OCBC TREASURY RESEARCH

Daily Market Outlook

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Rates and FX Themes/Strategy

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- The UST curve bearish steepened on Friday, with no obvious catalyst apart from the strong labour market report. This week brings a slew of speeches from Fed officials; and April CPI and PPI from the US. Bund yields were also pushed higher, as more hawkish comments from ECB officials hit the wire. Villeroy said above-zero rates by year-end are reasonable; Holzmann expects two to three rate hikes this year. We see the July MPC a live one for the policy rate decision and there is room for EUR OIS pricing to adjust higher.

- **USD/JPY** headed higher this morning as the BoJ minutes reinforced the central bank's dovishness, where boarder members said they would not hesitate to add easing if needed. JGB yields nevertheless edged higher as US yields surged, but the domestic bonds should be considered resilient. USD/JPY may re-test the previous high of 131.25 given the Fed-BoJ divergence; support sits at 128.76 (post FOMC low).

- In China, there is still some expectation for a 5bps or 10bps cut at the MLF rate, but market does not seem to hold as high a hope as in last month given the RRR cut which is of a smaller magnitude. Liquidity stays flush with the 7day repo at/below OMO rate and T/N point low; the policy rate level is not a main factor driving money market rates at the moment. Further out the curve, **CNY rates** shall be sticky downward as the policy appears to be focusing on fiscal to support growth; as long as there is no aggressive outright easing, then the impact of any soft economic numbers (April trade numbers out later today) may affect rates via the RMB sentiment.

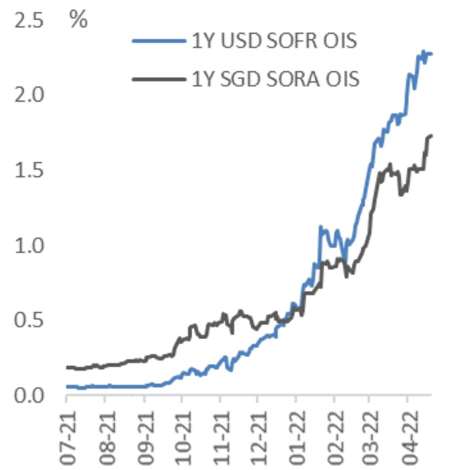
- **MGS** yields and MYR IRS surged on Friday, amid rising global yields while the domestic market was preparing for a hawkish surprise from BNM this week; the RBI inter-meeting hike has probably propelled some hawkishness in the MYR as well. The 3M3M MYR rate is trading at 110bps higher than the spot 3M rate; and the 3Y MGS yield has front-run the OPR a lot pricing in a terminal rate of 3%-plus already. Our base-case is no change in the OPR on Wednesday, but BNM may start to prepare the market for a hike down the road. We suspect there is room for a retracement lower in MGS yields, although IRS may be able to sustain the hawkish pricing.

Source: Bloomberg, OCBC

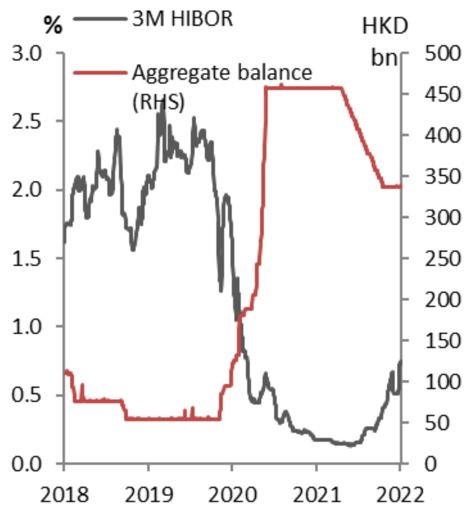
- **USD/SGD**. SGD NEER is trading at around 0.99% above mid-point this morning, lower than Friday close but it is still within our expected range. Pressure on the NEER is to the downside today as the SGD is underperforming regional peers. USD/SGD is trading near the previous high of 1.3905, which if broken may point to further upside near-term; downside potential is at 1.3731.

- Front-end **SGD rates** underperformed USD rates over the past sessions, on relatively tight liquidity while the forward points were also paid up amid the broad dollar strength; there might also have been some unwinding of the receive SGD rates pay USD rates trades. While we still expect front-end SGD rates to outperform USD rates over the cycle of rising rates, we prefer to stay on the sideline for now given the broad dollar strength, and that front-end SORA has already adjusted towards implied rates from the SOFR curve which is lower than the USD LIBOR curve.

- **USD/HKD** touched 7.85 – the weak-side convertibility undertaking for the HKD - in late NY session on Friday; there is no indication that FX intervention has been carried out, probably as the pair only touched that level briefly. To put things into perspective, FX intervention to defend the weak-side amounted to HKD126bn in 2018/19; it is not an insignificant amount compared to the aggregate balance (interbank liquidity) of HKD337.7bn. As and when FX intervention comes, there may be some knee-jerk reaction in HKD rates. That said, we still expect HKD rates to outperform USD rates in a rising rates environment, beyond short-term fluctuations. First, the market appears partly prepared for an FX intervention scenario, with HKD rates having risen more in tandem with USD rates than during previous cycles. Second, the aggregate balance is a thick buffer which is still likely to be supportive of liquidity.



Source: Bloomberg, OCBC



Source: Bloomberg, OCBC

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