressure with surplus cash. As the reference, at the previous sukuk auction on 23 May, IDR7trn of bonds were awarded versus target of IDR9trn, and at the conventional bond auction on 29 May, IDR15trn bonds were awarded versus indicative target of IDR17trn. IndoGBs saw foreign inflows amounting to IDR6.67trn in May, with foreign holdings standing at IDR829trn of 15.26% of outstanding as of 31 May.

- **SGD rates**. SGD liquidity has turned tighter over the past couple of weeks, as reflected by higher front-end rates including SORA itself and the relatively high cut-offs at recent MAS bill auctions. There is a chance that cut-offs at today's 4W and 12W MAS bill auctions come in lower than those at last week's auctions as market implied SGD rates have edged lower. We however will monitor the spreads between cut-offs and implied SGD rates to gauge SGD liquidity situation. Beyond the very short end, SGD-USD OIS differentials have stayed fairly negative, as USD rates rose rapidly and the tendency has been that SGD rates outperformed USD rates on an uptrend. SGD-USD rate differentials look overly negative to us but some stabilization in USD rates is needed for the differentials to turn less negative. On bond side, SGS outperformed OIS in May in line with our expectations; there may still be some room for SGS outperformance over OIS. The 10s15s segment of the SGS curve may stay mildly inverted given demand for



Source: Bloomberg, OCBC Research



Source: Bloomberg, OCBC Research

longer tenor bonds, while market awaits the announcement on 20 June of the size of the 10Y SGS re-opening. We believe supply will be calibrated catering for demand. Earlier, following market feedback from primary dealers, MAS has decided it will not be holding a mini-auction on 27 June.

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