OCBC TREASURY RESEARCH

Daily Market Outlook

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Rates and FX Themes/Strategy

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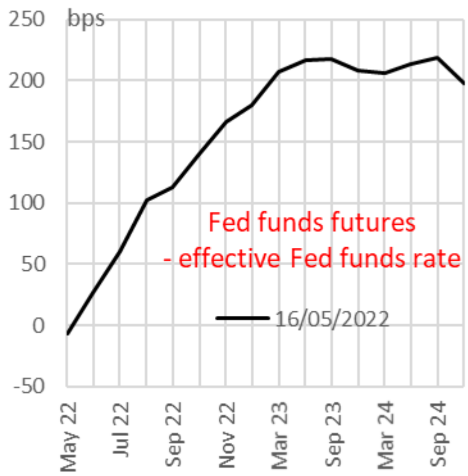
- UST yields edged down on growth concerns, with the 10Y yield trading in a range of 2.85-2.95% over the past two sessions. USD OIS is pricing in additional hikes of 192bps between now and year-end; this pricing has been fluctuating between 180bps and 200bps plus over the past days. Fed funds rate is seen plateauing during H2-2023 by the Fed funds futures. We continue to see the 10Y UST to trade in a range with a mild upside only, as there seems to be no strong upward momentum in the breakeven or real yield at the moment.

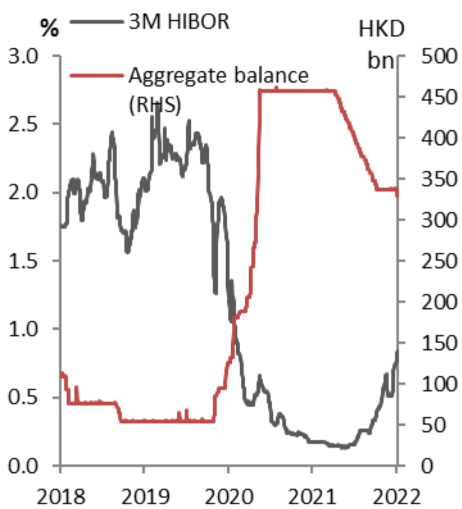
- The steepening in the **UST curve** across the 2s10s segment since the start of April was partly driven by the inflation curve which has become less inverted as the adjustment lower in inflation expectations was bigger at the 2Y. Some consolidation in the breakevens may bring the steepening momentum on the UST curve to a pause.



Source: Bloomberg, OCBC

- Front-end Bunds underperformed the longer-end and USTs, as market added to rate hike expectations. ECB Villeroy expressed concerns over the weak EUR's impact on inflation, saying the central bank "will carefully monitor the developments in the effective exchange rate, as a significant driver of imported inflation" and "a euro that is too weak would go against our price stability objective". EUR OIS pricing of rate hikes by year-end edged higher to 92bps, in line with our view for a potential push towards 100bps. **EUR/USD** rebounded from the Friday low of 1.0350 and the next resistance is the 21DMA at 1.0583. Concerns over the growth outlook however seems to be curbing a stronger transmission from higher yields/rate hike pricing onto the EUR for now.

- **USD/SGD**. SGD NEER has moved onto a higher range of 1.26-1.29% above mid-point since Friday, upon a mild reversal in the broad dollar strength, while the SGD has continued to outperform the JPY and the MYR. The upper end and 1% above mid-point of the SGD NEER band at current levels correspond to 1.3815/1.3952 for USD/SGD.



Source: Bloomberg, OCBC

- As **USD/HKD** kept testing 7.8500, the HKMA stepped up its FX intervention. More FX interventions are likely to come, as the reaction in HKD rates thus far does not seem to be big enough to reverse the pressure on spot t/t yet. The adjustment process in rates versus spot may last for a while more, with total FX intervention likely at the tune of tens of billions.

- The **PBoC** announced on Sunday that it would cut the floor to mortgage rate for first-time homebuyers to 4.4% from 4.6% (to LPR - 20bps from LPR) but kept the MLF rates unchanged on Monday against some hope for a modest cut. On balance, CNY IRS ended Monday a tad softer. MLF cuts are not a prerequisite for an LPR rate cut and we still see room for an LPR rate given the lowered funding costs. Nevertheless, MLF or LPR decisions may not be the most important factor driving market rates which have been trading on the mostly flush liquidity conditions, while overall CNY rates trade on the soft side on lingering growth concerns. **Back-end CNH point** is a function of interest rate differentials and FX view – while the stabilising RMB sentiment may remove some upward pressure on the curve, the lower USD yields probably mean any downward move on back-end points will be mild.

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