

Daily Market Outlook

3 July 2024

Powell's "Progress" Puts Focus on FOMC Minutes

- **USD rates.** UST yields fell upon Powell's remarks about making progress although the bonds pared gains after May JOLTS job openings printed higher than expected; yields ended the day mildly lower. Powell said "we've made a lot of progress" in bringing inflation down and repeated "progress" a few times in his speech by various modifiers including "significant", "real", and "quite a bit of". Next to watch is the FOMC minutes for the June meeting; one thing to examine is FOMC members' thoughts between one and two cuts, as the median dot moved up from two cuts to one cut at that meeting, but we note 8 members still put their dots to imply two cuts. It might have been a close call for some of those members who expected one cut. Earlier, Goolsbee elaborated on his thought process on policy rate decision, saying "if you just hold the rates where they are while inflation comes down, you are tightening...so you should do that by decision, not by default". We agree with the notion that keeping the Fed funds rate at the current level is a decision by itself, which is a decision to keep rates restrictive – probably overly restrictive given how far inflation has come down. Our base-case is for a total of 50bps of Fed funds rate cuts by year end. Fed funds futures last priced a total of 46bps. At the longer end, with 10Y real yield at 2.1% and breakeven at 2.3% looking fair against current macro settings, we continue to expect range trading for the 10Y UST yield between 4.30% and 4.50% before payroll and labour market report on Friday.
- **DXY. Powell Talks Progress on Disinflation.** USD dipped after Powell's comments at an ECB forum in Sintra last evening. In particular, he acknowledged that Fed has made "quite a bit of progress" toward cooler inflation and stable growth. Separately but also in Sintra, Goolsbee told Bloomberg TV that "we are on a path to 2%" inflation and "if you just hold the rates where they are while inflation comes down, you are tightening — so you should do that by decision, not by default." To put in context, we have been making the observation that US exceptionalism has somewhat softened (vs. last few months when most data was still printing red hot). ISM prices paid decelerated (to 52.1 vs. 57 prior) while latest core PCE also came in softer at 0.1% m/m for May (vs. 0.3% revised). Not forgetting core CPI, PPI had also come in below expectations. Elsewhere other data is pointing to growing strains on US consumer while the tightness in US labor market has also

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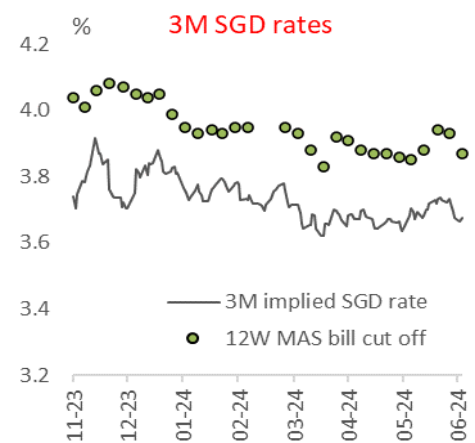
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eased. Recall last week how Fed's Mary Daly spoke about the Beveridge curve where further slowing could lead to rising joblessness. The softening seen in US exceptionalism should reinforce our house view for 2 cuts this year and for USD to ease away from its year high. Political noise is one aspect that may inject that uncertainty into markets, thereby implying that the downward path of USD may be bumpy or even face intermittent upward pressure if US-China tensions escalate. There is quite a fair bit of data coming up this week, including **ADP employment, ISM services (Wed); FOMC minutes (Thu) and payrolls (Fri)**. A softer print on payrolls report may see markets re-focus back on data, from politics and that would put CPI report (next Thu) in greater focus. Seasonality trend favours USD retracement in July and a softer data print is probably what is needed for that to transpire. DXY was last at 105.72. Bullish momentum on daily chart continues to fade while RSI fell. Support at 105.20/30 levels (21, 50 DMAs), 104.80 (61.8% fibo retracement of Oct high to 2024 low). Resistance at 106.20.

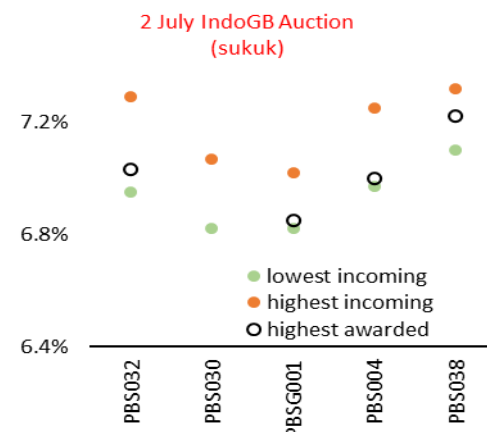
- **EURUSD. 2-Way Trades.** EUR dipped in London morning yesterday as the release of CPI estimate shows inflation slows. But losses were more than retraced into gains following the USD pullback (on Powell's comments). Elsewhere on French politics, French media reported that between 214 and 218 third-places contenders had pulled out of the race in their constituencies. This means there will only be 108 3-way races instead of over 300 and the rest will be 2-way run-offs on 7 Jul. This is not uncommon as some candidates may deliberately drop out of the race to prevent a vote split, to give their ally greater chance to stop the far right from advancing. Marine Le Pen's party needs 289 seats to win an absolute majority in the National Assembly and this is a risk not to be ruled out. She now says that she will try to open talks with individual MPs to form a government if she can secure around 270 deputies. We should expect to see EUR volatility returning closer to second round run-off this Sunday (7 Jul). Results should be in by the time Asia opens on Mon (8 Jul). A hung parliament would be a lesser evil for EUR than a right-wing outcome. EUR was last at 1.0745 levels. Bearish momentum on daily chart faded though rise in RSI slowed. 2-way trades still likely. Resistance at 1.0750 (21 DMA), 1.0780 (50 DMA), 1.0810 (38.2% fibo retracement of 2024 high to low, 100 DMA). Support at 1.0710, 1.0660/ 70 levels (recent low).
- **USDJPY. To Intervene or Wait?** Higher USDJPY continues to drum up expectations of intervention though some may be watching if authorities are allowing for further depreciation before stepping in. Spread between implied and realised vol continues to widen (1m at +3.91 vs. 2 at start of Jul). And we observed from history that actual market intervention risks do rise if spread continues to

widen. USDJPY was last at 161.67. Bullish momentum on daily chart intact while RSI is still 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 unless intervention takes place. And we shared that intervention is at best a tool to slow pace of JPY depreciation and not to reverse the trend.

- USDSGD. Easing Momentum.** USDSGD slipped amid broad USD pullback on Powell’s comments. Pair was last at 1.3570 levels. Mild bullish momentum on daily chart shows signs of slowing while RSI eased slightly. Risks modestly skewed to the downside. Support at 1.3520/30 levels (50 DMA, 61.8% fibo retracement of Oct high to Jan low), 1.35 (100 DMA) and 1.3460 (50% fibo). Resistance at 1.3590, 1.3620 (76.4% fibo) and 1.3670 (2024 high). Our estimates show S\$NEER was last at 1.71% above model-implied midpoint.
- SGD rates.** Cut-offs at Tuesday’s MAS bills auctions came in mildly lower than those at the previous auctions, at 3.88% for the 4W bills and 3.87% for the 12W bills. The outcome was in line with the lower implied SGD rates since last week’s auctions. Demand was decent, with bid/cover ratios at 2.13x and 2.07x for the 4W and 12W bills respectively. The spreads between MAS bill cut-offs and market implied SGD rates turned wider at auctions in June – i.e. the “yield premium” has come back – which might have attracted some USD funded investors back to the market. As for Thursday’s 6M T-bills, cut-off may come in around the previous level as the 6M implied SGD rate was trading at 3.53% this morning which was similar to the level around the last 6M T-bill auction.
- IndoGBs** were resilient in the face of rising UST yields, outperforming USTs on Tuesday. At yesterday’s sukuk auction, only IDR7.184trn of bonds were awarded versus issuance target of IDR11trn, as the MoF tried to keep cut-offs nearer lowest incoming bid levels when there is no funding pressure given comfortable fiscal position year-to-date. Incoming bids was IDR18trn representing fair demand; most of the bids went to PBS032 (2025 sukuk) and bills; no PBS030 (2028 sukuk) was awarded while cut offs were near lowest incoming bid levels for PBS032, PBSG001 (2029 SDG sukuk) and PBS004 (2037 sukuk). Earlier, issuance target for Q3 has been set at IDR215trn. With 6 conventional bond auctions and 7 sukuk auctions in the quarter, the quarterly target will be consistent with individual auction size of IDR22trn for conventional bonds and of IDR12trn for sukuk. IndoGBs attracted decent inflows over recent days, amounting to IDR11trn in the four days to 1 July; foreign holdings of IndoGBs moved up to IDR810trn as of 1 July.



Source: MAS, Bloomberg, OCBC Research



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