Daily Market Outlook

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ECB Forum in Sintra

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- **DXY. *Under Pressure*.** USD continued to trade under pressure as recent US economic data (Chicago PMI, Dallas Fed manufacturing activity) disappointed overnight, while markets increasingly priced in expectations of Federal Reserve rate cuts. Currently, the market is fully pricing in a rate cut in September, with a 20% chance of a cut as early as July. On the fiscal front, the Congressional Budget Office (CBO) has revised its estimate for the amended budget bill, projecting it will add $3.3 trillion to the national debt over the next decade, up from the previous $2.8 trillion estimate for the House version. This larger debt projection raises concerns about the medium-term trajectory of US debt and deficits, reinforcing the narrative to "sell USD." Historically, US-centric risks such as ballooning debt and deficits, a widening current account deficit, and expectations of Fed cuts have weighed heavily on the dollar. Notably, similar conditions contributed to significant USD declines of around 30% between 2002 and 2004, and over 20% during the 2007-2009 period. US centric risks, risk-on sentiment, signs of tentative progress on trade talks with US point to further downside in the USD. Yesterday, White House National Economic Council Director Kevin Hassett signalled that agreements with several governments would be announced after US Independence Day. DXY traded heavy; last at 96.80 levels. Bearish momentum on daily chart intact while RSI fell to near oversold conditions. Support at 96.50, 96.20 levels. Resistance at 97.50/60 levels, 98.30 (21 DMA). Today brings ISM manufacturing, JOLTS job openings data.

- **EURUSD. *Sintra Forum in Focus.*** EUR extended its run higher towards 1.18-handle briefly this morning as USD loses ground broadly. Overnight, it was reported that EU is willing to accept a trade arrangement with the US that includes a 10% tariff amongst other components. In return, EU wants the US to commit to lower rates on key sectors such as pharmaceuticals, alcohol, semiconductors and commercial aircraft. We continue to watch developments that may unfold ahead of 9 Jul. ECB Forum in Sintra (30 Jun – 2 Jul) is a key event to watch, with highlight on a powerhouse panel session tonight (930pm SGT), when Fed's Powell, BoJ's Ueda, ECB's Lagarde, BoE's Bailey and BoK's Rhee will participate in. Central bankers may share insights or even paint guidance with regards to economy and monetary policies amidst market uncertainty. Historically, the Sintra Forum has been a stage for market-moving signals. Back in 2017, the then-ECB president Draghi used the forum to highlight reflationary pressures in the Eurozone, which helped push the euro higher. In 2019, he hinted at further monetary stimulus, leading to a weaker euro. Given this track record, we will be watching this year's panel closely for any clues. Pair was last at 1.1790 levels. Bullish momentum on daily chart intact while RSI rose into overbought conditions. Next resistance at 1.1820 levels, before 1.1920 levels. Support at 1.1630, 1.1550 (21 DMA).

- **USDJPY. *Downside Bias.*** USDJPY drifted lower this morning, breaking past 144-support. Tankan survey came in better than expected for large and small manufacturers, supporting the view for BoJ policy normalisation. Elsewhere, Japan's chief trade negotiator Akazawa said that Japan is still exploring if it is possible to reach a trade agreement ahead of 9 Jul deadline. Trump had threatened to impose a fresh tariff rate on Japan and commented on Japan not importing US rice when Japan is facing a massive rice shortage. Pair was last at 143.80 levels. Bullish momentum on daily chart faded while RSI continues to fall. Risks remain skewed to the downside. Support next at 143.10, 142.50 levels. Resistance 144.40/50 levels (23.6% fibo, 21, 50 DMAs), 146.40 (100 DMA) and 147.15 (38.2% fibo retracement of 2025 high to low.

- **USDCNH. *Measured Pace.*** USDCNH continued to trade lower in subdued ranges near its recent lows. USDCNH last at 7.1580 levels. Daily momentum is showing tentative signs of turning mild bearish but decline in RSI shows signs of moderation. Support at 7.15, 7.1460 (61.8% fibo retracement of 2024 low to 2025 high). Resistance at 7.1820 (21 DMA). Consistent trend of CNY fix being set stronger (than previous day), relatively upbeat Caixin PMI manufacturing, confirmation of trade deal framework between US and China as well as a softer USD environment should continue to point to a more constructive outlook for RMB. But at the same time, we believe policymakers will continue to pursue setting the USDCNY fix at a "measured pace" to also help anchor relative stability in RMB overall. Any sharp or rapid RMB appreciation may risk triggering exporters rushing to sell USD holdings and that cycle (if it happens) may result in excessive RMB volatility and strength. This may hurt exporters' margins and have wider repercussion on deflation. A more gradual pace of appreciation could repair investor sentiments and encourage a return of foreign inflows.

- **USDSGD. *Will 1.27 Give Way?*** USDSGD fell further amid broad USD weakness. Pair was last at 1.2715 levels. Daily momentum is mild bearish while RSI is near oversold conditions. Risks remain skewed to the downside, but we may see some slowdown in pace of decline. Next support at 1.2710, 1.2650 levels. Resistance at

1.2780, 1.2840 levels (21 DMA), 1.2930 (50 DMA). A combination of tentative progress on trade talks, soft USD environment, stronger RMB should keep the momentum going. S$NEER stays near upper bound; last at ~1.99% above our model-implied mid. From a trade weighted point of view, there may be limited room for SGD to appreciate against trade peers, like KRW and TWD, EUR. While the SGD remains relatively strong, its strength is uneven and, in some cases, weaker compared to certain currencies. Based on YTD % change, CHF, EUR, and TWD have appreciated between 3% and over 6% against the SGD, whereas the GBP, NZD, KRW, and JPY have seen more modest gains of 1% to 2%. Conversely, the SGD is stronger against several Asian currencies (AxJs), including the IDR, INR, THB, and PHP, which have been weighed down by softer fundamentals. In the context of the USDSGD pair, the USD component remains a significant driver; therefore, if the USD continues to weaken, USDSGD could still trend lower despite the relative strength of the SGD.

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