GLOBAL MARKETS RESEARCH

Daily Market Outlook

14 May 2025

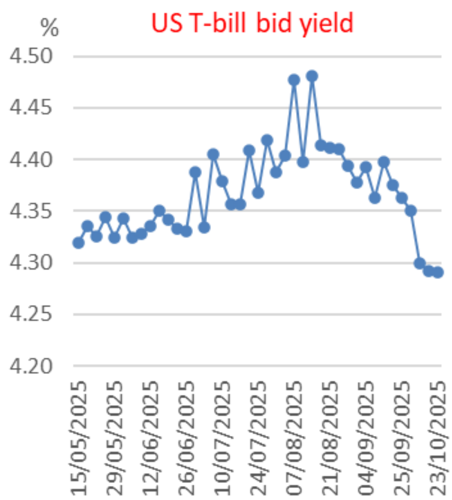
Looking for Next Catalyst

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

Christopher Wong
FX and Rates Strategy
ChristopherWong@ocbc.com

Global Markets Research and Strategy

- **USD rates**. Reaction to the softer-than-expected CPI prints was muted. UST yields retraced from session highs to end the day little changed. April CPI rose by 0.2% MoM versus consensus for 0.3%; index of shelter rose by 0.3% MoM, accounting for more than half of the all items monthly increase. On year-on-year basis, headline CPI inflation eased to 2.3% YoY versus 2.4% YoY prior, but core CPI inflation stayed virtually the same, at 2.8% YoY. Disinflation in core services have continued but core goods emerged from months of YoY deflation to a positive 0.13% YoY, offsetting the easing in core services inflation. Overall, the CPI report did little to alter the stance of the Fed. We have been of the view that triggers for rate cuts will likely need to come from the labour market. Our base-case remains for three cuts this year, but we have flagged the risk that there may be delays in rate cuts when the FOMC is in no hurry. Fed funds futures last priced a total of 52bps of cuts for this year, with the chance of a 25bp cut by the July FOMC meeting seen at 40%. In the absence of coupon bond supply this week, UST performances have been mostly driven by development on the trade front and concerns over US fiscal positions, as reflected by the higher long-end real yields and term premium. For the rest of the week, there may not be stronger catalysts than what we have seen over recent days that will drive UST performances. Data releases include PPI, initial jobless claims and some economic activities data. Near-term range for 10Y yield is seen at 4.41-4.52%. US Treasury had USD95bn of extraordinary measures left as of 7 May; TGA balance was at USD583bn on 12 May. Market prices the “X-day” in early August, as reflected by the higher yields for T-bills that mature around that period.



Source: Bloomberg, OCBC Research

- **DXY. *2-Way Trades***. USD strength faltered overnight as the euphoria over the US-China trade truce settled down. Overnight, softer-than-expected uptick in core CPI had also helped to curb USD’s advance. Although the data may not include tariff impact on prices, the softer reading (vs. forecast for a third month) shows price pressure was already trending down. This remains supportive of our house view for 3 cuts this year, although we flag the risk of delay for the next cut. The next set of US data to watch is retail sales and PPI on Thu.

DXY was last at 100.9 levels. Bullish momentum on daily chart intact but rise in RSI moderated. 2-way trades likely for now. Resistance at 101.80 (50 DMA), 102.60 (38.2% fibo). Support at 100.80 (23.6% fibo retracement of 2025 peak to trough), 99.70 (21 DMA).

- **GBP rates**. Short-end Gilts stabilised with 2Y yield down by 2bps as Q1 wage outcome suggested there was no intense inflationary pressure. Weekly earnings ex-bonus decelerated to 5.6% YoY versus 5.9% YoY prior; average weekly earnings slowed to 5.5% YoY versus 5.7% YoY prior. The inflation backdrop supports BoE's gradual and careful approach in delivering additional rate cuts, although the MPC continued to show diverse opinions as reflected by the three-way split votes last week. Our base-case remains for one 25bp cut in each quarter, i.e. 50bps of additional rate cuts for the rest of the year. GBP OIS priced additional 48bps of cuts which look fair to us. 2Y bond/swap spread corrected mildly higher, as bond played some catch-up; bias remains to the upside.

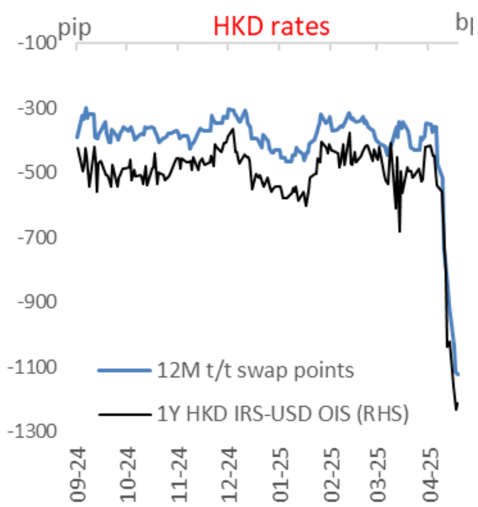
- **EURUSD. *Decline Stalled at 50 DMA.*** EUR rebounded off 50 DMA overnight as markets digest the dovish ECB rhetoric, hold-up in trade negotiations with the US, while also considering fiscal spending boost to growth, potential Ukraine peace dividend and USD diversification flows. While there are positive developments on trade talks between US and China, as well as US and UK, there seems to be little development between US and Europe. In fact, Trump recently said that EU is in many ways "nastier than China". We should expect a renewed focus on trade developments between US and Europe in the coming days, though a resolution may not be as quick. US Treasury Secretary Scott Bessent had weighed in to say that the EU bloc suffers from a "collective action problem" which is hampering negotiations. EUR was last at 1.1190 levels. Bearish momentum on daily chart intact while RSI rose. Resistance at 1.1235 (23.6% fibo), 1.1320 (21 DMA) and 1.14 levels. Support at 1.1090 (50 DMA) before 1.1030 levels (38.2% fibo retracement of 2025 low to high).

- **USDJPY. *Short Bias.*** USDJPY fell, in reaction to softer US CPI data and broad USD pullback. Pair was last at 147.10 levels. Bullish momentum on daily chart intact but shows signs of fading while RSI eased from near overbought conditions. Support here at 147.10 (38.2% fibo retracement of 2025 high to low), 146.30 (50 DMA) before 144.40 (23.6% fibo). Resistance at 148.40, 149.40/70 levels (50% fibo, 200 DMA). We entered short position at 148 (yesterday's FX Weekly), targeting a move towards 141. SL at 151. While the 90-day US-China trade truce may be a surprise turnaround, the devil is in the details during negotiations. Some degree of caution remains warranted. Separately, Finance Minister Kato said he will seek an opportunity to discuss currency matters with US Treasury Secretary Scott Bessent when the 2 of them are in Canada for the G7 meeting. Elsewhere, timing of BoJ policy normalisation may be deferred, but policy normalisation is not derailed. These drivers should still support USDJPY's direction of movement to the downside.

- **USDCNH**. ***Consolidation.*** USDCNH consolidated as euphoria over the US-China 90-day trade truce settled. USDCNY fix continues to come in slightly softer at 7.1956 (vs. 7.1991 yesterday). We believe policymakers are likely to still adopt a measured approach to appreciation (if any), similar to how they took on a measured approach when USDRMB was going higher previously. Maintaining RMB stability is a key objective for policymakers. Any sharp RMB appreciation may trigger exporters to rush to sell their USD holdings and that cycle (if it happens) may result in excessive RMB strength and volatility, which is not desirable for policymakers at this point. USDCNH was last at 7.2125 levels. Bearish momentum on daily chart intact while RSI rose. 2-way trades likely. Support at 7.20 (50% fibo), 7.18 before 7.1475 (61.8% fibo retracement of 2024 low to 2025 high). Resistance at 7.2230 (200 DMA), 7.25 levels. At an interview with Fox news this morning, Trump said that “the most exciting part for us and China is that we’re trying to open up China. I think we’ll be able to make that deal, I hope”. Focus next will be whether there is indeed a follow-up call between Trump and Xi later this week. Further positive development here may accelerate downside momentum.

- **USDSGD. *Range-Trading.*** USDSGD’s move up stalled overnight, tracking the pullback in USD. Pair was last at 1.3015 levels. Daily momentum is mild bullish but rise in RSI slowed. Consolidation likely intra-day. Resistance at 1.3050 (21 DMA), 1.31. Support at 1.3020 (76.4% fibo retracement of 2024 low to 2025 high), 1.2910 levels. Meanwhile, we continue to watch 1.2970 – 1.3060 range intra-day. S$NEER last seen around 1.72% above model-implied mid.

- **HKD rates**. With spot having moved further away from 7.7500 to just above the mid-point of the band, risk of near-term FX intervention has subsided. Still, the liquidity that was injected earlier stays in the system (with Aggregate Balance at HKD174.1bn), keeping HKD liquidity flush. Meanwhile, Monday and Tuesday saw outflows via Southbound Stock Connect, amounting to HKD33bn, adding further to the softness in HKD rates. Back-end forward points slide further over the past two days, as spot corrected higher. Forward points are roughly in line with HKD-USD rates differentials; for example, 1Y implied HKD rate was last at 2.64%, implied 1Y HKD basis at -15bps which was well within range. But we have an upward bias to short-end HKD-USD rates spreads themselves, and by extension an upward bias to back-end forward points. We expect HKD liquidity to turn less flush, as Southbound Stock Connect flows may return on more upbeat China sentiment, amid dividend payout activities and a strong IPO pipeline. Market



Source: Bloomberg, OCBC Research

also appears not entirely convinced that HIBORs can keep falling, with FRAs higher than the benchmark 3M HIBOR; spread between 3x6 FRA and 3M HIBOR widened to 57bps. 1Y HKD IRS–USD OIS spread was last at -128bps, 5.5 standard deviation below 6-month average; 2Y HKD IRS USD OIS was at -101bps, 4.8 standard deviation from 6-month average.

GLOBAL MARKETS RESEARCH

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, CFA
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
mengteechin@ocbc.com

Co.Reg.no.: 193200032W