Daily Market Outlook

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BOJ Review; FOMC Next

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- **USD rates**. USTs rallied by 3-6bps on Tuesday in a risk-off session; long-end bonds mildly outperformed on the curve as the long-awaited deregulation in SLR may be finally in sight. The Fed will hold a public meeting on 25 June to discuss potential changes to SLR. Swap spreads edged up in response, with 10Y swap spread last at -53bps and 30Y swap spread last at -86bps. Deregulation in SLR has been called for and under discussion for some time – the move higher in swap spreads earlier in the year was in response to such expectations. To put things into perspective, 10Y swap spread was above -40bps at one point in February with expectations of SLR de-regulation; the spread was as high as around the -20bps area when USTs were temporary exempted from SLR during 2020/21. Whether or not long-end USTs will be supported to such extent remains to be seen, given the different economic environment and financial conditions. Details of any change are not official or confirmed yet, but what have been proposed reportedly include exemption of UST from SLR calculation, and an enhanced SLR framework which could mean a lower SLR. Near-term range for the 10Y UST yield remains at the usual 4.35-4.52%. For tonight's 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 46bps of cuts for this year, with the chance of a 25bp cut by September FOMC meeting seen at 71%.

- **JPY rates**. Bank of Japan kept its Target Rate unchanged at 0.5% as widely expected. Ueda's comments during the press conference were mixed. While keeping the stance of hiking if the BoJ's economic outlook materialises, he emphasizes uncertainty is high over the impact of trade measures and opines that tariffs can affect winter bonuses and next year's *shunto*. It looks like there will be delays in delivering the next hike. Our base case is one 25bp hike in Q425. The JGB purchase plan, meanwhile, is not as dovish as some might have expected: 1/ BoJ sticks with its plan to reduce the monthly JGB purchases by JPY400bn for each three-month period, i.e. monthly purchases will be cut to JPY3.7trn/3.3trn/2.9trn for Q325/Q425/Q126 as previously planned. This is in line with our expectations. 2/ According to this plan, which was decided a year ago, QT pace will quicken mildly for the quarters ahead as planned. 3/ But the composition of the reduction in JGB purchase is tweaked, which is also in line with our expectations. For the Jul-Sep quarter, the reduction in JGB purchases will be done via bonds in the buckets of 1-3Y, 3-5Y and 5-10Y, while intended purchase amounts for 10-25Y and >25Y bonds remain the same. As such, JGBs reacted accordingly – with 5-10Y yields higher yesterday. 4/ The slower pace of reduction in JGB purchase is planned for the April 2026 – March 2027 period.

- **DXY. *FOMC Tonight***. USD rebounded as markets grapple a challenging environment of higher oil prices and falling equities amid ongoing geopolitical uncertainties. Meanwhile, a line-up of key central bank decisions this week, including FOMC tonight (2am SGT) should also see further adjustment in positions. Before the FOMC decision, several key U.S. economic indicators will be released, including building permits and housing starts. Additionally, initial jobless claims and continuing claims data have been moved up to tonight due to the closure of U.S. markets tomorrow in observance of the Juneteenth holiday. While FOMC is expected to keep policy rate status quo, focus is on the dot plot and press conference. Markets anticipate dot plot to still point to 2 cuts by year-end. If the Fed signals only one cut or pushes back on easing expectations, the USD could strengthen further. On the other hand, a more dovish tone could lead to USD selling. Elsewhere, oil prices may continue to rise if geopolitical tensions escalate. This may dampen the momentum in AxJs. Net oil importing AxJs such as INR, KRW, TWD and THB maybe be affected more than other AxJs. Nonetheless, geopolitical development remains fluid and requires 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. DXY was last at 98.72. Mild bearish momentum on daily chart faded while rise in RSI shows signs of moderation. Resistance at 99 levels (21 DMA), 99.60 levels (50 DMA). Support at 98, 97.60 (recent low).

- **USDCHF. *Dovish Cut Can Lend Momentum.*** Swiss National Bank's Monetary Policy Committee (MPC) meeting takes place tomorrow. Markets have fully priced in a 25bp cut to bring the policy rate down to zero. The ongoing slump in the manufacturing PMI and well-entrenched disinflation trend allows for such a move. PMI has plummeted to an 18-month low of 42.1. The sub-indices indicate widespread distress across the manufacturing sector, with production dropping 7.2 points to 42.5 and the order book index experiencing a significant decline to 35.9. Switzerland is also grappling with a well-entrenched disinflation trend, as core inflation has reached a near four-year low, and the headline CPI is now negative on a year-over-year basis. Furthermore, officials had earlier expressed concerns over the persistent strength of the Swiss Franc (CHF). YTD, CHF was up 11% (vs. USD). They have indicated that they are open to reducing the policy rate to zero or even into negative territory. In fact, the market anticipates an additional 25 basis point cut beyond the upcoming MPC, potentially lowering the policy rate to -0.25% by the end of the year. A dovish rate cut could support upward movements in USD/CHF. Pair was last at 0.8160 levels. Daily momentum is flat while RSI rose. Potential double bottom pattern, typically associated with a bullish reversal. Resistance at 0.8205 (21 DMA), 0.8240 (50 DMA). Support at 0.8040/50 levels (double bottom).

- **USDSGD. *Rebound Underway.*** USDSGD rebounded overnight, tracking the broad rebound in USD, as geopolitical tensions weighed on sentiments and boosted oil prices. Pair was last at 1.2855 levels. Mild bullish momentum on daily chart remains intact while RSI rose. Our caution for rebound risks played out. Immediate resistance at 1.2865 (21 DMA). Break out puts next resistance at 1.2980 (50 DMA) and 1.30 (23.6% fibo retracement of 2025 high to low). Support at 1.2760 levels (recent low). S$NEER stays near upper bound; last at ~1.92% above our model-implied mid. We continue to see limited room for SGD to appreciate on a trade-weighted basis and expect trade peers (i.e. JPY, KRW) to play catch-up on gains if tariff de-escalation momentum and softer USD trend continues to play out. With regards to MAS policy meeting in July, Apr core CPI uptick also suggests there may be no urgency to ease in the July MPC meeting for a 3rd consecutive time after 2 back-to-back easing earlier this year. Nevertheless, we continue to monitor CPI (next report on next Monday 23 Jun). Another upward print to core CPI should further increase market expectations for a hold in July.

- **USDTHB. *Slight Rebound.*** Taking stock, THB strengthened ~4.5% vs USD YTD. THB strength was largely a function of higher gold prices, soft USD trend and to some extent, softer oil prices. But in the near term, geopolitical escalation undermined risk sentiments and raises the risk of higher oil prices (Thailand is a net oil importer as share of consumption is around 70-80%). And if oil prices continue to rise, alongside weak sentiments (due to escalation in tensions), then the appreciation momentum seen in net oil importer FX, including THB may temporarily be affected. USDTHB last seen at 32.62. Daily momentum is mild bullish while RSI rose. Resistance at 32.70 (21 DMA), 33 levels (23.6% fibo retracement of Nov high to Jun low). Support at 32.50, 32.30 (recent low).

- **IndoGB.** IndoGB yields edged lower yesterday afternoon as the conventional bond auction went well. Incoming bid amount was strong at IDR81trn while MoF awarded IDR30trn of bonds, upsizing from indicative target of IDR26trn. As usual, most of the incoming bids went to FR104 (5Y bond) and FR103 (10Y bond), with bid/cover at 3.32x and 3.67x respectively for these two bonds. Quarter-to-date gross issuances amount to IDR196trn, surpassing quarterly target of IDR190trn, while there is still one sukuk auction left for the quarter. The funding position is comfortable. Foreign holdings of IndoGBs went up to IDR930.55trn or 14.59% of outstanding as of 12 June, after four days of inflows. Today's focus is BI rate decision. Our house view is a hold, but it is a close call between a hold and a cut; nevertheless, OCBC economists have pencilled in an additional 25bp cut before year-end.

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