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Daily Market Outlook

Triple-Digit Oil

- ***Triple-Digit Oil***: *Brent oil above USD100/barrel is reigniting stagflation fears, driving a stronger USD, higher rate expectations and weaker risk sentiment. If energy prices keep rising, markets face greater volatility, broader USD gains and further pressure on carry trades.*

- ***Gold fell back toward 4,040/50 levels*** *as Brent broke above USD100 and both the USD and US yields moved higher, suggesting its tentative recoupling with geopolitical risk was not yet durable.*

- ***Our base case for upcoming MAS MPS looks for a hold*** *at Monday's meeting. That said, SG core CPI rose to 1.6% YoY in Jun from 1.4% in Apr. Upticks in inflation reinforce the point that policymakers cannot afford to be complacent with upside risks from lagged energy and imported-cost pass-through still present.*

- ***THB stayed under pressure*** *as rise in oil prices was compounded by firmer USD, higher US yields while BoT's still-accommodative stance added to the drag.*

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Triple-Digit Oil: Concerns over a more persistent stagflation shock have intensified after Brent crude rose above USD100/barrel. The US-Iran conflict shows little sign of de-escalation, while Houthi attacks on two oil tankers in the Red Sea have heightened fears of a broader regional conflict. With the Strait of Hormuz closed, the Red Sea has become a critical route for crude exports, particularly for Saudi Arabia.

Rising inflation concerns have fuelled speculation of further Fed tightening. The USD strengthened, the US yield curve bear-flattened, and risk sentiment deteriorated. Fed funds futures now imply a 34% probability of a rate hike next week, reversing much of the reaction to last week's softer-than-expected US CPI print.

Recent US labour market data continue to point to a resilient economy. Against this backdrop, a renewed energy shock would likely keep the Fed focused on inflation risks, providing an additional tailwind for the USD. History also suggests that risk assets tend to come under more meaningful pressure once oil prices move above the USD100/barrel threshold. If oil prices continue to climb, markets could face higher volatility, further unwinding of FX carry trades and a broader USD rally.

Meanwhile, the ECB kept rates unchanged in July as expected and did not push back against market pricing for a 25bp hike in September. We continue to expect a final 25bp increase to 2.50% in September, although the risks are tilted towards an additional hike. Even with the ECB maintaining a hawkish bias amid rising energy prices, relative terms-of-trade dynamics favour the USD over the EUR. Europe remains a net energy importer, while the US is a net energy exporter, making the euro more vulnerable to sustained increases in oil prices. Terms-of-trade effects have become increasingly evident over the past week. Energy-linked currencies such as NOK have outperformed, while net energy importers including NZD and SEK have lagged.

Gold. Oil spike undermines. Gold was unable to sustain its recent rebound, falling back toward 4040/50 levels after briefly trading above 4160 in the previous session. Brent surged above USD100/bbl as attacks on Saudi oil tankers raised fears that regional supply disruptions could spread beyond the Strait of Hormuz, while fresh US threats against Iran added to escalation concerns. Rather than benefiting from the renewed geopolitical risk, gold once again traded through the oil/rates channel. Higher energy prices reinforced inflation and Fed tightening concerns, pushing US Treasury yields and the USD higher.

Losses were also broad-based across the precious metals complex, as silver, platinum and palladium fell. The reversal suggests the earlier signs of gold recoupling with geopolitical risk were not yet durable, with the metal remaining sensitive to further increases in oil, yields and rate expectations. Gold last at 4049 levels. Mild bullish momentum on daily chart intact but RSI fell. 2-way risks. Resistance at 4070 (21 DMA), 4167. Support at 4000, 3960 levels.

THB. Pressured. THB remained under pressure near 15-month low (vs. USD), with the renewed oil shock now compounded by a firmer USD and higher US yields. Brent surged above USD100/bbl after attacks on Saudi tankers raised fresh concerns over shipping through the Red Sea, adding to existing disruptions around the Strait of Hormuz. This remains a challenging backdrop for THB given its reliance on imported energy, while the resulting inflation concerns have also reinforced expectations that US rates may stay elevated for longer.

The BoT's accommodative stance also offers little support to the THB, while Governor Vitai has also earlier signalled no urgency to tighten. Policymakers also appear relatively tolerant of gradual THB weakness given the support it provides to exports and tourism. That said, a sharper depreciation may test policymakers' threshold especially if oil stays elevated and imported inflation builds. USDTHB last seen at 33.82 levels. Momentum is slight bullish on daily chart but RSI is near overbought conditions. Resistance at 34 levels. Support at 33.60, 33.45 (21 DMA).

SGD. MAS decision on Mon (8am). Our base case is for no change to the S$NEER policy settings (i.e. on hold). The latest inflation print does not materially alter that view. After easing from 1.7% YoY in Mar to 1.4% in Apr and remaining at 1.4% in May, core CPI picked up to 1.6% in Jun, still slightly below consensus. The increase was driven by firmer food, services and retail-goods inflation, including faster gains in non-cooked food and food services, airfares and holiday expenses, as well as furniture and recreational goods. Headline inflation also edged up to 1.9% from 1.8%, partly reflecting higher accommodation inflation.

The modest rebound warrants some caution, but it does not yet suggest the broad or persistent inflation impulse needed to justify another tightening so soon after Apr. A hold should therefore be seen as MAS taking more time to assess lagged imported-cost and energy pass-through, rather than signalling an all-clear on inflation. We would also pay attention to the tone of the statement. A balanced hold should see limited SGD reaction, while greater emphasis on lagged imported inflation or renewed domestic price pressures could keep S$NEER firm. *See MAS Preview: Room to Stay Put, 21 Jul.*

USDSGD was a touch firmer overnight. Pair was last at 1.2930 levels. Mild bearish momentum on daily chart shows signs of fading while RSI rose. Slight risks to the upside. Resistance here at 1.2930 (21 DMA), 1.2980 levels. Support at 1.29, 1.2880 (50 DMA).

Technical Levels Table

	EURUSD	USDJPY	GBPUSD	USDCHF	AUDUSD	NZDUSD	USDCAD	XAUUSD	USDSGD	USDPHP	USDINR
Resistance 3	1.1536	165.60	1.3524	0.8260	0.7102	0.5908	1.4167	4279	1.3003	61.82	96.75
Resistance 2	1.1464	164.61	1.3430	0.8210	0.7043	0.5847	1.4124	4178	1.2959	61.79	96.64
Resistance 1	1.1421	164.23	1.3372	0.8189	0.7006	0.5809	1.4104	4114	1.2940	61.77	96.61
Spot	1.1379	163.82	1.3316	0.8167	0.6969	0.5775	1.4084	4050	1.2927	61.76	96.57
Support 1	1.1349	163.24	1.3278	0.8139	0.6947	0.5748	1.4061	4013	1.2896	61.74	96.50
Support 2	1.1320	162.63	1.3242	0.8110	0.6925	0.5725	1.4038	3976	1.2871	61.72	96.43
Support 3	1.1248	161.64	1.3148	0.8060	0.6866	0.5664	1.3995	3875	1.2827	61.69	96.32
Bollinger Band											
Bollinger Upper	1.1463	163.78	1.3511	0.8170	0.7025	0.5888	1.4262	4181	1.2951	61.87	96.99
Bollinger Lower	1.1370	161.07	1.3235	0.8016	0.6883	0.5626	1.4004	3956	1.2893	61.25	94.28

Source: Bloomberg, OCBC Group Research. Potential resistance and support levels are identified based on pivot points

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