

| DAILY |

Morning Briefing

OVERNIGHT NEWS

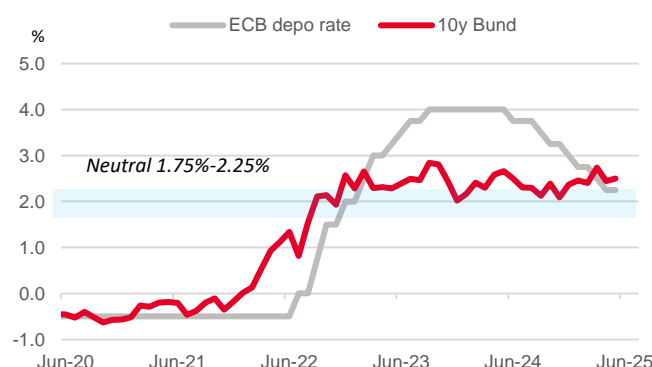
- Bond yields off overnight lows after soft 30y JGB auction, b/c 2.92x is weakest since Dec-23. 10y Bund firms to 2.54% ahead of ECB, swap spread tightens to -17bp. 10y UST off 4.34% low after erasing 4.38% support. Both US ISM surveys below 50 in May.
- Day ahead: ECB 25bp cut priced in, lower inflation forecast, maintain data dependence? Merz/Trump meet in Washington. US weekly jobless claims, trade balance. Fed speakers Kugler, Harker, Schmid. UK DMP 1y CPI expectations. France OAT auction.
- China Caixin PMI services rose to 51.1 in May from 50.7 in April. Composite fell to 49.6 from 51.1.
- Sweden CPIF steady at 2.3% yoy in May, core eases to 2.5% from 3.1%, keeps Riksbank on track to lower rates once more this summer. Current account surplus widens to SEK119.3bn in 1Q
- Nikkei -0.4%, EUR 10y IRS unch at 2.51%, Brent crude -0.1% at \$64.8/b, Gold -0.2% at \$3,368/oz.

CALENDAR

Key events of the day

SP sells 3y, 5y, and 7y Bonos (10:30)
FR sells 10y, 12y, 30y OATs (10:50)
EUR PPI, cons 1.2% yoy (11:00)
ECB rate decision, cons -25bp to 2.0% (14:15), Lagarde press conference (14:45)
UK 1y CPI expectations, cons 3.2% yoy (10:30)
BOE speakers: Greene (09:45), Breeden (10:30)
US initial jobless claims, cons 235k (14:30)
US trade balance, cons -\$66.1bn (14:30)
Fed speakers: Kugler (18:00), Harker (19:30), Schmid (19:30)
SA current account, cons -0.7% qoq (11:00)
BR trade balance, cons \$8.25bn (16:00)

Chart of the day: ECB cut to 2% priced, mid-point of neutral range. Scope for lower Bund yields on inflation downgrade?



Source: SG Cross Asset Research/Corporate

MARKET REVIEW

FOREX

EUR/USD: 1.1405 - 1.1435 overnight range. Dip buying favoured tactically irrespective of 25bp cut and wider Fed/ECB spread (250bp). NFP tomorrow should be the bigger market mover. Support 1.1245, resistance 1.1570. Option strike at 1.1400 (€2.4bn).

USD/JPY: 142.53 - 143.18 overnight range. Spot bid above 143 but conviction low before NFP. Support 142.30, resistance 144.40. Likely short covering lifts JGBs (yields lower) despite soft 10y sale this morning: b/c of 2.92x is weakest since 2023, tail 0.49bp.

GBP/USD: 1.3541 - 1.3574 overnight range. Cable consolidates around 1.3550, rangy session ahead unless US jobless claims surprise to upside. Support 1.3430, resistance 1.3620. EUR/GBP stalled at 0.8415 (100dma), close to FV based on 2y and 10y IRS.

AUD/USD: 0.6486 - 0.6509 overnight range. Spot settles around 0.65 after swoon in UST yields yesterday following soft ISM. Support 0.6440, resistance 0.6550. Aussie trade surplus narrowed to A\$5.41bn in April, exports -2.4% m/m (US down record 57.6%).

RATES

EU: 10y IRS unchanged at 2.51%, trapped technically. Support 2.43%, resistance 2.64%. Another impressive 19 issuers sold combined €28bn IG paper yesterday. Italy's €12bn 5y (demand €120bn) and €5bn 2037 green (demand €94bn) stood out.

US: 10y IRS back up to 3.86% in Asia from intra-day low of 3.829% yesterday on ADP/ISM, right on the 50dma. Support 3.77%, resistance 3.94%. Jobless claims in focus after last week's unexpected rise to 240k. Fed futures fully price September rate cut.

UK: 10y IRS digs in at 4.10% (100dma), break would open 4.0%. Support below 3.96%, resistance 4.28%. Stickiness of 2y Gilt at 4.0% underscores skepticism over BoE path. Sonia curve pricing 25bp cut now only in November. Greene and Breeden speak today.

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OUTLOOK

Last week, Christine Lagarde framed the current environment as the “[global euro moment](#)”, referring to Belgian-American economist Triffin who observed that nations’ confidence in the international monetary system depends on the reliability of the reserve currency, which, in his words, is “highly dependent on individual countries’ decisions”. Today, Lagarde is set to oversee another 25bp reduction in the policy rate to 2.0%, the mid-point of the neutral range. The decision, which is baked in, would mean the spread with the US widens to 250bp, the highest since early 2023. Bringing Triffin into the debate, Lagarde is right to suggest that the ‘individual decisions’ of the eurozone governments will decide if the single currency can capitalise on unpredictable US policies and could, one day, challenge the pre-eminent reserve status of the dollar, and of gold. However, the reality is that today’s policy decision is a stark reminder that, contrary to the domestic EU and ECB aspirations, both trade and monetary policy are crafted indirectly by the US and Saudi Arabia. Firstly, it is Trump’s tariffs and the breakdown of the dollar’s ‘smile’ or its safe-haven status that put a rocket under EUR/USD from 1.08 to 1.15. The ECB technical assumption is 10% lower in the next two years. Secondly, Saudi is driving down oil prices by putting pressure on OPEC+ to add supply. Put together, the disinflationary tailwind implies that the ECB may not be done with cutting rates after today. The question is whether terminal is 1.75% after the summer ([SG economics](#) forecast a further cut at the earliest in September), or whether the cycle proceeds to below neutral. This may not hinder further appreciation of the single currency in a world where the impact of rate spreads has been blunted. A dovish cut (lower inflation forecast?) in theory augurs well for steeper yield curves and further outperformance of countries with high debt loads and stable politics, such as Italy. Council hawks have in recent weeks labelled today’s meeting as a ‘difficult one’ where downside inflation risks in the short-term must be balanced against upside risks from structural investment plans and geo-political/labour market changes. Unless EUR/USD leaps above 1.15 or Brent crude sinks below \$60, hawks will oppose further cuts.

In EM, our LatAm economist Dev Ashish sees only a [limited impact](#) on Mexico from the doubling of the US tariffs on steel and aluminium imports from 25% to 50%. In 2024, Canada and Mexico exported a combined \$36.6bn worth of goods to the US in categories such as: a) iron and steel, b) articles of iron or steel, and c) aluminium and articles thereof. Out of this, Mexico’s share was \$12.3bn, representing approximately 2.0% of the country’s total exports and 0.7% of its GDP. Mexican EconMin Marcelo Ebrard, who is scheduled to travel to Washington later this week, will present his arguments to exclude Mexico from this tariff measure, probably referring to the need to uphold the USMCA trade treaty. Mexico and the US are expected to start the negotiations over USMCA terms in September this year, well ahead of the review deadline in July 2026. President Sheinbaum yesterday said she will take steps to protect the steel industry if the government does not negotiate a tariff-exemption with the US. USD/MXN trades with a downward bias and within 1% of 19.00. USD/BRL is lining up another attempt at 5.60. Foreign investor interest in Brazilian stocks is a tailwind for the BRL. Based on B3 exchange data, May saw foreign inflows of BRL10.6bn (the most since December 2023), on US rotation and perceptions that BCB is done with tightening.

In Asia, the KRW extends yesterday’s 1% gain to below 1360/USD, the strongest level since last October, following the election of Democratic Party candidate Lee Jae-myong as the new President of South Korea. Lee’s economic policies are not yet clearly defined overall, but he is proposing fiscal stimulus via a supplementary budget as well as amendments to commercial law. We anticipate a supplementary budget of +KRW35tn soon. Geopolitically, Lee’s closeness to China could create tensions between the US. His policies in our [opinion](#) will be neutral for KRW,

positive for equities and bearish for rates. The 10y KTB yield climbed 8bp to 2.88% yesterday and a return to 3.0% is not ruled out – NPS portfolio allocation with a higher weighting in domestic bonds and a lower weighting in global bonds may be employed to control the ascent in bond yields.

TECHNICAL ANALYSIS

EUR/USD broke out from a short-term channel after defending the 50-DMA near 1.1065 (now at 1.1245). Daily MACD remains anchored within positive territory and has crossed above its trigger line highlighting regaining upward momentum. The pair looks poised to head higher gradually towards 1.1470 and April high of 1.1570. The 50-DMA and recent pivot low of 1.1245/1.1200 is an important support zone near term.

EUR 5y IRS has retracted after facing strong resistance at a multiyear descending trend line near 2.56%/2.60% (currently the trend line is located at 2.35%). Daily MACD has experienced crisscross moves around its trigger line highlighting a lack of clear direction. The swap rate is trapped within limits of April low near 2.09% and the down-sloping trend line near 2.35% in short-term. A break beyond one of these bands will be crucial for confirming a directional move.

EUR/USD, daily chart



Source: SG Cross Asset Research/Corporate

EUR 5y IRS, daily chart



Source: SG Cross Asset Research/Corporate

		1-2 Month range	1-2 Month View	Daily View	Supports	Resistances
Currencies	EUR/GBP ↔	0.8310-0.8540	EUR/GBP recently probed the 200-DMA and carved out an interim low at 0.8355. Defence of this can lead to a short-term bounce; May high of 0.8540 is likely to provide resistance.	200-DMA at 0.8380 is first support	0.8380, 0.8355, 0.8310	0.8450, 0.8475, 0.8500
	GBP/USD ↑	1.3130-1.3740	GBP/USD recently broke out above last year highs and marched towards 1.3590. The up move has paused; previous peak around 1.3430 is crucial support. Next objectives are at projections of 1.3740/1.3810.	Tentative pause within up move	1.3430, 1.3380, 1.3240	1.3590/1.3620, 1.3740, 1.3810
	USD/JPY ↓	140-148.65	USD/JPY is in vicinity to interim support of 142.30 representing last month low. A bounce is not ruled out, but the trend line drawn since January at 146.30/147 could cap. Inability to defend 142.30 can extend decline.	142.30 is important support	142.30, 141.70, 140/139.50	144.40, 145.50, 146.30/147.00
	AUD/USD ↑	0.6185-0.6630	AUD/USD is evolving within a range-bound price action after facing resistance at 0.6510 earlier in May. Recent pivot low of 0.6340 is a crucial support near term. Overcoming 0.6510 can lead to a larger bounce.	Attempting breakout from recent range	0.6440, 0.6400, 0.6340	0.6510/0.6550, 0.6630, 0.6660
	EUR/HUF ↑	395-411	EUR/HUF has retracted towards the ascending trend line drawn since January 2024 at 399. Defence of this can result in a short-term bounce. April high of 411 is important resistance.	399 is important support	401, 399, 395	405, 407, 411
	USD/CNH ↓	7.14-7.37	USD/CNH has extended its decline after giving up the 50-DMA (now at 7.25). Inability to overcome this hurdle can lead to persistence in decline. Next objectives are located at projections of 7.14 and 7.10/7.08.	Interim support at 7.16	7.16, 7.14, 7.10/7.08	7.20, 7.22, 7.25
Rates	US 10y IRS ↔	3.58%-4.00%	US 10y IRS has staged a pullback after failing to overcome the descending trend line drawn since January at 4.00%. The 200-DMA at 3.80%/3.77% is an interim support. If this is breached, the down move is likely to deepen.	Next support at 3.80%/3.77%	3.80%/3.77%, 3.69%, 3.58%	3.94%, 4.00%, 4.04%

* Note: The trend shown in first column is over 1-2-month period, support / resistance levels are for near term.

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