GLOBAL MARKETS RESEARCH

Daily Market Outlook

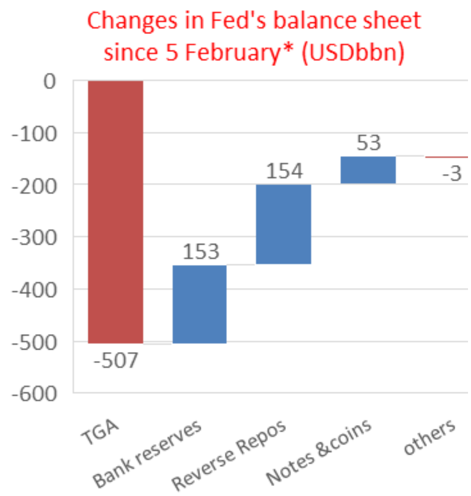
11 July 2025

UST auctions digested; HKMA FX intervention

Frances Cheung, CFA
FX and Rates Strategy
FrancesCheung@ocbc.com

Global Markets Research and Strategy

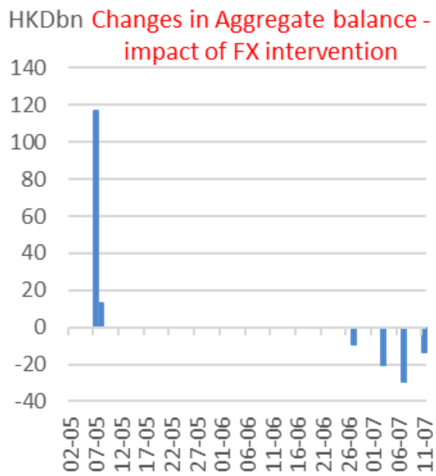
- **USD rates**. UST yields retraced from intraday highs as the 30Y coupon bond auction went well; yields ended the day mixed within 3bp changes. The 30Y bond sales cut off at 4.889%, which was very near WI level; bid/cover was a still decent 2.38x versus 2.43x prior. Following this week's coupon bond sales but upon maturity of USD87.6bn, net coupon bond settlement next week is at USD31.4bn which is not a particularly high level. Fed commentaries continued to underline the diverse view among FOMC members. Daly said she continued to see two interest rate cuts this year as likely and she sees a greater chance that the price effects of tariffs may be more muted than anticipated. Waller is slightly more dovish, opining the Fed funds rate is too restrictive and there could be a rate cut as soon as the next meeting later this month. Fed funds futures price a total of 52bps of cuts for this year. On balance sheet run-off, Waller said the Fed could be able to lower the level of bank reserves to around USD2.7trn – this is somewhat low compared to the common estimates of around USD3.0trn (or above) for bank reserves to be considered as "ample". Bank reserves stood at USD3.33trn as of 9 July; bank reserves are expected to fall as US Treasury rebuild its cash position via bills issuances which has been well anticipated given the increase in the debt ceiling. The increases in TGA balance can be matched by changes in a number of items on the liability side of the Fed balance sheet, likely leaving bank reserves at above USD3.0trn level after the expected fall. Net bills settlement is at USD32bn next week.



Source: Bloomberg, OCBC Research *5 Feb marked the recently weekly high in TGA balance

- **CNY rates**. PBoC net withdrew small amounts of liquidity yesterday and this morning via daily OMOs, reacting some adjustments to the liquidity conditions while the reverse repo maturity profile is light. CNY100bn of MLF matures on 15 July and market watch as to whether there will be another net MLF injections later in the month. Repo-IRS and CGB yields have been trading in ranges, with further rally at short-end bonds probably be constrained by the 1.4% OMO reverse repo rates before further outright monetary easing. In offshore, front-end CNH rates have stayed anchored. Southbound Stock Connect flows recovered to HKD80bn in June versus the HKD46bn in May, although that was still below the volumes in earlier months. Month to date (as of 10 July) inflows amounted to HKD33bn. Prospect remains for inflows to come to the HKD market through the various Connect programs, which will add to CNH liquidity. Meanwhile, onshore monetary policy remains supportive. Front-end CNH rates may stay below onshore levels, before materialisation of additional monetary easing by then onshore CNY rates may react more.

- **HKD rates**. Spot USD/HKD touched 7.8500 overnight which triggered HKMA FX intervention at the amount of HKD13.282bn. Aggregate Balance will fall to HKD100.9bn (including some EFB adjustment). FX intervention at weak-side Convertibility Undertaking totalled HKD72.35bn thus far, reversing more than half of the HKD129.4bn done at the strong side. Front-end HKD rates may become more responsive to FX intervention as aggregate balance falls to a lower level. Spot was trading at 7.496/98 levels as of writing, and pressure stays to the upside as carry remains appealing. We continue to see the process of carry trade pushing spot higher, triggering FX intervention which in turn pushes HKD rates higher to repeat itself in the periods ahead. We expect HIBORs to normalize upward – but likely to below pre-May levels. On the FX swap curve, back-end points have been trading fairly stable in recent days, with implied 1Y HKD basis settling at around -14/-15bp levels, compared to as low as -25/-28bps in late June, reflecting narrower uncovered part of the interest rate parity.



Source: CEIC, OCBC Research

- **SGD rates**. SGD rates have edged up mildly over recent days from the lows attained at the start of the month, mostly following USD rates higher. The 2Y rate remains as the lowest point on the SORA OIS curve and was last at 1.48%. We continue to see 1.5% as an interim floor to SGD rates at most tenors. SORA the overnight rate itself was fixed at 1.6104%; one-month average was above 1.60%. With S$NEER continuing to trade near the upper band and if sterilisation is not big enough, liquidity may stay flush for now. But 2Y OIS at below 1.5% incorporates the scenario under which SGD liquidity stays flush in an extended period. Risk-reward does not appear to justify chasing this rate lower. On cash side, asset-swap pick-up stabilised of late, after early narrowing; pick-up was last at around SOFR+40bps at 10Y SGS and around SOFR+45bps at 20Y SGS (10Y hedge).

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee
Credit Research Analyst
mengteechin@ocbc.com