

Daily Market Outlook

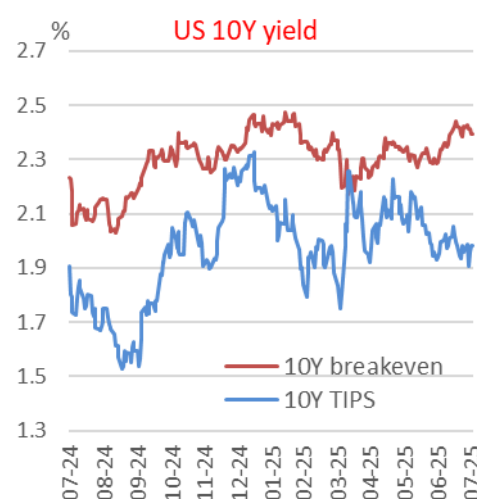
1 August 2025

US payrolls in focus; BoJ hike still on the cards

- USD rates.** USTs traded in ranges overnight as the data came in mostly in line with expectations, while investors awaited payroll and labour market report tonight. Demand at the 4W and 8W bill auctions remained decent, although not as overwhelming compared to previous auctions, considering the bigger sizes and the relatively heavy bill and coupon bond settlement of USD110bn on the day. From the perspective of liquidity on an aggregate level, we expect additional bills supply to replenish TGA balance to be readily absorbed. On the data front, June core PCE price index rose by 0.3%MoM in line with expectation, while the YoY increase of 2.8%YoY was slightly firmer than expected. On a sequential (MoM) basis, price increases quickened for services and durable goods but slowed for non-durable goods. For payroll, range of expectations are wide as usual; given the recent hawkish repricing in the rates market, a slightly above consensus print may not draw much market reaction, while a downside surprise may lend support to the bond market. The unemployment rate is another important indicator, given the low job vacancy to unemployment ratio. Fed funds futures last priced the chance of a September rate cut at 43%, a total of 33bps of cuts for this year and 79bps of cuts for 2026. Near-term range for 10Y UST yield stays at 4.34-4.52%; 10Y breakeven at 2.39% still looks high, although that might reflect recent TIPS outperformances.

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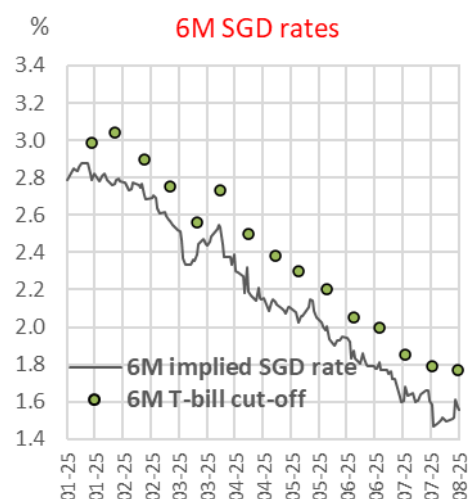
Global Markets Research and Strategy



Source: Bloomberg, OCBC Research

- JPY rates.** The Bank of Japan kept its Target Rate unchanged at 0.5% at the July meeting in line with expectations. BoJ revised upward inflation forecasts, more notable for fiscal 2025 due to food prices. With regards to the risk balance, the BoJ continues to see the risks to economic activity to the downside but now see risks to prices as “generally balanced” instead of “also skewed to the downside” in the April assessment. Ueda opined that the likelihood that the BoJ’s economic and price outlook being realised has increased as “uncertainty regarding tariffs has diminished to some extent”. We remain of the view that a tight labour market and firms’ price-setting behaviour suggest that the prospect remains for inflation to stay sustainably above the 2% target as wage growth is passed onto prices. Labour shortages have intensified, partly due to deceleration in the rise of female labour force participation. Our base-case remains for one 25bp hike in Q425 and another 25bp hike in Q126. JPY OIS last priced 16bps of hike before year end.

- CNY rates.** CGBs garnered support amid the soft print of China PMIs on Thursday. Investors also focused more on the prospect of monetary easing, instead of any potential impact of fiscal stimulus at this juncture. CGBs may undergo a period of consolidation, before signs of a stronger economic recovery, but a sustained rally in long end bonds appears unlikely. Short-end repo-IRS may also be floored at around 1.5% level for now, given the 1.4% OMO reverse repo rate. NCD maturities amount to more than CNY3trn each for August and September, while foreign demand may stay subdued at current pick-up levels. In offshore, RMB deposits at banks in Hong Kong fell to RMB882bn as of end June, marking the second month of drops; May and June were slow months for Southbound Stock Connect flows. Southbound flows picked up in July, and hence offshore RMB deposits in Hong Kong have likely increased since the data point at end-June.
- SGD rates.** SGD OIS were paid up by 2-3bps on Thursday and traded on the firm side this morning. The 2Y OIS is back up to around 1.5% level, as we caution against chasing this rate lower. At the front end, however, liquidity seems to have turned flush again, with some downward pressure on the forward points and the overnight implied rate down to 1.6% level. The latest 6M T-bills cut off at 1.77%, 2bps lower than that at the auction to weeks ago, in line with the movement in market implied rate during the period. The spread between cut-off and implied rate has been maintained, not being compressed further. As for SGS, bond/swap spreads continue to reflect some relative value at 2Y SGS, while the steepness of the curve may also sustain some interest at the longer end. Asset swap pick-up was last at around SOFR+27bps at 2Y SGS, around SOFR+41bps at 10Y SGS, and around SOFR+50bps at 20Y SGS (on 10Y hedge).



Source: MAS, Bloomberg, OCBC Research



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