GLOBAL MARKETS RESEARCH

Daily Market Outlook

5 July 2024

Will NFP Show "Progress"?

- **DM rates**. Gilt yields edged higher on Thursday by 2-3bps, before the exit poll came out. Election exit poll shows that the Labour Party is likely to win with a big majority, a scenario which has been perceived as pointing to higher risk of fiscal slippage than a case when the Labour wins with a narrower majority. Nevertheless, fiscal spending is constrained by the small headroom, and we are more inclined to assume policy continuity in terms of near-term fiscal policy and the medium-term target for fiscal consolidation. On balance, we suspect gilt reaction may be mild when the market opens later today; long-end bond/swap spreads at current negative levels also suggest the market has priced in the outcome to some extent. In US, the focus tonight is payroll and the labour market report. Given the recent softness in the data, investors will look for additional evidence that the labour market is cooling, to confirm expectation of interest rate cuts. Six-month average of non-farm payroll change was last at 255K (as of May 2024) which was not too far away from the 200K+ levels in the years 2013-2019. In comparison, Fed funds target rate ranged between 0.25% and 2.50% in those years. Furthermore, according to the latest FOMC minutes, some participants observed that "the monthly increase in employment consistent with labor market equilibrium might now be higher than in the past because of immigration". A payroll outcome near the 200K mark shall be taken as bond market friendly, in our view.

- **DXY. *Softer NFP Should Weigh on USD.*** USD slipped again overnight in quiet trade as US markets are out for Independence Day, Focus is on US payrolls tonight (830pm SGT). Markets are looking for NFP to print +190k (vs. +272k), hourly earning to see a sequential decline to 0.3% m/m (vs. 0.4% prior) and for unemployment to hold steady at 4%. A softer set of data should further boost rate cut expectations and add to USD downside. To add, 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 105.05. Daily momentum turned bearish while RSI fell. Support at 104.80 (61.8% fibo retracement of Oct high to 2024 low, 100 DMA) and 104.50 (200 DMA). Resistance at 105.20 (50 DMA), 105.80 (76.4% fibo) and 106.20.

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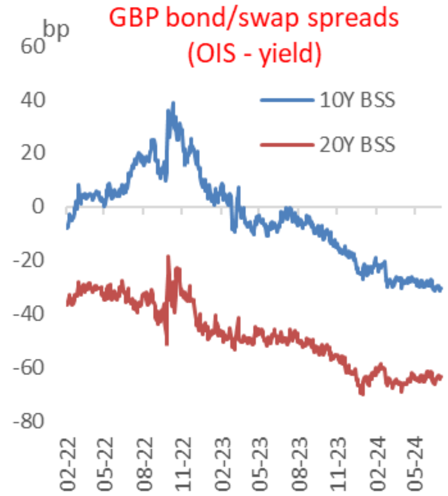

Source: Bloomberg, OCBC Research

- **EURUSD. *Watching Round 2 Results.*** Eyes are on French results on Monday morning when Asia opens. French media reports show that more than 200 candidates from both left-wing alliance and Macron's coalition have pulled out of the race in their constituencies. 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. This means there will only be 100 or less 3-way races instead of over 300 and the remainder will be 2-way run-offs on 7 Jul. Out of the 577 seats in the National Assembly, Marine Le Pen's party needs 289 seats to win an absolute majority. Latest Harris Interactive poll estimates that her party would get 190-220 seats, well short of the 289 needed. Left-wing coalition was again seen in second place with 159-183 seats projected and President Macron's centrist alliance was in 3rd spot with 110-135 seats. So just based on polls, a hung parliament outcome may be a base case scenario now. That said, we still cannot rule out an outside chance that Le Pen may well gather enough support after all, election risks are fluid and polls are just polls. Sentiments can shift between now and Sunday. A hung parliament would be a lesser evil for EUR than a right-wing majority. EUR held on to recent gains. Daily momentum is mild bullish while RSI rose. Next resistance at 1.0870 (50% fibo) or even 1.0930 (61.8% fibo). Anything beyond that would require the help of a softer USD. Support at 1.0810 (38.2% fibo retracement of 2024 high to low, 100 DMA). 1.0730/50 levels (23.6% fibo, 21 DMA), 1.0660/ 70 levels (recent low). We should expect to see more 2-way risks with US NFP data in mind.

- **USDSGD. *Watching NFP.*** USDSGD fell further amid USD pullback. The consecutive decline in USD is providing a breather for some AXJ FX, including SGD. And markets are focused on US NFP (Fri) and US CPI report (next Thu). Another softer print should add to USD downside and help with recovery momentum for SGD. Recent rebound in RMB and JPY is also helping with momentum. Pair was last at 1.35 levels. Mild bullish momentum on daily chart faded while RSI fell. Risks skewed to the downside. Support here at 1.35 (100 DMA) and 1.3460 (50% fibo). Resistance at 1.3520/30 levels (50 DMA, 61.8% fibo retracement of Oct high to Jan low), 1.3620 (76.4% fibo). Our estimates show S$NEER was last at 1.83% above model-implied midpoint.

- **CNY rates**. CGB yields continued to edge higher with the 30Y bond underperforming. According to a media report quoting a PBoC reply, PBoC has "hundreds of billions of medium- to long-end bonds at its disposal to borrow" and it would "borrow the bonds on an open-ended unsecured basis and sell them depending on market conditions". Hundreds of billions are decent amounts when it comes to monetary operations. The intention to sell mid to long end bonds is in line with our expectation, given the current bullishness in the bond market and the accompanied duration risks. Although monetary operations may not have a significant, long-lasting impact on the bond market, the signal from policy makers is also important at this point of time. We continue to avoid duration risk because of the supply outlook, of long-end yields being overly low compared to growth, and of the authorities' reflation efforts. In offshore, t/n CNH point dipped to a low of -12pips overnight, before rebounding this morning; but liquidity is still supportive probably as pressure on spot subsided somewhat. Still, we stay cautious against risks of sporadic jumps at front-end points, with uncertainty stemming from US nonfarm payroll tonight.

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