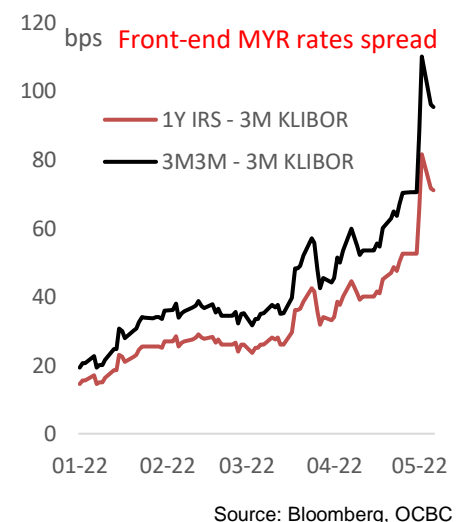
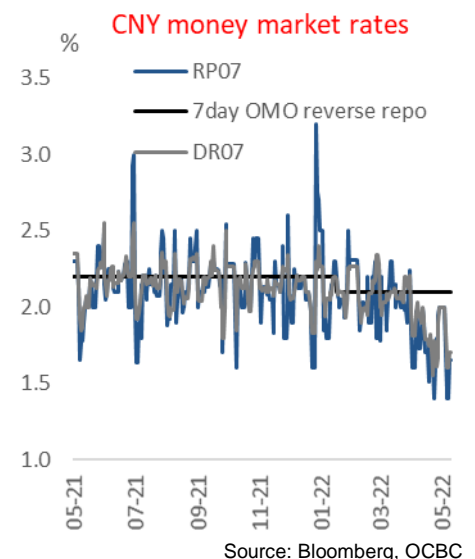


Rates and FX Themes/Strategy

- **UST yields** slid across the curve in a risk-off trading session, with yields closing around session lows. The curve steepened across various segments as front-end bonds outperformed amid some mild repricing of monetary policy. USD OIS is pricing in additional hikes of 183bps between now and year-end, versus 200bps plus days ago. The 10Y yield is trading around our Q3/Q4 target and we see any upside as limited. At the shorter end, while the narrowing in the spread between the 2Y yield and the Fed funds target rate is in line with our expectation, there is still upside to the 2Y yield itself towards its previous high of 2.965% if the Fed delivers more hikes.
- The 2Y Gilt yield fell by more than 10bps despite somewhat hawkish remarks from a BoE official, as investors focused on the downside risks to growth while the SONIA pricing was already hawkish. Saunders said inflation is “uncomfortably high” and raising rates quickly may spare households an even worse squeeze. **GBP/USD** recovered from session low of 1.2261; near-term range is at 1.2081/1.2495. Risk of market repricing lower rate hike expectation may hinder any upward move in GBP/USD before growth worries subside.
- **CNY rates** edged down by 2-3bps upon the soft exports and imports prints. There is some expectation for a 5bps or 10bps cut at the MLF rate, but market does not seem to hold as high a hope as compared to last month given the RRR cut which is of a smaller magnitude. Liquidity stayed flush with the 7day repo at/below OMO rate and T/N point low; the impact of the policy rate decision on money market rates is unlikely to be big. Back-end **CNH points** shall consolidate at low levels with a mild upward pressure today given the lower US yields and the negative FX sentiment.
- **MGS** stabilised on Monday, with yields retracing mildly lower and IRS fell by more which outperformed bonds. The retracement may be extended today given the global drops in yields. The 3M3M MYR rate traded at 95bps above the spot 3M rate, versus 110bps higher on Friday. The 3Y MGS yield remained well ahead of the OPR. Our base-case is no change in the OPR on Wednesday, but BNM may start to prepare the market for a hike down the road. We suspect there is room for further retracement lower in MGS yields.
- **USD/SGD**. SGD NEER is trading at around 1.06% above mid-point this morning, within our expected range. Pressure on the NEER is mostly balanced today on mild dollar strength while the SGD outperforms the CNY but underperforms the Yen. Range for spot USD/SGD is at 1.3754-1.3936.

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