Daily Market Outlook

2 July 2025

An Interim Moderation in the Pace of USD Decline?

Christopher Wong
FX and Rates Strategy
ChristopherWong@ocbc.com

Global Markets Research and Strategy

- **DXY. *Pace of Decline May Moderate*.** USD's pace of decline somewhat moderated overnight, in response to better-than-expected US data – ISM manufacturing, prices paid, JOLTS job openings. At the ECB forum in Sintra yesterday, Fed Chair Powell said that Fed will take a prudent approach to "wait and learn more" about the impact of tariffs on inflation before lowering rates as long as the US economy is in solid shape. He further said that Fed would likely have continued to gradually lower rates this year if not for concerns that tariffs might derail inflation fight. When asked about a July cut, Powell said he "wouldn't take any meeting off the table or put it directly on the table." So, while Powell did leave the door open to cuts, he maintains optionality in not committing to any time frame – largely the same stance he had communicated before. On the One Big Beautiful Bill Act (OBBBA), Senate voted 51-50 to pass the bill. Congressional Budget Office (CBO) has revised its estimate for the amended budget bill, projecting it will add $3.3 trillion to the national debt over the next decade, up from the previous $2.8 trillion estimate for the House version. This larger debt projection raises concerns about the medium-term trajectory of US debt and deficits, reinforcing the narrative to "sell USD." But near term, we caution that the decline in the USD may see a slower speed or even pause in the interim. There are more US labor market data due this week including challenger job cuts, ADP (today), payrolls report and ISM services (Thu). Another round of better-than-expected print may well lend some support to USD ahead of 9 Jul truce deadline. DXY was last at 96.70 levels. Mild bearish momentum on daily chart intact but RSI shows tentative signs of turning around from near oversold conditions. Support at 96.40, 96.10 levels. Resistance at 97.50/60 levels, 98.20 (21 DMA).

- **EURUSD. *Sintra Forum in Focus.*** EUR rose to an intraday high of 1.1829 briefly yesterday before easing. ECB Vice President Guindos said that a rise in the euro beyond $1.20 could create challenges for policymakers, though he sees current levels as no cause for concern. It is highly unusual for ECB officials to made comments about the exchange rate but yesterday there was a slew of comments. ECB's Simkus also commented that the speed at which the EUR is rising is something the ECB must monitor particularly carefully. On the other hand, there are ECB officials who aren't not particularly concerned – Muller signalled he is less concerned about the latest movements in EUR while Nagel said that EUR has averaged 1.1829 since it was introduced in 1999. Nagel mentioned that "there are some spillovers coming from the exchange rate, but it's only one factor … We are taking into account all the factors that are leading to higher and lower inflation and this is the relevant way we should see it." Nevertheless, we opine that the focus of these comments should be on the pace of gains, rather than about the levels after all the EUR has rallied 14% YTD. Those comments likely marked the first hint of concern or slight discomfort around the currency's pace of appreciation. At the Sintra Forum, Lagarde said that Euro-area has reach its 2% inflation target but emphasized the need to stay vigilant amid external shocks. Lagarde also pointed to unresolved questions around the evolving dynamics of wages, profits and productivity, and warned that potential supply-side shocks could still derail progress (on inflation). She also took opportunity of the platform to say that 2025 could become a "pivotal year" for the status of the dollar as a global reserve currency. She added "It's not going to happen just like that overnight — it never did historically, but there is clearly something that has been broken, and whether it is fixable or whether it is going to continue to be broken, I think the jury is out on that." EUR was last at 1.18 levels. Bullish momentum on daily chart intact but RSI shows signs of turning lower from overbought conditions. Next resistance at 1.1820 levels, before 1.1920 levels. Support at 1.1630, 1.1550 (21 DMA). We caution for slower pace of gains or even some consolidation in the interim.

- **USDJPY. *2-Way Trades.*** USDJPY was a touch softer. Pair was last at 143.50 levels. Daily momentum turned mild bearish but decline in RSI shows signs of moderation. 2-way trades likely. Support next at 143.10, 142.50 levels. Resistance 144.40/50 levels (23.6% fibo, 21, 50 DMAs), 146.40 (100 DMA) and 147.15 (38.2% fibo retracement of 2025 high to low. BoJ's Ueda said Japan's underlying inflation is still below 2%, and more data is needed on wage gains and tariff effects before tightening further. He reaffirmed that current policy remains accommodative and below the neutral rate – nothing new. Instead, we opined the concern is around US tariffs on Japanese goods after Trump doubled down, looking to impose 30 – 35% tariff on Japan. Some consolidation in USDJPY is likely in the range of 142.50 – 144.60 as markets monitor if a deal will be reached before 9th July.

- **USDKRW. *Interim bottoming.*** At the Sintra Forum, BoK's Rhee noted inflation is stable in Korea but flagged financial stability risks—including currency volatility and external shocks—as reasons for caution in timing rate cuts. The uptick seen in Jun CPI today is likely one-off due to higher gasoline and food prices – temporary supply side pressure relating to conflict of Israel-Iran implication on oil prices and food was due to seasonal and supply disruptions. We are still looking for BoK to proceed with easing cycle for 2H. Near term, we may see some interim bottoming for USDKRW. Spot USDKRW was seen at 1356. Daily momentum is flat while RSI rose. Support around 1345/46 likely to hold while topside puts resistance at 1364 (21 DMA).

- **USDSGD. *Caution for Technical Rebound Risk.*** Moves in USDSGD are becoming more subdued even as the pair attempted to trade near decade-low. Pair was last at 1.2730 levels. Daily momentum is mild bearish but RSI shows tentative signs of rising from near oversold conditions. We reiterate that we may see some slowdown in pace of decline or even a case of technical rebound. Support at 1.2710, 1.2650 levels. Resistance at 1.2780, 1.2820 levels (21 DMA), 1.2930 (50 DMA). S$NEER stays near upper bound; last at ~1.99% above our model-implied mid. From a trade weighted point of view, there may be limited room for SGD to appreciate against trade peers, like KRW and TWD, EUR.

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
mengteechin@ocbc.com