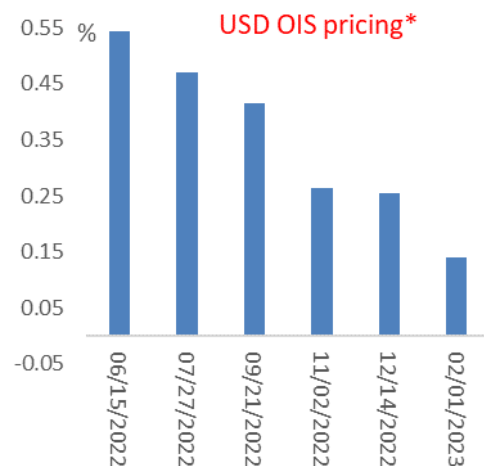


Rates and FX Themes/Strategy

- Front-end UST yields fell by more than 10bps as Powell pushed back on a 75bps move. Powell said “there is a broad sense on the committee that additional 50bps increase should be on the table at the next couple of meetings”, while a bigger move is “not something that the committee is actively considering”. These comments were taken by the market as providing some certainty on the rate hike trajectory. We remain of the view that the spread between the 2Y UST yield and the Fed funds target rate shall narrow as more rate hikes materialise. There is upside to the 2Y yield level itself; given the terminal rate is likely to be higher than that in the previous cycle, the first target for the 2Y yield is at 2.90%. Market awaits BoE decision tonight which may include a plan to actively sell its assets as the Bank Rate is expected to be raised to 1.00%.
- The **QT** plan is mostly in line with what were mostly disclosed at the March FOMC meeting. Assuming the transition for Treasury securities is USD30bn-45bn-60bn, then these caps are all binding and the amount for Treasury securities will add up to USD375bn by year-end. In the months of July, September, October and December, part of the QT will be done on bills.
- In Asia, hours before the FOMC decision, the **RBI** delivered an inter-meeting hike of 40bps in its policy Repo rate, together with a 50bps hike in the Cash Reserve Ratio draining INR870bn, in a unanimous vote. The policy stance has been kept unchanged. The central bank cited disruptions/shortages/escalating prices caused by geopolitics and sanctions, and heightened uncertainty surrounding the inflation trajectory as the reasons. After the rate hike, market pricing turned more hawkish, with short-dated forward rates having risen more rapidly than spot rates. Sentiment in G-Secs and the rates market is likely to stay subdued, as expectation is for further tightening including potentially reversing the 75bps cut done at the onset of the pandemic.
- In China, the PBoC net drained CNY40bn of liquidity via OMOs this morning. **CGBs** are likely to trade in ranges, as the bonds are stuck between a less optimistic growth outlook and stimulus pledge. We maintain our expectation for the 10Y yield to trade in a range of 2.70-2.90% on a multi-week horizon.
- **USD/SGD**. SGD NEER is trading at around 1.18% above mid-point this morning, retracing mildly from the high of 1.30% on Wednesday close, as USD/SGD edged mildly lower while the MYR outperformed. Short-term fluctuations aside, we expect the NEER to trade around 1% above mid-point for most of the time in the coming weeks. The resistance for USD/SGD is at 1.3905, while downside potential is at 1.3635.

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

Source: Bloomberg, OCBC

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