Daily Market Outlook

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Idiosyncrasies

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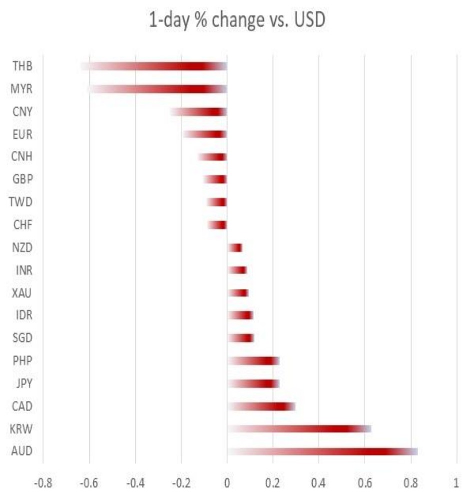
- **UST** yields experienced some ups and downs through Asia to London and NY sessions but overall, it was a non-eventful day with blackout period for Fed commentaries and no key data overnight. Fed funds futures pricing was little changed. On bills side, after this week's planned net T-bill issuances of USD89bn, another USD35bn has been planned for next week thus far and US Treasury may add to that. We reckon there is USD375bn of net issuances as a catch-up over the coming three weeks if US Treasury adheres to their plan. We remain of the view that T-bill issuances will not have a material upward impact on bill yields as delayed supply meets pent-up demand while funds parked at the Fed's reverse repos serve as a buffer. Usage at the Fed's o/n reverse repo at USD2.135trn on 6 June was USD120bn lower than the recent peak on 31 May.

- **DXY. *Mixed.*** USD traded mixed in absence of fresh catalyst. This is in line with our view that any USD move should remain restrained and recent ranges should still hold ahead of FoMC while there is no key data for markets to digest this week. Idiosyncrasies continue to drive differentiated moves. RMB softness continue to linger, and the spill over effects are still felt in MYR and THB. Elsewhere, AUD was the outperformer after RBA surprised with a 25bp hike and sounded hawkish in its guidance. Governor Lowe spoke about upside risks to inflation and expressed concerns of price-wage persistence. CAD is also appreciating somewhat on rising hopes that the BoC may do a similar move at its meeting tonight. Amongst Asian FX, KRW was still the outperformer, riding on tech wave, gains in KOSPI. On upcoming FoMC (14 Jun), though we caution for risk of hawkish hold (on the back of unexpected rebound in US CPI, upward revision to 1Q GDP and somewhat resilient labour market prints), we argued that Fed nearing end of tightening cycle typically implies limited room for USD upside. Moreover, dovish expectations have been entirely unwound and assuming Fed does not hike or even pivot at some point, USD bias would be skewed to downside. Softer US data and more entrenched disinflation trend can help to keep USD bulls from breaking higher. There is still 1 more CPI report next week (13 Jun) before FoMC. DXY was last at 104.11 levels. Bullish momentum on daily chart shows signs of easing while RSI was flat. 2-way trades likely. Support here at 104 (61.8% fibo), 103.40 (50% fibo) and 102.75/90 (38.2% fibo, 21, 100 DMAs). Resistance at 104.70 (76.4% fibo retracement of 2023 high to low), 105.15 and 105.65/80 levels (2023 high, 200 DMA).



Source: Bloomberg, OCBC Research

- **EURUSD**. ***Sideways.*** EUR was a touch softer but largely still trades within subdued ranges. Pair was last at 1.0690 levels. Bearish momentum on daily chart shows signs of fading while RSI was flat. 2-

way trades likely. Resistance at 1.0740 (61.8% fibo), 1.08 (50% fibo). Support seen at 1.0640/50 (76.4% fibo retracement of 2023 low to high), 1.06 levels.

- **USDJPY. *Still Looking for Downside Play.*** USDJPY was a touch softer, in line with our bias, *looking for downside play*. Pair was last at 139.25 levels. Daily momentum shows signs of turning slight bearish while RSI fell. Risks modestly skewed to the downside. Support at 138.40/50 levels (recent low, 21 DMA). Resistance at 140.20 and 142.50 (61.8% fibo retracement of 2022 high to 2023 low). Bias still to play from the short bias. We remained cautious of another verbal intervention should USDJPY's pace of rise proves rapid. Recall that MOF-FSA-BOJ met last Monday, and top currency official said that the government will continue to closely monitor market moves and will take appropriate responses if necessary. We do not expect officials to lean against the wind so soon but to rely on verbal intervention to slow JPY's depreciation pace if need arises. In any sense, intervention typically buys time or delay/slow pace of depreciation. A turn in trend would require UST yields to ease off or a BoJ to shift policy. This puts focus on BoJ MPC next week (16 Jun). Recall at the last BoJ MPC (28 Apr), a policy review was unveiled as expected but the projected timeframe for the review (up to 1 – 1.5years) was much longer than expected. BoJ Governor Ueda did clarify that policy change is still possible during policy review. We opined BoJ is buying time, and this suggests that JPY bulls may have to be more patient. We doubt BoJ will use the full 18 months review duration, but it also appears that the next MPC (16th Jun) may be too soon to expect any policy shift. Nevertheless, we are still in favour of BoJ policy normalisation amid broadening inflationary pressures and wage growth seen in Japan.

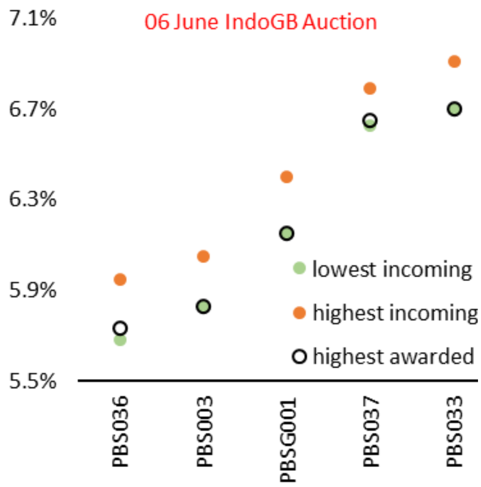
- **AUDUSD. *Need to Break Above 200DMA.*** AUD continued to trade higher after RBA surprised with a 25bp hike to bring cash rate to 4.1% and sounded hawkish in its guidance. Governor Lowe said that recent upside surprise in inflation is testing the patience of RBA, highlighting rebound in housing market, strong wage gains and persistent service price pressures. RBA deputy Governor Bullock said that officials are trying hard to bring inflation back to target. AUD was last at 0.6670 levels. Daily momentum is mild bullish while RSI rose. A$ needs to clear above 0.6690 (200 DMA) for bulls to regain confidence. Failing which, AUD could revert to trading previous range. Support at 0.6620 (21DMA), 0.6570 (61.8% fibo) and 0.6430 (76.4% fibo retracement of Oct low to Feb high). Elsewhere, the extent of RMB swings remain a risk to watch. Sharp depreciation will undermine AUD but assuming RMB depreciation doesn't turn disorderly, AUD can still ride on the rebound in commodity prices and equity sentiments.

- **USDSGD. *Likely a Shallow Retracement.*** USDSGD was a touch softer overnight but still largely trade in subdued range. Pair was last at 1.3480 levels. Bullish momentum on daily chart faded while RSI fell.

Support at 1.3435 (21 DMA), 1.3380 (23.6% fibo retracement of 2022 high to 2023 low). Resistance at 1.3565, 1.3590 (38.2% fibo). Dip in USDSGD may be shallow for now as markets remain cautious of hawkish Fed at upcoming FoMC next week. Last Friday's bumper payrolls, unexpected rebound in CPI and upward revision to 1Q GDP still point to some risks that Fed may adopt a hawkish stance at upcoming FoMC (14 Jun) even if officials skip a hike while ongoing RMB softness remains a drag on SGD. S$NEER trades 1.35% above model-implied mid.

- **USDCNH. *Breather.*** USDCNH continued to hover near recent highs. Pair was last at 7.1290 levels. Bullish momentum on daily chart shows signs of fading while RSI is near overbought conditions. Immediate resistance at 7.1450 (recent high). Decisive break (on close basis) puts next resistance at 7.20, 7.2150 levels. Elsewhere, support at 7.10, 7.07 levels. Overall, path of least resistance for USDCNH is to the upside considering negative RMB carry, push-back in China reopening momentum (due to weaker China data) and foreign outflows. For the situation to improve, some of these factors need to turn around. In particular, China data needs to pick up (to bring back hopes of China growth story), Fed pause to be in place (i.e. tightening cycle to end or pivot) so as to see USD strength fade and UST yields ease lower. A pullback in UST yields, USD can help to alleviate pressure on RMB.

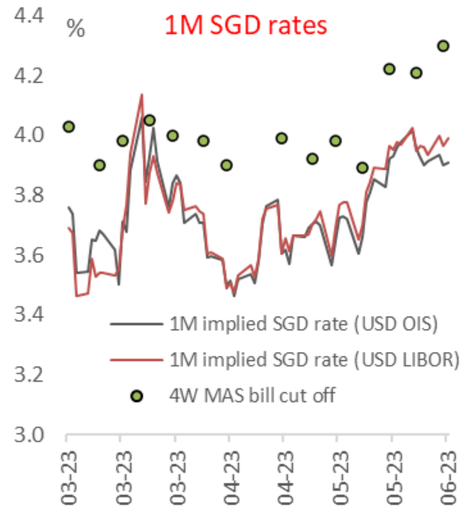
- **IndoGBs** traded within ranges on Tuesday. MoF awarded IDR7trn of bonds versus indicative target of IDR9trn at yesterday's sukuk auction. The below-target amount was as expected as there is no funding pressure with surplus fiscal cash. Quarter-to-date issuances amounted to IDR78.05trn, mildly below the IDR81trn which could have been raised according to our assumptions under DJPPR's quarterly target of IDR130trn. Extending the below-target pattern, full-quarter issuances may come in at around IDR115trn. At yesterday's auction, incoming bids were strong at IDR60trn vs IDR54trn at the last sukuk auction; most of the incoming bids went to PBS037 (2036 bond) followed by PBS036 (2025 bond). Cut-offs were at or very near the lowest incoming bid levels. IndoGBs are supported by the sanguine supply outlook, but with compressed IndoGB-UST yield differentials, chasing IndoGB yields lower is not preferred.



Source: Bloomberg, OCBC Research

- **SGD rates**. The 4W MAS bill auction cut off at 4.3%, versus 4.21% at the last auction on 30 May while market implied 1M SGD rate had edged lower during the period, i.e. the spread between the cut-off and market rate widened; bid/cover ratio was relatively low at 1.58x. This partly reflects mid-year effect and is partly an extension of the recent liquidity tightness. Nevertheless, cut-off at the 12W MAS bill auction edged down to 4.1% and bid/cover was at a decent 2.4x. And beyond the very short end, SGD-USD OIS differentials have stayed fairly negative. SGD OIS fell by 6-8bps across the curve, while SGS yields edge down by around 3bps underperforming swaps. This was a single day's movement; over a slightly longer time horizon, SGS outperformed OIS in May in line with our expectations and we see some further room for SGS outperformance over OIS. Market awaits the announcement on 20 June of the size of the 10Y SGS re-opening. We believe supply will be calibrated catering for demand. Earlier, following market feedback from primary dealers, MAS has decided it will not be holding a mini-auction on 27 June.

- **CNY rates.** Repo-IRS continued to trade on the soft side, amid news that big banks may further cut deposit rates as advised by the PBOC's self-disciplinary mechanism. Meanwhile, NCD rates have been on a downtrend and are below the MLF rate. Lower funding costs for banks add to expectation for an LPR cut - we have long penciled in such a possibility. Regardless of whether there will be an LPR cut, expectation in the market is that the monetary stance will be accommodative. A turnaround in CNY-USD rate differentials is not on the horizon yet. On the FX swap curve, back-end CNH points were supported as USD rates eased while there appears to be some RHS flows which might be due to RMB funding needs and/or USD deposit rate cut onshore. At the front-end, offshore CNH funding costs have stayed high compared to onshore; we have been of the view that this gap may stay for a while.



Source: Bloomberg, OCBC Research

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