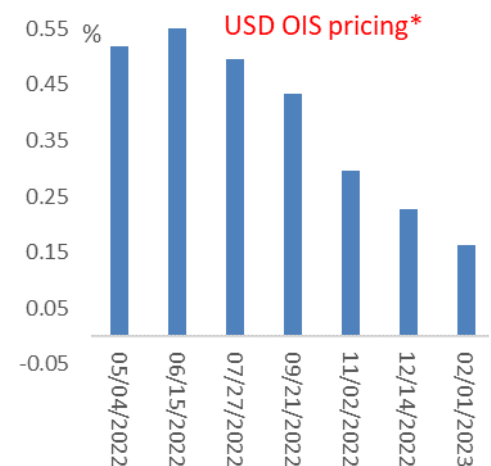


### Rates and FX Themes/Strategy

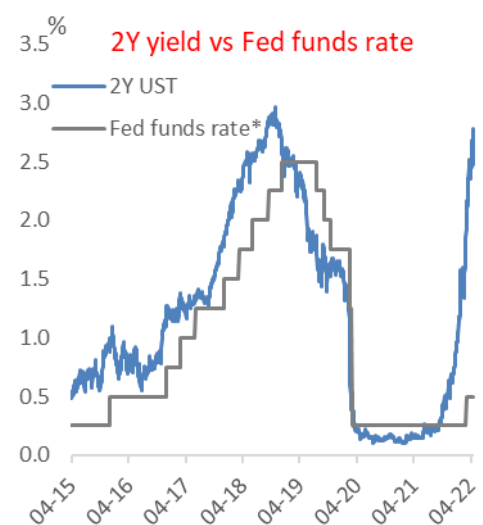
- USTs ended Tuesday mixed with front-end yields higher. Yields are up by 15-20bp across the curve since Thursday close. The spread between the 2Y yield and the Fed funds rate widened further, ahead of the much-anticipated May FOMC meeting. If the Fed delivers what is being priced in for the next few meetings, there is further upside to front-end yields towards 2.90% for the 2Y. USD OIS is pricing in more than 250bp of cumulative hikes between now and year-end, with a 50bp hike each being priced in/almost priced in at the May, June, July, and Sep meetings.
- US Treasury planned to pay down USD26bn of marketable debt in its latest Q2 funding estimates. This announcement had not given a boost to USTs, as these estimates did not incorporate any QT impact while the paydown may affect bills supply more. The Treasury is to pay down USD36bn of bills this week, followed by another USD15bn next Tuesday. Nevertheless, the expectedly higher cash balance of USD800bn at the end of June provides a mild buffer to the potential need for an adjustment in the funding plan.
- The **RBA** hiked its policy Cash Rate by 25bp to 0.35% on Tuesday, bigger than the expected 15bp. The RBA has also decided to stop re-investment, a decision that had been well anticipated. The central bank cited a more resilient economy and the presence of a domestic component to inflation as the reasons for the policy action. Governor Lowe said he expected “further increases in interest rates will be necessary over the months ahead”. Cash rate futures is pricing in a total of almost 250bp additional hikes before year-end. The boost to the Aussie was not substantial; the RBA is still very likely to be behind the curve. **AUD/USD** may be able to consolidate near-term, but there are still a few key levels to clear to the upside at 0.7132/7260.
- **USD/CNH** touched a high of 6.6980 yesterday, before edging lower hovering around the 6.6500 handle this morning. Expect range at 6.5000-6.7500. The latest politburo meeting reiterated its goal to achieve the growth target. On the curve, bias to back-end CNH points is to the downside on the back of higher US yields, but with onshore close, price action may be limited.
- **USD/SGD**. SGD NEER is trading at 0.91% above mid-point at the time of writing, a tad lower than just before the holidays on a stronger dollar while the SGD did not outperform major regional peers further. Short-term fluctuations aside, we expect the NEER to grind towards 1% in the coming weeks and be able to stay around 1% above mid-point for most of the time. The next resistance for USD/SGD on the top side is at 1.3905, while downside potential is at 1.3736.

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



Source: Bloomberg, OCBC

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