Daily Market Outlook

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Markets responded to the data

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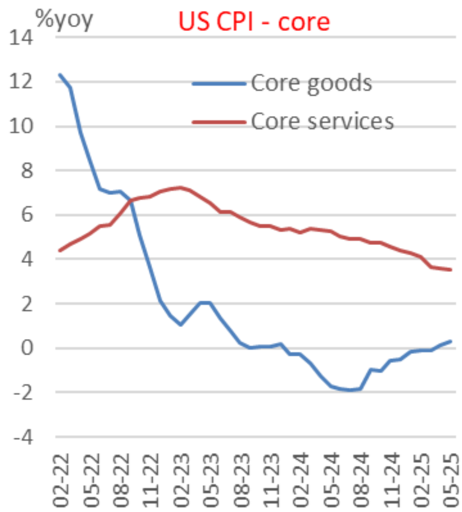
- **USD rates**. USTs rallied on the softer than expected CPI prints while the 10Y coupon bond auction was well received. The UST yield flattened as investors brought forward expectation for the next rate cut to September (84% chance priced) from October. The 10Y coupon bond auction stopped through at 4.421%, with bid/cover of 2.52x and indirect accepted at 70.6% both being decent. May CPI rose by 0.1% MoM, versus expectation for a 0.2% increase; the index for shelter rose by 0.3% and was the primary factor for the headline CPI inflation, while the energy index fell by 0.1%. Core CPI also rose by 0.1% MoM, versus expectation for 0.3%; indices that decreased included those for airline fares, used cars and trucks, new vehicles, and apparel. On a year-on-year basis, disinflation in core services prices continued, at a slow pace. While rent of shelter was a major contribution to headline YoY inflation, inflation in this category nevertheless has also continued to ease. Granted, inflation impact of tariff is uncertain, but with underlying disinflation on progress, market added mildly back to rate cut expectations. Bonds extended rallies at Asia open. 10Y real yield was last at 2.1% and 10Y breakeven at 2.3%; near-term range for 10Y yield remains at 4.35-4.52%.



Source: CEIC, OCBC Research

- **DXY. *Data Matters***. USD fell on softer than expected CPI. This puts focus on PPI data tonight (8:30pm) before the lead up to FOMC next week. In the event of a higher print, we may well see the overnight move reverse. But further downside data surprise (which cannot be ruled out given that the last PPI print was negative) may see DXY break below 2025 low. DXY was last at 98.40 levels. Daily momentum is not showing a clear bias while RSI fell. Support at 97.90 (2025 low). Resistance at 99.40 (21 DMA), 99.90 levels (50 DMA).

- **EURUSD. *ECB Boosting Appeal.*** EUR extended its move above 1.15-handle on broad USD softness overnight (post-CPI) and ECB comments. Apart from Lagarde, other Governing Council members echoed views relating to ECB nearing the end of the easing cycle, after 200bps of cut via 8 meetings. Kazimir said "As things stand now, ECB is nearly done, if not already at the end of the easing cycle". Stournaras said that the bar for more rate cuts is high. He also added that the views among the Governing Council (difference between doves-hawks) "have converged". Lane said that latest reduction in borrowing costs will guard against inflation getting stuck below 2%. Moreover, Lagarde took opportunity yesterday to bump up the role EUR can play as a reserve currency. She said the further shifts may be underway in global currencies and that currency shift may boost euro's international role. Elsewhere, progress on EU-US trade talks remains on the radar as the 9 Jul deadline draws closer. EU officials believe that this deadline may be extended. EUR was last at 1.1520 levels. Daily momentum is bullish while RSI rose. Next resistance at 1.1570 levels, if broken may trigger "buy-on-break" trades, with next resistance around 1.17 levels. Support at 1.1360 (21 DMA), 1.1305 (50 DMA).

- **USDSGD. *Consolidation.*** USDSGD slipped, tracking broad USD softness after US CPI underwhelmed. Pair was last at 1.2870 levels. Mild bullish momentum faded while RSI fell. Consolidation still likely. US PPI tonight is also another data to watch – 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 1.2790 (Sep 2024 low). Resistance at 1.2920 (21 DMA), 1.3020 (76.4% fibo retracement of 2024 low to 2025 high). S$NEER is at ~1.86% above our model-implied mid. With S$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 were offered down by 3-4bps this morning, mildly underperforming USD OIS. SORA the overnight rate itself normalised back up to 1.8919% on Wednesday. On levels, SGD OIS continued to trade at the low end of ranges; chasing the 2Y rate lower is not preferred given the deep V-shape on the SORA OIS curve. Meanwhile, 2Y SGS has outperformed swaps with bond/swap spread (OIS – yield) last at around -20bps versus the range of -40bps to -35bps earlier in May/April. Any rallies in 2Y SGS may turn less rapid from here. Asset-swap pick-up was last at around SOFR+45bps (before bid/offer spreads) at 10Y SGS, and at around SOFR+60bps at 20Y SGS (on 10Y hedge), which are still decent.

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