OCBC TREASURY RESEARCH

Daily Market Outlook

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Rates and FX Themes/Strategy

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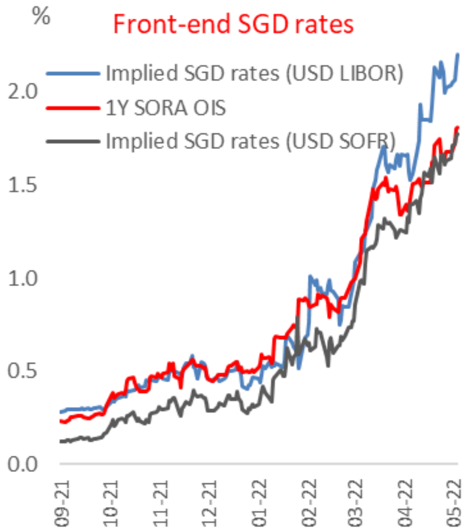
- **USTs** pared back part of the gains from London and early NY sessions, with yields still ending the NY session lower across the curve. Rate hike pricing eased somewhat, as US reported mildly higher initial jobless claims albeit the downward revision of the previous figure. We maintain our range-trading view and expect the 10Y UST yield to be capped at around 2.95% on a multi-week horizon. Gilts has continued to underperform on relatively better data of late.

- **ECB** minutes underpins the potential for a July hike. EUR OIS has moved to price in more than an even chance of a 50bps move at the September meeting, but total hikes priced for this year stayed little changed at 88bps. We maintain our view that EUR OIS pricing is likely to push towards the 100bps mark. Bund yields fell nevertheless, as equities were sold off.

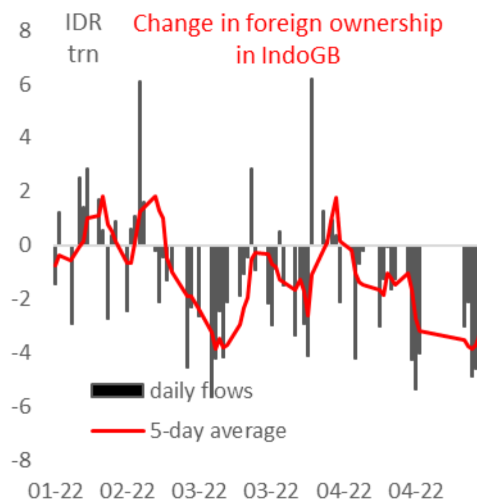
- 1M **USD/IDR** NDF fell in response to Indonesia's relaxing ban on palm oil exports. During the day on Thursday the 1M NDF was capped below 14,760, while the 1M DNDF was done at 14,750 which is the level we see as the resistance for spot. Budget deficit is expected to go higher to 4.5% of GDP on energy subsidies. An extrapolation of the Q2 supply schedule at target will give an annual gross supply at IDR711trn which is already on the low side; considering the recent below-target issuances and a potentially wider deficit, there is a small risk of higher funding needs later in the year should revenue not catch up.

- **USD/SGD**. SGD NEER has moved higher to trade around 1.54% above mid-point on broad dollar weakness while the SGD itself also garnered some safe-haven flows outperforming the CNY and the MYR. The high position of the SGD NEER may however limit further downside to USD/SGD if other trading pairs do not move enough. Next support for USD/SGD is at 1.3750. **SGD rates** underperformed USD rates on tight liquidity while the forward points edged up further. Bond investors may have also chosen to be cautious awaiting the announcement of the 5Y SGS auction size later today. Nevertheless, front-end SORA has adjusted towards the implied rates from the USD OIS curve, away from the higher USD LIBOR curve, in line with our expectation.

- In **China**, the 5Y LPR was lowered by 15bps to 4.45% while the 1Y LPR was unchanged. The outcome reflects the focus on supporting the property sector, in line with the recent relaxation measures. The money market has been functioning smoothly where an outright rate cut is probably not that much needed. The rates market is unlikely to take the unchanged 1Y LPR as a disappointment. Any upward pressure on rates and yields is likely channelled indirectly via a better growth prospect. Risk assets such as equities may react more.



Source: Bloomberg, OCBC



Source: Bloomberg, OCBC

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