OCBC TREASURY RESEARCH

Daily Market Outlook

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Overshoot

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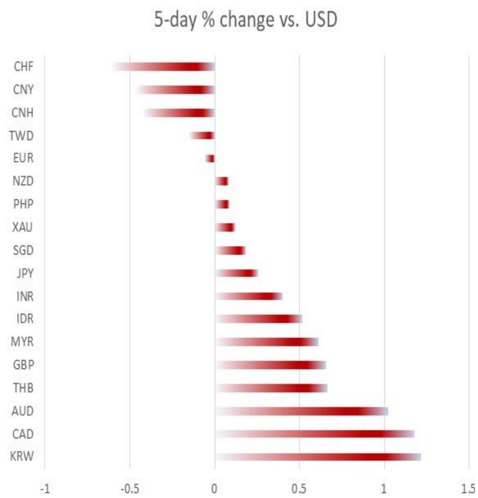
- **UST yields** jumped on Friday upon US labour market reports, with 2-5Y bonds underperforming. There may also be some spill-over impact on short-end bonds from expectedly heavy T-bill supply. Meanwhile, Fed funds futures pricing was little changed, still seeing an 80% chance of a 25bp hike by the July FOMC. From now till year-end, market is pricing an 8bp increase in the Fed funds rate, while 150bps+ of rate cuts are priced for 2024. Our base case is for the Fed funds rate target range to stay at current levels through to year-end and for 150bps of rate cuts in 2024. This expected Fed funds rate profile shall be consistent with a 2Y UST yield at around 4.30%-4.40% with potential for some term premium. We see a trading range for the 2Y yield mostly at 4.20-4.50%; while market tends to overshoot/undershoot, we do not prefer to chase the yield higher from here. Market awaits US PMIs and ISM tonight.

- **Bill supply**. Net bill supply has been planned at USD89bn (on settlement basis) this week, as US Treasury gears up issuances to replenish its cash position after the debt ceiling bill has been signed. Treasury's quarterly refunding plan has an estimate of its cash balance at USD550bn by end-Q2 and USD600bn by end-Q3. Net bill issuance this quarter to 2 June was USD14.2bn versus target of USD478.6bn hence there is a catch-up of USD464.4bn to play. We however do not expect substantial impact on bill yields: 1/ these issuances shall not be seen as entirely "extra"; they represent delayed supply – there have been hundreds of billions of supply each quarter (net bill supply has been planned at USD554.6bn for Q4), although there will be some implication on liquidity as supply concentrates over a shorter period of time; 2/ on this, we suspect the rebuilding of cash will be paced out through to end Q3, and the cash target may be adjusted lower; 3/ with bill yields at above 5% now, there is a fair chance that some funds will be mobilized from the Fed's reverse repos mitigating the impact on liquidity, assuming the FOMC does not hike this administered rate this month.

- **DXY. *ISM Mfg in Focus*.** USD rebounded sharply on bumper US payrolls report (+339k vs. +195k expected). Strength was largely more pronounced against lower/zero yielders such as JPY, CHF and gold. But USD strength was not broad based. Risk-proxy FX such as KRW, AUD held on to gains as details of US jobs report hinted at signs of soft landing. Unemployment rose to 7-month high of 3.7% while wage growth slowed (4.3% y/y vs. 4.4% exp and prior). That said, unexpected rebound in CPI, upward revision to 1Q GDP and somewhat resilient labour market still point to some risks that Fed may adopt a hawkish stance at upcoming FoMC (14 Jun). Not forgetting the deluge

Source: Bloomberg, OCBC Research



Source: Bloomberg, OCBC Research

of bill/Treasury auctions ahead that may keep yields broadly higher. As such, we expect markets to continue to trade on cautious and selective stance. DXY was last at 104.21 levels. Bullish momentum on daily chart shows signs of easing while RSI shows signs of turning from overbought conditions. Support 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).

- **EURUSD**. ***Consolidate.*** EUR fell amid USD rebound and RMB softness. Earlier, Euro-area CPI decelerated to flat MoM for May, down from 0.6% MoM in April while core CPI moderated to 5.3% YoY (vs. 5.6% in Apr), reinforcing the notion that ECB may be nearing end of tightening cycle soon. Pair was last at 1.07 levels. Bearish momentum on daily chart shows signs of fading but rise in RSI moderated. Support still seen at 1.0640/50 (76.4% fibo retracement of 2023 low to high). But if this decisively broken, the next support levels are at 1.06, 1.0540 levels. Resistance at 1.0740 (61.8% fibo), 1.08 (50% fibo).

- **USDJPY. *Still Looking for Downside Play.*** USDJPY rebounded sharply, tracking the sharp rise in 2y UST yield after US NFP saw another bumper print. Pair is now back above 140-handle; last at 140.10 levels. Daily momentum and RSI are not indicating a clear bias. Resistance at 140.20 and 142.50 (61.8% fibo retracement of 2022 high to 2023 low). Support at 139.60 (50% fibo), 138.50 levels (recent low). We are 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.

- **USDSGD. *Driven by USD and RMB.*** USDSGD rebounded sharply on Friday tracking USD gains after NFP print saw another bumper print. Pair was last at 1.3510 levels. Bullish momentum on daily chart shows signs of fading 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). Any dip in USDSGD may be shallow for now on relative USD strength and RMB softness. 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) while ongoing RMB softness remains a drag on SGD.

- **USDCNH. *Upside Break Can Accelerate Pace of Rise.*** Absence of any explicit push back from policymakers is fuelling confidence in driving the pair higher. Daily RMB fix continues to come in consistent with consensus expectations and that somewhat gave the impression that policymakers may be walking the talk in allowing markets to play a greater role in price discovery. 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. And as long as USD and UST yields continue to trend higher, RMB softness could persist for a little longer. That said, Friday's brief dip in USDCNH below 7.07 in reaction to Bloomberg report that China is working on a new set of measures to support the property market suggests that solving the root cause (tackle economy's weak links) can alleviate side effects (RMB softness). USDCNH was last at 7.1140 levels. Bullish momentum on daily chart shows signs of fading while RSI is near overbought conditions. Immediate resistance at 7.12, 7.14 (Thu high). Decisive break (on close basis) puts next resistance at 7.20, 7.2150 levels. Support at 7.10, 7.07 levels.

- **CNY rates.** Repo-IRS rebounded from recent lows on Friday on better risk sentiment upon hopes for some easing measures in the property matter. PBoC withdrew CNY23bn of liquidity via OMOs this morning mainly on reverse repo maturity. Liquidity appears to have stayed supportive with T/N below par while AAA-rated 12M NCD rate fell below 2.40%. MLF maturity in the month is not particularly big at CNY200bn. CNY-USD rate spread turned more negative on the jumps on USD rates; the 12M CNH point hit fresh record low this morning. A turnaround in CNY-USD rates differentials is not on the horizon yet, and likewise we cannot be optimistic about bond inflows into China.

Source: Bloomberg, OCBC Research

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