Daily Market Outlook

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Fluid Developments

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- **USD rates**. UST yields rebounded from intra-day lows during NY hours, as the risk sentiment improved while the 20Y coupon bond auction outcome was fair. Risk sentiment has since turned sour after Trump called for Tehran evacuation. Bond futures traded higher at Asia open this morning. Short-end yields have been relatively more stable ahead of FOMC. Focus is on the updates on GDP forecasts, inflation forecasts and the dot plot (Summary of Economic Projections, SEP). Market watch as to whether the median dot will move up, to indicate one cut instead of two cuts, which would require the move of two dots only – precisely as the bar does not appear high, an unchanged median dot will likely be seen as dovish. Fed funds futures last price 50bps of cuts for this year, with the chance of a 25bp cut by September FOMC meeting seen at 79%. Our base-case remains for 75bps of cuts before year-end amid a cooling labour market. Granted, the latest geopolitical development adds another swing factor to the disinflation progress, which may keep the FOMC patient for now. Bills auctions were nevertheless well received as supply is on the low side. While the bills yield curve reflects the expected "X-day" around mid-August, the yield premium priced is not wide. At the longer end, near-term range for the 10Y UST yield is back to the usual 4.35-4.52%.

- **GBP rates**. Gilt yields edged lower on Monday, ahead of BoE MPC meeting later this week. BoE is widely expected to keep the Base Rate unchanged at this week's meeting. Focus is on the easing path beyond this meeting, and hence the split of votes will again be closely watched – where one or two votes for a cut is expected. We also expect the guidance of "a gradual and careful approach" to stay. Our base case is for one 25bp cut each in Q3 and Q4, premised on a benign inflation backdrop which in turn hinges partly on energy prices staying stable. Ofgem set the energy price cap lower for Q325 versus Q225, mainly as wholesale prices for energy have gone down. Should the higher oil prices be sustained for longer, that would post upside risk to UK inflation. At this juncture, GBP OIS still priced additional 47bps of cuts for the rest of the year, in line with our base case. 10Y bond swap spread still appears supportive of the bond.

- **DXY. *Sideways Near Recent Low*.** USD continued to trade near recent lows as markets navigate higher oil prices owing to geopolitical tensions, tariff uncertainties and central bank meetings this week. USD's bounce on Fri owing to geopolitical escalation proved short-lived as "sell USD" trade came back with a punch. EUR broke above 1.16-handle briefly overnight, AUD and NZD reclaimed 0.65, 0.60 handle and in AxJ space, TWD strengthened. Gold prices eased overnight as tensions appeared to ease slightly. Trump yesterday said that Iranian officials called him to discuss the situation. But this morning, Trump said "everyone should immediately evacuate Tehran". He also hinted to reporters that there would be more developments in the Middle East as soon as he leaves the G7 meeting (to return to US). White house officials just indicated a proposal this week with Iran on topics relating to nuclear deal and ceasefire. Geopolitical development remains fluid and deserves further monitoring. De-escalation would likely weigh on the dollar and bring support back to risk proxies but if tensions worsen, high-beta FX such as AUD and NZD may trade on the back foot. Also, oil prices may risk going higher should tensions worsen dramatically. This may dampen the momentum in some AxJ FX, especially net oil importer FX, including INR. DXY was last at 98.25 levels. Daily momentum has a mild bearish bias but RSI shows signs of rising from near oversold conditions. Resistance at 99 levels (21 DMA), 99.60 (50 DMA). Support at 97.60 (recent low). Focus this week is on FOMC (Thu 2am SGT). Status quo likely, but all eyes on the dot plot and press conference. Markets look for 2 cuts by year-end. If the Fed signals just one cut (last dot plot looks for 2 cut) or pushes back easing expectations, then USD could get another lift, but anything less hawkish/more dovish could trigger USD selling.

- **USDJPY. *BoJ, Geopolitics to Drive Price Action.*** USDJPY rose as Trump and PM Ishiba did not agree to a trade deal, while slight signs of easing geopolitical tensions also saw some unwinding of JPY longs while market expectation for BoJ to stand pat kept the pair broadly supported. We had earlier indicated that BoJ MPC on Tue may complicate JPY's safe haven story. Governor Ueda's recent comments that BoJ is still some distance from 2% goal gave the impression that timing of next hike may be pushed back. The timing of the BoJ policy normalisation may be deferred but policy normalisation is not derailed. Broadening price pressure and wage growth suggest that BoJ's next course of action remains a hike but in the interim, BoJ may prefer to stay on hold due to uncertainties on outlook and tariff. Nevertheless, we remain watchful for any surprise hawkish tone (from press conference) as that may pose downward pressure on the pair. USDJPY was last at 144.95 levels. Mild bullish momentum on daily chart intact while RSI rose. Slight risk to the upside. Resistance at 145.10, 145.50 levels. Support at 144 (21, 50 DMAs), 142.50 levels.

- **USDSGD. *Near Term Rebound.*** USDSGD eased slightly. Pair was last at 1.2815 levels. Mild bullish momentum on daily chart intact while RSI show signs of rising. Rebound likely in the near term. Resistance at 1.2870 (21 DMA), 1.3020 (76.4% fibo retracement of 2024 low to 2025 high). Support at 1.2760 levels (recent low). S$NEER continued to strengthen slightly; last at ~1.95% above our model-implied mid.

- **CNY rates.** Repo-IRS traded on the soft side but still with limited price action. PBoC net injected a negligible amount of liquidity via daily OMOs this morning, which is not the market focus. Recent outright reverse repo operations underline our view that PBoC is likely to stay supportive of liquidity. In offshore, RMB30bn of 6M offshore PBoC bills are to be tendered on 18 June; while the amount is more than the RMB20bn of PBoC bills of original maturity of 6M that mature, RMB40bn of PBoC bills of original maturity of 3M matured last month that was not rolled over. Overall, CNH liquidity stays flush. 1Y implied CNH rate will likely stay below onshore 1Y repo-IRS before additional monetary easing upon which onshore rates may fall more. Southbound Stock Connect registered net-buy for 14 days in a row, although the daily amounts fluctuated.

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