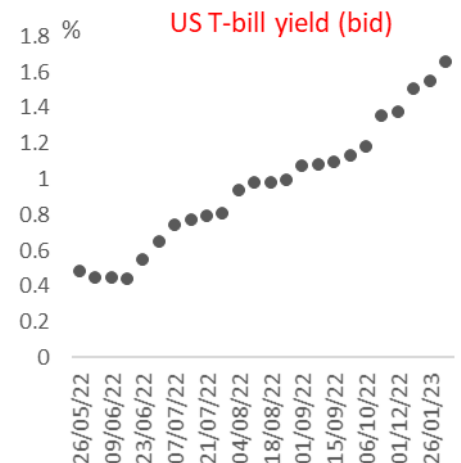


Rates and FX Themes/Strategy

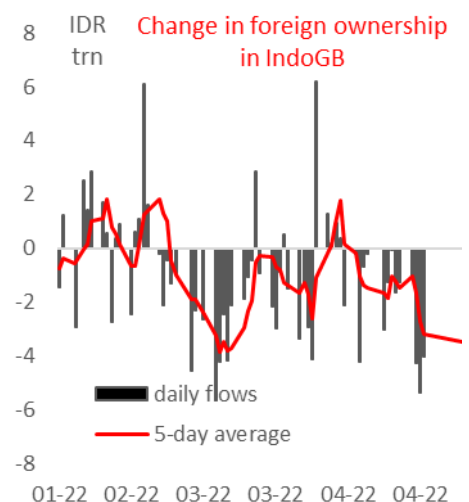
- The **UST curve** bullish flattened in a risk-off session when rate hikes expectation stayed little changed. The solid 20Y coupon auction pressured long-end yields further. The 20Y bond cut off at 3.29%, 0.2bps below WI level while indirect award was still high at 70.6%. Demand for bills was strong as well amid the flush liquidity as usage at the Fed's o/n reverse repo rose to USD1.973trn on Wednesday. The flush liquidity has flattened the very front-end of the bill yield curve despite expectation for a 50bps hike at the June FOMC meeting. Growth concerns and liquidity are likely to cap yields near-term. We maintain our flattening bias across the 2s10s segment, as there seems to be a lack of upward driver on the 10Y breakeven or the 10Y real yield, while room for further steepening in the inflation curve is smaller than before the recent adjustment. Meanwhile, rate hike expectation is likely to be sustained.
- Front-end Gilts continued to underperform upon the high prints of CPI, PPI and RPI inflation on Wednesday, following the strong labour market data on Tuesday. GBPS OIS went higher to price 121bps of additional rate hikes by year-end. **GBPS/USD** did a round trip overnight, failing to benefit from the higher rate prospects as growth concerns lingered. Resistance for GBPS/USD is at 1.2475 and then 1.2650.
- **USD/IDR** continued to face upward pressure amid the subdued risk sentiment and bond outflows. The next resistance for the pair is at 14,750 which if broken will open further upside to the 14,900 area. On the bond side, IDR3.29trn of sukuk bonds were sold via greenshoe auction on Wednesday, bringing the total awarded amount to IDR7.57trn which was still short of the IDR9trn target. Bond outflows in the past 19 trading days amounted to IDR38trn, with foreign holdings of IndoGBs standing at IDR811trn, or 16.66% of total outstanding, as of 13 May.
- **USD/SGD**. SGD NEER closed lower at 1.06% above mid-point on Wednesday, and is trading at 1.23% above mid-point this morning. After having underperformed the CNY and the MYR on Wednesday amid an improved risk sentiment, the SGD is outperforming today garnering some safe-haven flows as the sentiment turned. Near-term range for USD/SGD is likely at 1.3801-1.3986.
- It is a close call on the **BSP** policy rate decision today, but we are more inclined to see a 25bps hike. Governor Diokno came up with some hawkish comments on Wednesday, saying the central bank is "ready to act" if it sees inflation view dis-anchored, and sustained oil price rise may dis-anchor inflation view – taken together seems to imply they will act. Diokno mentioned that non-monetary tools point to a small risk that BSP may still do not deliver on rate.

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Source: Bloomberg, OCBC



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