OCBC TREASURY RESEARCH

Daily Market Outlook

6 May 2022

Rates and FX Themes/Strategy

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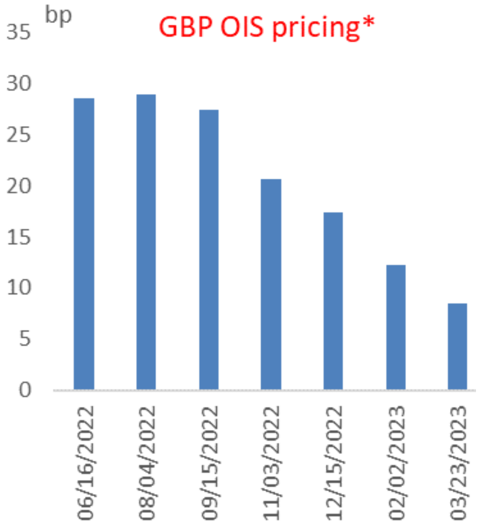
- A risk-off session amid elevated inflation and growth risks saw equities lower and yields higher. **UST** yields rose across the curve with the 10-20Y bonds underperforming, as the 10Y real yield rose to +0.175%. The post-FOMC relief was short-lived, as more Fed rate hikes are after all in store. In addition to the 50bp hike we have expected at the June FOMC meeting, we now expect another 50bp hike (instead of 25bp hike) at the July meeting as well; thereafter, we keep our profile of 25bp hike each at the September, November and December meetings. These expected hikes will bring the Fed funds target rate to 2.50-2.75% at year-end, a tad higher than the Fed's perceived neutral level. Our next target for the 2Y UST yield stays at 2.90%; we see less upside to long-end yields on still manageable supply including QT impact.

- **Gilt** yields and GBP/USD fell upon the BoE policy decision. The central bank did deliver a 25bp hike as expected, with 3 dissidents voting for a 50bp hike. On active QT, the central bank is still in the strategy-preparation stage and will only provide an update on the plan for active asset sales at the August meeting, which is mildly less hawkish than the market had expected. Overall, it was not so much a dovish outcome; it was the combination of a high inflation forecast (to peak slightly over 10% in Q4 2022) and a gloomy growth outlook which dent market sentiment. GBP OIS and SONIA pricing fell - it has been our long-held view that the pricing is overly aggressive. The BoE is still likely to tighten further, and our base-case is for two more hikes at least. The BoE economic forecasts are conditioned on the market-implied policy path; this means even with the expected additional policy rate hikes the BoE see inflation elevated for a while more.



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

- **MGS** yields rose across the curve while MYR IRS underperformed bonds, as market appears to be positioning for a potential surprise from the MPC meeting on 11 May. The 3M3M rate is 88bps higher than the spot 3M rate; and the 3Y MGS yield has front-run the OPR a lot, pricing in a terminal rate of 3% already. Apart from an initial reaction if there is any surprise, the 3Y MGS is likely to be resilient. Meanwhile, implied MYR rates are relatively low compared to yield levels, which shall provide investors with affordable FX hedges at times of higher volatility.

Source: Bloomberg, OCBC

- **USD/SGD**. SGD NEER is trading at around 1.01% above mid-point this morning, which is within our expected range. With the risk sentiment having turned subdued, there is room for the SGD to outperform regional peers again, which shall offset part of USD strength. We remain of the view that the NEER is likely to trade around 1% above mid-point for most of the time in the coming weeks. Resistance for USD/SGD sits at 1.3905, while downside potential is at 1.3728 and then 1.3644.

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