

Daily Market Outlook

2 July 2024

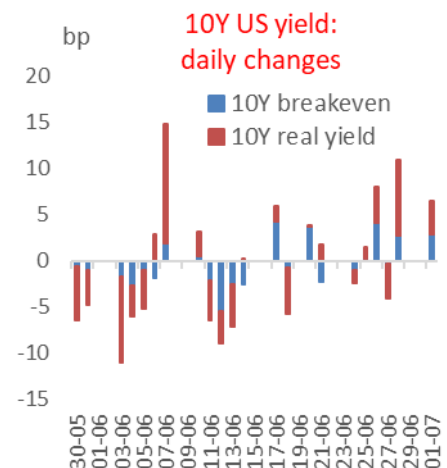
Higher Yields But Within Range

- USD rates.** The UST curve bearish steepened overnight, with some market observers attributing it to investors requiring a higher term premium amid domestic politics. We however do not automatically assume materially wider fiscal deficits upon a certain election outcome, as there is a combination of factors in play – including rigid fiscal expenditure items, and bi-partisan support for some tariffs. According to NY Fed’s ACM model, the 10Y term premium has risen by around 6bps since 24 June (the day which saw the recent low in 10Y UST yield) while the 10Y UST yield has risen by 23bps; the term premium does not appear to be a major factor thus far. Our view is that wide fiscal deficits are here to stay, but refinancing needs are manageable in the next couple of quarters via additional bill issuances. Still, with 10y real yield at 2.15% and breakeven at 2.32%, room for yields to go lower appears limited near-term and range-trading may be the name of the game in the coming days, before payroll and labour market reports on Friday. Expect 10Y UST yield to range between 4.30% and 4.50% near-term. We maintain a steepening bias on the curve primarily based on expected Fed funds rate cuts.
- RBA rates.** Cash Rates futures edged lower (implying higher rates) this morning while the RBA released its minutes for the June MPC. Unsurprisingly, the minutes sounded more hawkish than the May minutes; but it appeared to be mildly less hawkish than the post-meeting press conference. Arguments for a rate hike included “if members formed the view that” policy settings were not sufficiently restrictive, and “if members judged that” aggregate supply was likely to be more constrained than had been assumed. Arguments for a status quo decision were that the economy was still broadly tracking on a path consistent with returning inflation to target in 2026, and risks to the outlook for the labour market were seen to be to the downside. The increased hawkishness as compared to the May meeting stemmed mainly from the higher-than-expected May inflation prints and the upward revision to the consumption time series. On the latter, some members opined that there were several reasons not to place too much weight on the revisions to consumption. Overall, the discussions about a potential rate hike appear to be of a risk management nature, in our view. On balance, we continue to see the next move as more likely to be a rate cut than a rate hike; while it has been our long-held view that the RBA will be lagging most DM central banks in

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an easing cycle. Cash Rate futures last price a 54% chance of a 25bp hike by the December MPC, which appears overly hawkish to us.

- **DXY. JOLTS Job Openings, Powell Speaks Today.** USD traded firmer on a combination on spillover risks from the rise in UST yields overnight, higher USDCNY fix, French election risks and Trump premium. The recent US Presidential debate (28 Jun) also served as a reminder how election risks in US can be fluid and polls now indicate Trump leads Biden. There were chatters and polls saying that Biden should not seek re-election, which has been refuted by the man himself. Nevertheless, Trump's better showing over Biden added to the narrative that inflation may pick up pace, yield curves will steepen further (led by longer end) and that the USD may continue to trade at a premium. Elsewhere, seasonality trend suggests another bullish quarter for USD, though July seasonality trend may see potential pullback. This week, we are watching JOLT jobs openings (Tue), ADP employment, ISM services (Wed); FOMC minutes (Thu) and payrolls (Fri). Softer data should help to partially negate USD's upward momentum but a hotter than expected print may continue to fuel USD momentum. In terms of FedSpeaks today, Powell will participate as panellist, alongside ECB's Lagarde and BCB's Campos at Sintra (an ECB event). DXY was last at 105.86. Bullish momentum on daily chart intact but shows tentative signs of fading while decline in RSI moderated. Support at 105.20 (21, 50 DMAs), 104.80 (61.8% fibo retracement of Oct high to 2024 low). Resistance at 106.20.
- **EURUSD. Watching The Line-up for the Run-offs.** EUR enjoyed a relief rally on Monday morning after outcome of the first round of French legislative election saw no major surprises. Gains were partially returned into NY close after USD staged a comeback, taking cues from higher UST yields. EUR was last at 1.0735 levels. Bearish momentum on daily chart was fading but rise in RSI slowed. 2-way trades likely. Support at 1.0710, 1.0660/ 70 levels (recent low). Resistance at 1.0760 (21 DMA), 1.0780 (50 DMA), 1.0810 (38.2% fibo retracement of 2024 high to low, 100 DMA). Going into round 2 run-offs (on 7 Jul), some candidates may deliberately drop out of the race to prevent a vote split so as to give their ally greater chance to stop the far right from advancing. Eyes will be on Tuesday/today (6pm France time), when deadline for second-round candidates to file papers closes and we will get some clarity on the run-offs (on 7 Jul). Potentially, EUR may face renewed pressures as markets are worried if Marine Le Pen's far right party shows signs of winning an absolute majority in the National Assembly. This scenario should not be ruled out and can be more negative for EUR than a hung parliament outcome.

- **USDJPY. *Just Jawboning for Now.*** USDJPY continued to trade to another multi-decade high, raising expectations that an intervention is imminent. Spread between implied and realised vol is widening again (1m at +3.88 vs. 2 at start of Jul). And we observed from past history that actual market intervention risks do rise if spread continues to widen. For now, authorities are only resorting to verbal intervention. Finance Minister Suzuki said that authorities are watching FX moves closely but refrain from commenting on every move. USDJPY was last at 161.60. Bullish momentum on daily chart intact while RSI is in overbought conditions. Next resistance at 164, 164.90 levels. Support at 160.20, 158.10 (21 DMA), 156.90 (50 DMA). In the interim, USDJPY will look to UST yields, USD for directional cues. For USDJPY to turn lower, that would require the USD to turn/Fed to cut or for BoJ to signal an intent to normalise urgently (rate hike or increase pace of balance sheet reduction). None of the above appears to be taking place. As such, the path of least resistance for USDJPY may still be to the upside, for now.
- **USDSGD. *Bullish Crossover.*** USDSGD continued to trade higher. Renewed pressure in JPY, RMB and the bump up in DXY were some of the catalysts undermining SGD. Weakness may linger should those drivers remain intact. Pair was last at 1.3580 levels. Mild bullish momentum on daily chart intact while RSI rose. Bullish crossover observed as 21DMA cuts 50DMA to the upside. Risks skewed to the upside. Resistance at 1.3590, 1.3620 (76.4% fibo) and 1.3670 (2024 high). Support at 1.3520/30levels (50 DMA, 61.8% fibo retracement of Oct high to Jan low), 1.35 (100 DMA) and 1.3460 (50% fibo). Our estimates show S\$NEER has been easing. Last at 1.64% above model-implied midpoint.
- **CNY rates.** CGBs weakened on Monday and further this morning, upon PBoC statement saying it would start a bond borrowing program with primary dealers. There have been no further details yet. One interpretation is that the PBoC is prepared to sell bonds under monetary operations and as such it starts to accumulate some bonds for such purpose. Assuming the bond borrowing is under repurchase agreements, then there will be liquidity injection at the time the PBoC borrows those bonds from the market. One scenario could be that the PBoC intends to facilitate selling of long-end bonds (either by itself or via lending bonds to investors to sell) to stabilise the market amid the current bullish bond market environment; this may underpin our steepening bias on the CGB curve. On a longer-term horizon, two-way operations – buying and selling of bonds - can be carried out. At the front-end, PBoC net withdrew CNY298bn of liquidity from the market via OMOs this morning, which was in line with the usual practice of mopping up liquidity which had been injected before quarter/half-yearly end. In offshore, CNH deposits at banks in Hong Kong rose further to CNH1.134trn as at end-May, mainly reflecting corporates' fund flows. With persistent Southbound Stock Connect flows, offshore CNH deposits are likely to continue to edge up.



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