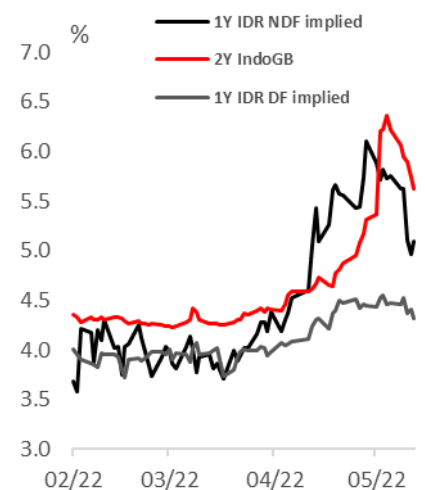


Rates and FX Themes/Strategy

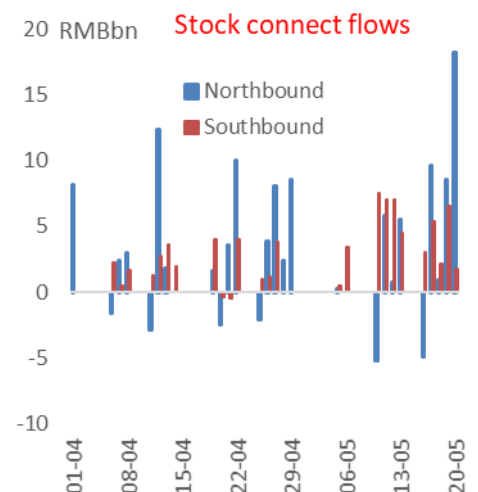
- The **UST** curve bullish flattened on Friday amid growth concerns, while market held onto rate hike expectations especially still seeing a 50bp Fed rate hike each at the June and July FOMC. Treasuries appear to be consolidating and the general risk sentiment stabilising at Asia open. As the 10Y yield retraced by 20bp over the past four sessions, there appears no first-tier economic data material enough to alter the Fed's rate hike trajectory at least for the next couple of meetings – i.e. the narrative remains as front-loading. We maintain our range-trading view and expect the 10Y UST yield to be capped at around 2.95% on a multi-week horizon, with a lack of impetus for a strong directional move in either the 10Y breakeven or the real yield.
- Bill/LIBOR spreads reflect more the dynamics on the bill side – ample liquidity but limited bill supply. There is paydown of bills totalling USD34bn this week, after the paydown of USD39bn last week. Usage at the Fed's O/N reverse repo stayed high at USD1.988trn on Friday.
- Sentiment turned for the better in **IndoGBs** led by the 1Y and 5Y tenors. Spot USD/IDR fell on Friday, extending the reaction in NDF upon the news that Indonesia would relax ban on palm oil exports. After these adjustments of late, market is likely to range-trade, awaiting the results of the conventional bond auction – a better sentiment but yields have retraced from highs, and BI policy decision – we expect a 25bp hike, but it is a close call. Expect range for USD/IDR at 14600-14750.
- **USD/SGD.** SGD NEER did a round trip and is now trading at around 1.50% above mid-point, similar to the level on Thursday close. The broad dollar has stayed soft while the SGD did not outperform the CNY or the MYR further. The next support for USD/SGD is at the 50DMA of 1.3705, which would require other major trading currency pairs to recover given the already high position of the SGD NEER; upside is at 1.3866.
- On bond side, the size of the upcoming 5Y **SGS** reopening auction has been announced at SGD2.1bn with MAS intending to take SGD300mn; this is at the low side of market expectation, which shall support our view for SGS resilience on well-manageable supply and the absence of direct QT impact.
- In China, **CNY IRS** did not react much to the LPR decision on Friday, where the 5Y LPR was lowered by 15bp and the 1Y LPR was unchanged. Front-end rates were paid up by 1-2bp as an instant response to the unchanged 1Y LPR, but they ended the day mostly flat. The reaction was in line with our view that MLF/LPR rate decisions are probably not an important driver at the moment. NCD rates have been trading

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Source: Bloomberg, OCBC



Source: CEIC, OCBC

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below MLF rate and market repo rates below OMO rate. On the FX curve, back-end **CNH points** rose on the back of lower US yields while Northbound Stock Connect flows were relatively big at RMB18.225bn on Friday which might have tightened the CNH liquidity. With RMB sentiment appearing to be stabilizing and the absence of material downside to RMB rates, back-end points shall trade mainly on US rates movement.

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