GLOBAL MARKETS RESEARCH

Daily Market Outlook

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Consolidation ahead of data and auctions

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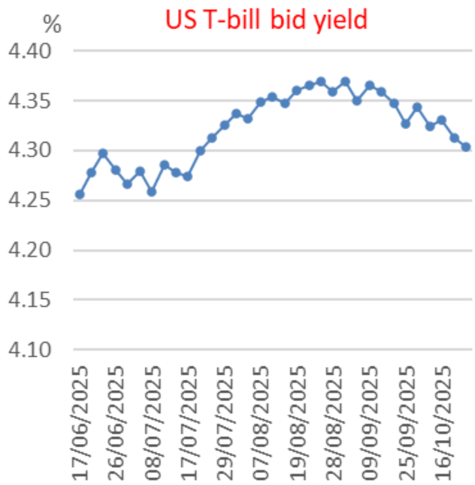
Global Markets Research and Strategy

- **USD rates**. USTs consolidated overnight with yields ending the day a tad lower, ahead of CPI release and coupon bond auctions this week. Before May CPI release on Wednesday, NY Fed's May inflation expectation survey showed that inflation expectation eased across 1-year, 3-year and 5-year horizons; 1-year inflation expectation eased to 3.20% YoY in May, versus 3.63% in April. USTs have been trading in ranges over the past week, responding to the data while 10Y term premium has retraced from peak over recent days; these performances reflect a return to fundamentals but the 30Y coupon bond auction on Thursday will be a test to market demand. 10Y real yield was last at 2.15% and 10Y breakeven at 2.32%; near-term range for 10Y UST yield remains at 4.34-4.52%. At the front end, T-bills sales continued to be well received amid limited supply; there is bills paydown of USD61bn this week. The bill yield curve continued to show expectation for the "X-day" around late August but the yield premium is narrow, not reflecting much market concern at this juncture.



Source: Bloomberg, OCBC Research

- **DXY. *Short Covering Underway***. USD consolidates with mild upticks this morning. DXY was last at 99.20 levels. Daily momentum and RSI indicators are not showing a clear indication. Support at 98.35, 97.90 (2025 low). Resistance at 99.80 (21 DMA), 100.20 (50 DMA). We continue to flag the risk of USD short covering ahead of CPI, PPI reports (Wed, Thu, respectively) and FOMC event risk next week. US CPI (on Wed) can be a binary risk. Consensus expects core CPI to pick up slightly to 0.3% MoM (vs. 0.2% prior) and headline CPI to hold steady at 0.2% MoM. Softer print may see USD softness resuming while firmer print may see USD shorts unwind further. On US-China trade talks, Scott Bessent told reporters yesterday they had a "good meeting" while Lutnick called the discussions "fruitful". US signalled a willingness to remove restrictions on some tech exports in exchange for assurances that China is easing limits on rare earth shipments. We continue to monitor if the current round of US-China trade talks (extends into day 2 in London) leads to a more formalised agreement before the trade truce expires on 12 Aug. Positive developments on this front should continue to keep AxJs broadly supported.

- ***EURUSD. Mild Downside Risks.*** EUR eased below 1.14-handle in morning trade as USD saw a mild rebound. Last seen at 1.1390 levels. Mild bullish momentum on daily chart is fading while RSI fell. Near terms risks skewed to the downside. Support at 1.1320 (21 DMA), 1.1235 (23.6% fibo retracement of 2025 low to high). Immediate resistance at 1.1420/30 levels before 1.15, 1.1570 levels (2025 high). EUR needs to break out of recent high for momentum to carry on. Failing which, it may well revert to trading 1.12 – 1.15 range.

- **GBPUSD. *Labour Market Data Today.*** GBP continued to hover near recent highs amid broad USD softness while EUR's rally had spillover effects. While better than expected data (reflected in recent GDP, retail sales, PMI data) has been supportive of GBP's rally, this week's labour market data (Tue), IP, GDP, trade data on Thu as well as the S&P, KPMG, REC UK joint report on jobs (Fri) will be key. A stronger print should continue to solidify GBP's rebound momentum, but a softer data outcome may dent the momentum. Pair was last at 1.3565. Daily momentum shows signs of turning mild bearish while RSI fell. Corrective pullback not ruled out. Support at 1.3440/60 levels (previous double top, now turned support, 21 DMA), 1.33 (50 DMA). Resistance at 1.3620, 1.3750 levels. We look for opportunity on dips to buy into.

- **USDSGD. *Consolidation.*** USDSGD consolidated, as markets await further details (if any) of US-China trade talks, which is now entering into day 2 in London. Pair was last at 1.2880 levels. Daily momentum is mild bullish while RSI rosed. Consolidation likely for now, with the pair likely taking cues from external drivers. US CPI on Wed can be a binary event – softer print may see USD softness resuming while firmer print may see USD shorts unwind further ahead of FOMC. But beyond the near term, we continue to expect USDSGD to trend lower. Support at 1.2850, 1.2790 (Sep 2024 low). Resistance at 1.2920 (21 DMA), 1.3020 (76.4% fibo retracement of 2024 low to 2025 high). S$NEER is at ~1.77% above our model-implied mid. With S$NEER trading near the upper bound of its band, we continue to see room for SGD to trade less strong against its trade peers (i.e. JPY, KRW), if tariff de-escalation momentum and softer USD trend continue to play out.

- **SGD rates**. SGD OIS traded higher yesterday and this morning, rebounding from the recent lows. SORA the overnight rate itself has also edged higher from the record low of 1.4568% attained last Thursday. Today brings the auctions of 4W, 12W and 36W MAS bills. This morning, 1M and 3M implied SGD rates traded at levels that were around 12-14bps below levels on 3 June (the day of the last MAS bills auctions), pointing to downside to MAS bills cut-off, more so for the 4W bills as the spread between cut-off and implied rate at the previous auction was on the wide side because of the maturity date. Expected range for 4W MAS bills cut-off is at 2.1-2.2%, and that for 12W MAS bills cut-off is at 2.05-2.15%. But at current lower interest rates levels, uncertainty is high regarding the cut-off - rate spreads. Today's auctions will be a test as to whether the cash side catches up fully with the lower SGD rates, which in turn could reflect investors' view on whether the very flush SGD liquidity situation is here to stay. On the SORA OIS curve, 2Y and 3Y remain as the sweet spots at this point in time for hedging purposes.

- **HKD rates**. Implied HKD rates fell on Monday especially at 6M tenor and below, while back-end was relatively stable. Spot USD/HKD has been trading very near the weak side convertibility undertaking of 7.8500; impact on HIBORs is binary in that before spot touches 7.8500, the earlier injected liquidity will stay in the interbank market (unless HKMA proactively shift liquidity to the bills market); but as and when FX intervention is triggered, the increases in HIBORs can be rapid depending on market forces (how much HKMA needs to intervene). Further out the curve, HKD rates also traded on the soft side, probably as the steep curve has already incorporated a higher interest rates expectation – e.g. 1M implied HKD rate was last at around 0.5% while 6M implied HKD rate was at around 2.1%. HKMA Discount Window was tapped at a small amount of HKD20mn on Monday; on 3 June the Discount Window was tapped at HKD3bn. We do not read too much into these usages which were likely isolated incidents. We maintain an upward bias to HKD-USD interest rates differentials on a multi-month horizon. Back-end forward points stay roughly consistent with HKD-USD interest rates differentials – the uncovered part of the interest rate parity is within ranges; we have an upward bias to back-end points alongside our rates differential view.

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