

Daily Market Outlook

12 June 2024

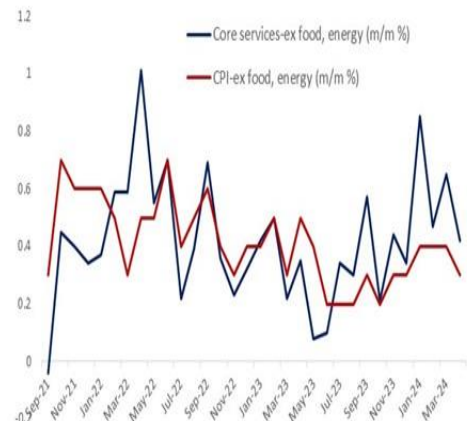
Await US CPI, FOMC

- DXY. 2-Way Trades Likely.** USD continued to hold on to gains this week. Markets may stay cautious and adopt a reactive rather than a proactive approach in the lead-up to key event/data risks this week. In particular, we have the US CPI report (tonight at 8.30pm SGT) and then 5-6 hours later, FOMC decision (Thu 2am SGT). While Fed is not expected to cut, the dot plot and press conference will be closely scrutinised for further clues with regards to when the Fed may move. There is a handful of outcomes that may play out for the USD, depending on the release of CPI and FOMC decision (please see attached table the next page). We briefly highlight a few here. On the dot plot, markets are somewhat already expecting the Fed to shift rate cut expectation to 2 cuts (from 3 cut previously projected on dot plot at the Mar FOMC). And in the event, CPI comes in lower than expected, USD can ease on release of CPI and subsequently trade subdued or range-bound post FOMC. There should be no significant decline for the USD post FOMC unless Powell surprises with dovish rhetoric. Similarly, the topside may be capped. In another scenario, if we do get CPI coming in higher than expected and dot plot shifts towards 1 cut or no cut, then this will be a very bullish outcome for USD while risk proxies, including AXJs are expected to come under heavy selling pressure. Another scenario would be one when CPI comes in lower than expected and dot plot continue to point to 3 cuts, then this will be a risk-on outcome for risk proxies and a clear bearish outcome for the USD. These outcomes maybe overly simplified based on a world of just 2 variables while everything else is constant. The reality is hardly so simple. There are many moving parts around the release of CPI, FOMC decision, including how EUR behaves as well as broader market sentiments. The intent was to give a sense of how FX may react depending on those event risks. DXY was last seen at 105.31. Daily momentum is bullish while RSI rose. Resistance at 105.50, 105.80 (76.4% fibo). Support at 105.10 (50 DMA), 104.80 levels (61.8% fibo retracement of Oct high to 2024 low), 104 (50% fibo).

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Will US CPI Cool?



Source: Bloomberg, OCBC Research

Reference Sheet (Potential USD Outcomes) to US CPI-FOMC

		CPI (Wed 830pm SGT)		
		Lower	In Line	Higher
FOMC/ dot plot (Thu, 2am SGT)	3 cut (no change from Mar dot plot)	USD falls more; Risk proxies enjoy rally [Best case scenario for USD bears and Risk Lovers)	USD falls. Risk proxies can rise somewhat	USD rise on CPI but gains to unwind on FOMC. Risk proxies can enjoy breather
	2 Cut (Consensus looking for this shift)	USD falls on CPI and stays subdued post-FOMC. Not expecting a significant decline post-FOMC unless Powell talks dovish. [DXY reference range of 103.50 - 105.50)	Largely Range-bound for USD. [DXY reference range of 104 - 106]	USD rise on CPI; Remains supported post-FOMC
	1 Cut/ Hawkish	USD falls on CPI but losses will be more than reversed into gains post-FOMC	USD steadies on CPI release but rises post-FOMC	Second worst case scenario: USD Rises Sharply; Risk proxies fall
	No Cut / Very Hawkish	USD falls on CPI but losses will be more than reversed into gains post-FOMC. Risk proxies under pressure	USD steadies on CPI release but rises sharply post-FOMC. Risk proxies come under pressure	Worst case scenario: USD Rises Sharply; Risk proxies meltdown.

Note: The above is meant as a reference

- EURUSD. Watching US Data/Event Risks.** EUR continued to trade with a heavy bias. The surge in support for far-right parties and Macron’s huge gamble for a snap election in a few weeks’ time spooked EUR. Early polls conducted on Sunday, Monday following news of snap elections show that Macron is ranked 3rd most popular with 19% support, somewhat lagging behind second placed, leftist parties with 22% support. The first place is unsurprisingly Marine Le Pen’s grouping with 34% support. The implication for EUR is the potential fiscal direction far right parties may be taking and that the cohabitation outcome comes into play. This is when President and PM are from opposing parties. This would complicate policymaking as it would entail a significant shift in responsibility for economic and fiscal policy from the Presidency to the largest political party or grouping in the National Assembly. The president does not have a right of veto but would retain a leading role in other areas, such as foreign policy and defence. Concerns about French elections can be best seen in the widening of the OATS-Bund yield spread, and this uncertainty should

still weigh on EUR intermittently. EUR was last at 1.0742. Daily momentum is bearish though decline in RSI moderated. Support at 1.0720/30 levels (23.6% fibo), 1.0650 levels. Resistance at 1.0810 (38.2% fibo retracement of 2024 high to low, 100 DMA), 1.0840 (21 DMA).

- **USDSGD. Looking for Break-Out.** Recent rise in USDSGD somewhat stalled as markets adopt wait-and-see approaching going into US CPI (830pm SGT), FOMC policy decision (2am SGT). We expect markets to be more reactive than proactive, after being caught wrongfooted on US payrolls and the 2 event risks later may see 2-way trades in USDSGD. Pair was last at 1.3525 levels. Daily momentum is mild bullish while the rise in RSI moderated. Moving average compression observed – this usually precedes an expansion in price action or break out. Resistance here at 1.3530/40 levels (50 DMA, 61.8% fibo retracement of Oct high to Jan low), 1.3560 and 1.3620 (76.4% fibo). Support at 1.3460/80 (50% fibo, 21, 100, 200 DMAs), 1.3420 levels. Our estimates show S\$NEER at 1.75% above model-implied midpoint.
- **USDMYR. Near Term Fate Tied to USD Events.** USDMYR rose last week but the move higher lacked momentum to trade higher. Last at 4.7158 levels. Momentum on daily chart is bullish but rise in RSI moderated. Resistance at 4.7240, 4.7355 (50, 100 DMAs). Support at 4.7033 (21 DMA), 4.6915 (50% fibo retracement of 2024 low to high). Direction of travel likely to be driven by external events in the near term, including US CPI and FOMC policy decision later today. Domestically, BNM Deputy Governor said that BNM will focus on “domestic challenges” in deciding monetary policy as he referred to the recent subsidy rationalisation that may present near term challenges on how inflation and growth outlook may be affected. On Sunday, it was announced that diesel will be sold at market prices that will be set weekly in Peninsular Malaysia. The government expects the move targeted diesel will bring savings of about MYR 4bn a year as Anwar’s administration aims to trim fiscal deficit to 4.3% of GDP this year, down from 5% of GDP in 2023. Officials have also vowed to follow through with removing blanket subsidy on RON95. It was also understood that retail diesel will remain subsidized in East Malaysia.



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