Daily Market Outlook

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Holding Pattern Ahead of US CPI

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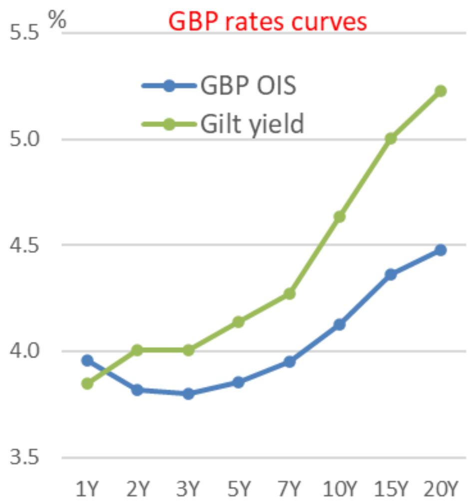
- **USD rates**. USTs traded in ranges overnight, while bond futures opened steady in Asia morning, reacting little to the tariff headlines. The 3Y coupon bond auction garnered a bid/cover ratio of 2.52x similar to that at the previous auction; indirect accepted was higher at 66.8% versus 62.4% prior. There are 10Y auction tonight and 30Y auction on Thursday. Uncertainty may be higher than usual surrounding tonight's May CPI prints, with the direct and indirect impact of tariffs in play. Consensus is for a mild pick-up in May CPI, incorporating some tariff impact on goods prices. 10Y real yield was last at 2.16% and 10Y breakeven at 2.30%; near-term range for 10Y UST yield remains at 4.34-4.52%.

- **GBP rates**. Gilts rallied as wage growth slowed more than expected. Average weekly earnings growth eased to 5.3% YoY for total pay and 5.2% YoY for regular pay in the February-April 2025 period – still elevated but showing a downward trend. Estimates for payrolled employees decreased by 0.2% MoM or 0.4% YoY in April. Job vacancies have been falling since May 2022, and the ratio of job vacancies to unemployed fell further to 0.46 in April. While the 6.7% rise in the NLW *per se* is expected to push up annual wage growth somewhat, the increase in employer NICs may lead firms to contain pay increase to partly offset the impact on their costs. Overall, wage growth is likely to remain decent but is projected to slow. GBP OIS added to rate cuts expectation, now fully pricing in additional two 25bp cuts for the rest of year, in line with our base-case. 10Y bond/swap spread at current level remains supportive of the bond.



Source: Bloomberg, OCBC Research

- **DXY. *Await US CPI***. USD was modestly firmer against most risk sensitive FX, including AUD, NZD and KRW. But price action remains largely confined to recent ranges. US CPI (8:30pm today) can be a binary risk. Consensus expects core CPI to pick up slightly to 0.3% MoM (vs. 0.2% prior) and headline CPI to hold steady at 0.2% MoM. Softer-than-expected print may see USD softness resuming while firmer print may see USD tick higher. On trade talk development, US and China agreed to de-escalate tensions. This is a positive small step although details remain scarce for now (but does not imply there is no details). Officials from both nations said they will take the proposal back to their respective leaders for approval, after which they will seek to implement it. DXY was last at 99.20 levels. Daily momentum is not showing a clear bias although RSI shows tentative signs of rising. Resistance at 99.60 (21 DMA), 100 levels (50 DMA). Support at 98.35, 97.90 (2025 low).

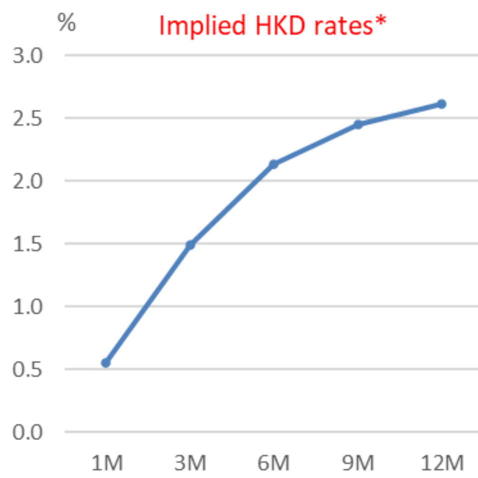
- ***USDJPY. Slight Upside Risk into US CPI.*** USDJPY continued to drift higher ahead of US CPI tonight. Governor Ueda's comments yesterday was also another driver keeping USDJPY supported – that there was some distance to the 2% inflation goal. This gave the impression that the timing of next cut may be pushed back as uncertainties on outlook and tariff may see BoJ opt for another pause. We reiterate that although the timing of BoJ policy normalisation may be deferred, policy normalisation is not derailed. Fed-BoJ policy divergence and USD diversification theme should still support USDJPY's broader direction of movement to the downside. USDJPY was last at 145 levels. Daily momentum turned mild bullish while RSI rose. Consolidation likely, with mild upside risk. Resistance at 145.10 and 146.20. Support at 144.40/60 levels (21, 50 DMAs, 23.6% fibo retracement of 2025 high to low), 142.20, 141.60. Near term, US CPI data is a risk to watch. A firmer print may lead to further upticks in USDJPY but an underwhelming print should see USDJPY trade lower.

- **GBPUSD. *Decline Finds Support at 21 DMA.*** GBP fell, in line with our caution for corrective pullback. Decline was due to a dismal job market report, which prompted markets to add to BoE rate cut expectations. Pair was last at 1.3480. Daily momentum turned mild bearish while RSI fell. Corrective pullback not ruled out. Support at 1.3440/60 levels (previous double top, now turned support, 21 DMA), 1.33 (50 DMA). Resistance at 1.3620, 1.3750 levels. Week remaining brings IP, GDP, trade data on Thu as well as the S&P, KPMG, REC UK joint report on jobs (Fri) which will be key. A stronger print should continue to solidify GBP's rebound momentum, but a softer data outcome may continue to dent the momentum.

- **USDSGD. *Consolidation.*** USDSGD continued to trade in subdued range, near recent lows. Pair was last at 1.2870 levels. Daily momentum remains mild bullish while RSI rosed. Consolidation likely for now, with the pair likely taking cues from external drivers. US CPI tonight can be a binary event – softer print may see USD softness resuming while firmer print may see USD shorts unwind further ahead of FOMC. But beyond the near term, we continue to expect USDSGD to trend lower. Support at 1.2850, 1.2790 (Sep 2024 low). Resistance at 1.2920 (21 DMA), 1.3020 (76.4% fibo retracement of 2024 low to 2025 high). S$NEER is at ~1.81% above our model-implied mid. With S$NEER trading near the upper bound of its band, we continue to see room for SGD to trade less strong against its trade peers (i.e. JPY, KRW) if tariff de-escalation momentum and softer USD trend continue to play out.

- **SGD rates**. 4W MAS bills cut off at 2.11% (at the low end of our expected range of 2.1-2.2%) and 12W MAS bills also cut off at 2.11% (our expected range was 2.05-2.15%). Narrower spread between 4W cut-off and implied rate had been anticipated, as the previous spread was on the wide side due to the maturity date. The auction outcome was bullish, with cash fully catching up with the lower front-end SGD rates. After MAS bills auctions, implied SGD rates went up by almost 10bps, with 1M implied SGD rate back to around the 2% level. SGD OIS are probably trying to find a bottom. Asset-swap pick-up has narrowed over the past couple of weeks, as SGS benefitted from diversion flows. Pick-up was last at around SOFR+45bps (before bid/offer spreads) at 10Y SGS, and at around SOFR+60bps at 20Y SGS (on 10Y hedge), which are still decent.

- **HKD rates**. HKD IRS were paid up by 1-2bps this morning. Spot USD/HKD touched an intraday high of 7.8490 at open and was still trading very near the weak side convertibility undertaking of 7.8500 as of writing. Impact on HIBORs is binary in that before spot touches 7.8500, the earlier injected liquidity will stay in the interbank market (unless HKMA proactively shift liquidity to the bills market); but as and when FX intervention is triggered, the increases in HIBORs can be rapid depending on market forces (how much HKMA needs to intervene). We maintain an upward bias to HKD-USD interest rates differentials on a multi-month horizon. Back-end forward points stay roughly consistent with HKD-USD interest rates differentials – the uncovered part of the interest rate parity is within ranges – e.g. 1Y implied HKD basis at -18bps. We have an upward bias to back-end points alongside our rates differential view.



Source: Bloomberg, OCBC Research
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