Daily Market Outlook

25 May 2022

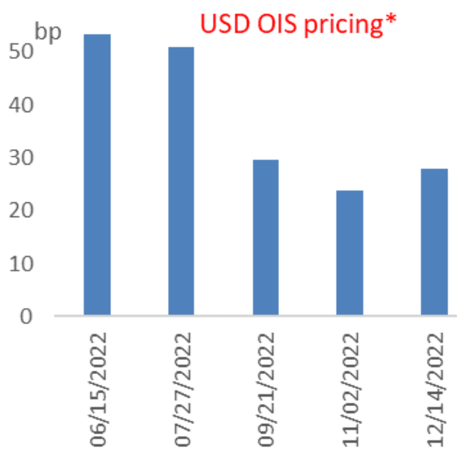
Rates and FX Themes/Strategy

Frances Cheung, CFA
Rates Strategist
+65 6530 5949
FrancesCheung@ocbc.com

Treasury Research
Tel: 6530-8384

- Soft data sent UST yields and Gilt yields lower on Tuesday. UST yields fell across the curve led by the front-end, upon the soft prints of new home sales and Richmond Fed manufacturing index in the US. USD OIS pricing scaled back mildly, to 186bps of cumulative hikes between now and year-end, from more than 190bps a day ago. Expectation remains firm for front-loading of rate hikes, while Fed Bostic – a non-voter this year - spoke of the criteria for a rate hike pause in September.

- Bunds underperformed USTs as recent ECB rhetoric has been hawkish. Adding to the hawkish camp were Holzmann, who opined that the ECB starting by a 50bps hike would be "appropriate"; and Kazaks who said a 50bps hike should not be ruled out. Earlier in the month, Knot also said he would prefer a 50bps move. The boost to the EUR from these comments did not last amid growth concerns, which also pushed EUR OIS pricing softer to 103bps from more than 120bps a day ago. The 50DMA at 1.0763 is the immediate resistance for EUR/USD.



Source: Bloomberg, OCBC
*expected changes at the respective meetings

- In **IndoGBs**, the conventional bond awards met target of IDR20trn upon incoming bids of IDR39.4trn. Bank Indonesia kept its policy repo rate unchanged at 3.50%, seeing inflation as being under control and Rupiah depreciation as being in line with other regional currencies. It however decided to further policy normalization via liquidity. The reserve ratio for conventional banks will be raised to 9.0% on 1 September, higher than the 6.50% previously planned for September onwards. An additional IDR110trn of liquidity will be locked up. Although the relatively low LDR means the condition will still not become a tight one, the increased reserve requirement nevertheless will displace some asset allocation by banks, where front-end bonds may be impacted more. Nevertheless, IndoGBs may be given a respite near-term, supported by pent-up demand and as USD yields have retraced lower. Expect 10Y IndoGB yield to range at 7.10-7.30%.

- **USD/SGD**. SGD NEER is trading at around 1.5157% above mid-point this morning, a tad below Tuesday close. The relatively high position of the SGD NEER may limit the downside to USD/SGD. The next support sits at the 50DMA of 1.3708 and then 1.3697, while resistance is at 1.3850.

- In onshore China, liquidity appears to have remained supportive, with market repo rates staying below OMO rates and T/N point at a very low level. At the back-end, however, downside to the CNY and CNH points is limited by the lowered US yields near-term. On bond side, the 10Y CGB yield is trading within our long-held expected range of 2.70-2.90%. Range for USD/CNH is likely at 6.6348/6.7000.

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Howie Lee
Commodities
HowieLee@ocbc.com

Ong Shu Yi
Environmental, Social & Governance (ESG)
ShuyiOng1@ocbc.com

Herbert Wong
Hong Kong & Macau
herberthtwong@ocbcwh.com

FX/Rates Strategy

Frances Cheung
Rates Strategist
FrancesCheung@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Toh Su N
Credit Research Analyst
TohSN@ocbc.com