Daily Market Outlook

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Waller's Comments; Japan Upper House Elections

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- **USD rates**. UST yields rose upon the stronger prints of June retail sales, before retracing back to end the day a tad lower. June import prices unexpectedly fell by 0.2%YoY; month-on-month, import price index printed softer than expected at 0.1% while May's number was revised down to -0.4%. Waller's comments came after market closed. He opined that the FOMC should cut rate at this month's meeting, citing a weakening labour market. Indeed, the varying opinions within the Committee mainly emanating from the assessment on whether upside risk to inflation or downside risk to the labour market is the predominant concern. As such, the data remains the key. Among this month's releases thus far, June CPI reflected some passthrough of tariff impact, but underlying inflation stayed anchored. The employment index under ISM manufacturing report stayed below 50 (contractionary) in June for a fifth month in a row. Fed funds futures pricing for this year was little changed, at 45bps of cuts, but market added back to rate cut expectation for 2026 to fully price 75bps. Rate priced for end-2026 was as last at 3.30% (corresponding to the upper end of the Fed funds rate target range), mildly more dovish than our expected 3.50%. At the longer end, we continue to see 10Y breakeven at above 2.4% level as overly high; near term range for 10Y UST yield remains at 4.34-4.52%. Latest **TIC data** showed foreign holdings of US Treasury securities rose by USD32.4bn during May, with buying from investors in Canada taking the lead (mostly covering the drop during April). Holdings by foreign official sector fell, while the private sector took up the slack, i.e. the shift of reliance on foreign non-official sector – the demand of which is likely more price sensitive - continued.

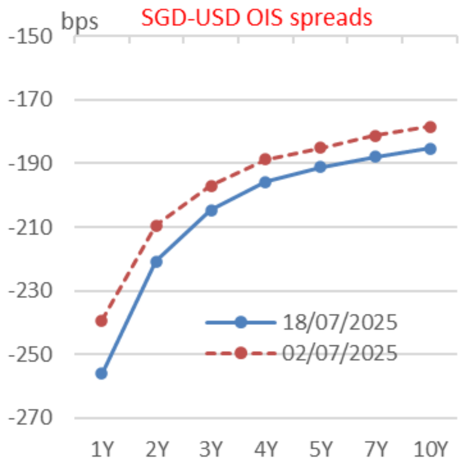
- **DXY. *Signs of Exhaustion.*** USD was a touch softer this morning on comments from Fed's Waller. He believes it makes sense for the Fed to cut 25bp at the upcoming FOMC. He reiterated that policy should look through tariff effects and focus on underlying inflation, which seems to be close to FOMC's 2% goal. He also described the labour market as soft, and the risk of a weaker job market is "greater and sufficient" to cut interest rates. Separately, Fed's Daly said that it is still reasonable for policymakers to plan on 2 rate cuts this year, putting an emphasis on central bank should not wait too long before moving. DXY made a second attempt overnight to test higher but again 98.90/99 levels capped the upside. DXY was last at 98.50 levels. Bullish momentum on daily chart intact while RSI has eased lower from near overbought conditions. Price action suggests that DXY's corrective bull run may be facing some exhaustion as markets look for the next piece of catalyst. Support at 97.70 (21 DMA), 97 levels. Resistance at 98.80 (50 DMA), 99.60 levels (23.6% fibo retracement of 2025 high to low). Day ahead brings housing starts, building permits, University of Michigan's inflation expectations. Softer-than-expected print may keep USD bulls on a leash.

- **USDJPY. *Upper House Election Sunday.*** Recent polls by Nikkei, Kyodo, Asahi shows LDP-Komeito coalition is at risk of losing Upper House election. A total of 125 seats are up for grabs in the July 20 election. These include half of the seats in the Diet chamber and one for the Tokyo electoral district that has become vacant. The coalition held 141 Upper House seats before the campaign started, and 66 are being contested. Securing 50 seats will give the coalition a majority of 125 in the Upper House (i.e. they can afford to lose only 16 seats but losing more than 16 seats would imply a loss of majority for the coalition). Seats lost in the Upper House can affect Ishiba administration. On the contrary, if PM Ishiba/ coalition manages to get past this election, then it will be another 3 years before the next major election in Japan (excluding the election for LDP President in 2027). For now, the struggle in the Upper House has resulted in pledges of spending hikes and tax cuts in attempt to shore up votes. Moody's has earlier warned that election results may impact fiscal health and ratings. This temporarily weighs on JPY outlook. USDJPY last seen at 148.50. Bullish momentum on daily chart intact but there are signs that RSI is turning lower near overbought conditions. Support at 147.15 (38.2% fibo), 146.20 levels. Resistance at 149.40/70 levels (200 DMA, 50% fibo retracement of 2025 high to low).

- **AUDUSD. *Pullback Found Support at 50DMA.*** AUD managed to claw back earlier losses as USD backpedalled on comments from Fed's Waller. Earlier, there was downside surprise to AU labour market data – unemployment rate rose to 4-year high, employment change was +2k (vs. +20k expectations) while full time fell again -38.2k. Markets added to RBA rate cut profile -65bps for remainder of the year (vs. -56bps) while market continues to expect RBA to cut at the next MPC on 12 Aug. AUD was last at 0.6510. Mild bearish momentum observed but RSI rose modestly. 2-way trades; bias to buy dips. Resistance at 0.6530/50 levels (21 DMA, 61.8% fibo), 0.66 levels. Support at 0.6480 (50 DMA), 0.6420 (50% fibo retracement of 2024 high to 2025 low).

- **USDSGD. *2-way to Slight Downside Risks.*** USDSGD eased slightly, tracking moves in USD. Last at 1.2840. Daily momentum is mild bullish but RSI shows signs of easing lower. Risks somewhat skewed to the downside. Support at 1.28, 1.2750 levels. Resistance at 1.2860 (50 DMA), 1.2910 levels. S$NEER stay near upper bound; last at ~1.2% above our model-implied mid. From a trade weighted point of view, there may be limited room for SGD to appreciate against trade peers, but due to SGD's safe haven characteristics, S$NEER may still stay near upper bound for now.

- **SGD rates**. SGD liquidity has stayed flush, with T/N point falling to -3pips yesterday, while SORA was fixed at a record low of 1.3029%. SGD OIS were offered down 3-4bps at open this morning, with short-end SGD OIS breaching below 1.5% level. SGD-USD OIS spreads became yet more negative. On cash side, 6M T-bills cut-off at 1.79%, versus 1.85% at the 3 July auction. The fall in 6M T-bills cut-off mostly matched the decline in market 6M SGD interest rate during the period. Bid/cover ratio was slightly lower but remained decent at 2.04x, suggesting investors have accepted the lower ranges of SGD interest rates. That said, we note front-end SGD interest rates including SORA the overnight itself can be volatile. While there is uncertainty as to for how long the flush liquidity condition will last especially given S$NEER stays near the top end of the band, we caution against extrapolating the downtrend. Asset swap pick-up at long-end SGD has narrowed, to around SOFR+42bps at 20Y SGS (with 10Y hedge), and around SOFR33bps at 10Y SGS. Our view has been that foreign demand may stay even with narrower pick-up as SGS stand to benefit from safe-haven and diversification flows. This view stays, but foreign interest may shift to the shorter end given the low front-end SGD rates.



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