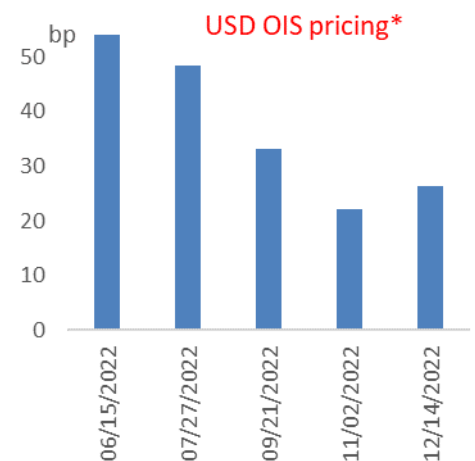


Rates and FX Themes/Strategy

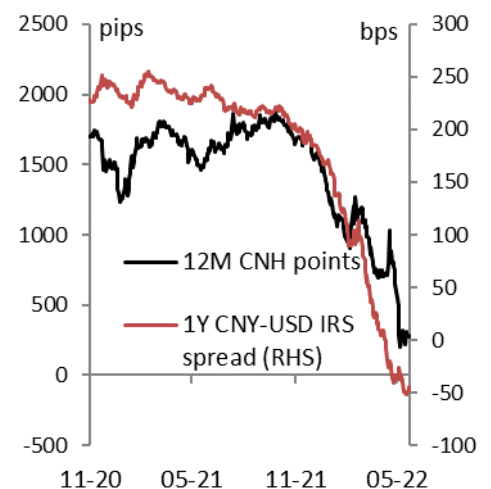
- **UST** yields fell upon the weaker-than-expected durable orders, before rebounding from session lows to end the NY session little changed. Market reacted little to the May FOMC minutes. We maintain our view that there is no first-tier data which are weak enough to alter the Fed's near-term rate hike trajectory. Downward moves in yields is still better seen as a correction at this stage, rather than representing a reversal in trend.
- The **May FOMC minutes** confirmed that most officials agreed that they need to hike the Fed funds rate by 50bps each at the next two meetings. The minutes also revealed that officials spent time discussing potential impact on market liquidity and the overall financial conditions from its tightening including QT. Overall, the narrative remains as front-loading, which would then "leave the committee well positioned later this year" in the rate trajectory. We do not read too much into this desired flexibility – or uncertainty in the prospects of rate hikes further down the road, as it is prudent for central banks to constantly assess economic conditions and the impact of delivered tightening, while our core scenario for rate hikes has been mildly below market pricing.
- **EUR/USD** fell on comments from some ECB officials which suggest that the run-off in the balance sheet is not in store yet. Knot does not expect the discussion on this aspect "for the remainder of this year and into next year"; Panetta said the ECB would "be much more able to anticipate the consequences of gradually adjusting rates while keeping [the] balance sheet constant". Already, growth concerns are capping EUR strength despite the hawkishness on the policy rate front. Adding in the stance on the balance sheet, EUR/USD faces an immediate resistance at 1.0755.
- **USD/SGD**. SGD NEER is trading at around 1.5859% above mid-point this morning, higher than Wednesday's close. Pressure on the NEER is to the upside, as the DXY retraced lower from session high, while some other regional peers may be more affected by the subdued RMB sentiment. The next support for USD/SGD sits at the 50DMA of 1.3713 and then 1.3697, while resistance is at 1.3850.
- **USD/CNH** rose and hit a session high of 6.7225 during NY hour; the pair is consolidating a tad above 6.7000 in Asia morning with resistance staying at 6.8380. Premier Li said difficulties in some aspect (of the economy) and to a certain extent are greater than in 2020, in a teleconference with local governments. While the need to support the economy implies potentially more bond supply, the message of heightened growth risk seems to be gaining an upper hand which is exerting downward pressure on **CGB** yields. As growth concerns

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



Source: Bloomberg, OCBC

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intensify, there may be further asset reallocation onto CGBs from riskier assets among local investors, although foreign flows may not make a strong comeback yet. The 10Y CGB yield is trading at the lower end of our expected range of 2.70-2.90%; if 2.70% is broken then the next to watch is the January low of 2.675% and then June-2020 low of 2.650%.

- The **BoK** hiked its policy rate by 25bps this morning as widely expected. The KRW rates market had priced in more than two hikes on a 3-month horizon ahead of the meeting. Post-meeting comments sound a tad more hawkish thus far, with the central bank saying it would put more focus on inflation. KRW IRS rose by 3-6bps in response.

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