Daily Market Outlook

15 July 2025

Focus on US CPI

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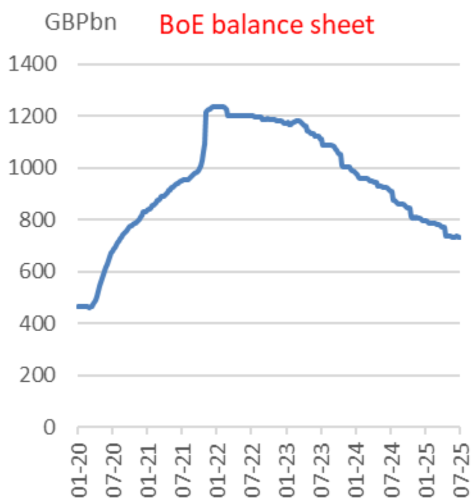
- **USD rates**. UST yields ended Monday a tad higher as investors stayed cautious ahead of CPI releases tonight. Consensus looks for mild acceleration in CPI and core CPI inflation which should mostly reflect base effect; but given current market sentiment, in-line inflation prints may be enough to prevent market from getting more dovish, while any upside surprise may push yields to higher ranges. Bill supply is returning since the increase in the debt ceiling, and this has been met with solid demand thus far. Overnight's bills auctions were well received, with the 3M bills garnering a bid/cover ratio of 3.10x versus 2.75x prior and 6M bills a bid/cover of 3.10x versus 3.00x prior. We expect bank reserves to fall as US Treasury rebuild cash positions, but likely to above 3.1trn level. Fed funds futures last priced 48bps of cuts for this year, and 70bps for cuts for 2026. Our base-case is for 75bps this year and 25bps next year; hence the difference in views is essentially on the timing of expected rate cuts. Terminal rate is commonly seen at 3.25-3.50%. Near-term range of 10Y UST yield is back to 4.34-4.52%.

- **GBP rates**. Gilts rallied on Monday upon some dovish remarks from BoE Governor Bailey over the weekend. Bailey sees the path for interest rates a downward one; the BoE still uses the words 'gradual and careful' because inflation is still above target. Bailey opined pay rises are possibly less than they would have been if the NICs change hadn't happened – this has been our view as we earlier wrote "the increase in employer NICs may lead firms to contain pay increase to partly offset the impact on their costs." Bailey added if labour market slack opens up much more quickly, that "would lead us to a different conclusion" - interpreted as different from the gradual and careful approach. This week brings important data including CPI and PAYE payrolls. Apart from interest rate policy, recent official comments have started to focus more on QT. Bailey commented that even if QT wasn't the cause of rising yields, the central bank also has to look at market functioning – we take this as hints of preparing for a potential slowdown/pause in QT after the current 12-month period ends in September. BoE's balance sheet has shrunk by almost 41% (as of 4 July) from peak, albeit still above pre-COVID level. GBP OIS added mildly to rate cut expectations, pricing 56bps of cuts for the rest of the year versus 51bps priced last Friday; our base-case is for 50bps of cuts, 25bps



Source: Bloomberg, OCBC Research

in each of Q3 and Q4. 10Y bond/swap spread edged higher to -52bps, underlining our view that spread level was supportive of the bond.

- **DXY. *CPI in Focus***. USD traded mixed with strength seen vs. most Asian FX including THB, IDR, PHP while USD was modestly softer vs. CHF, EUR and precious metals. Focus remains on US CPI tonight (830pm SGT). Any slippage in data may serve as a good entry point to fade the USD bounce but we caution that a firmer print may see USD extend its move higher. Elsewhere on geopolitics, President Trump announced plans to arm Ukraine and also threatened to impose secondary tariffs or more sanctions if Russia fails to reach a peace deal with Ukraine by early Sep. DXY was last at 98 levels. Bullish momentum on daily chart intact but rise in RSI moderated. Resistance at 98.50, 98.80 (50 DMA). Support at 97.80 (21 DMA), 97.20 levels. Overall, we still expect USD to trade weaker as USD diversification/ re-allocation trend, Fed cut cycle take centre-stage. US policy unpredictability, and concerns of about the rising trajectory of debt and deficits in the medium term should continue to underpin the broad (and likely, bumpy) decline in the USD.

- **EURUSD. *Fate Hinges on USD.*** EUR consolidated overnight in absence of fresh catalyst while markets wait and see US CPI data for any tariff-related implications. EUR was last at 1.1675. Bearish momentum on daily chart intact while the decline in RSI moderated. Risks remain skewed to the downside for now. Next support at 1.1660 levels (21 DMA), 1.1620. If these levels break, then more downside may play out. Next big support at 1.1470 levels (50 DMA). Resistance at 1.1710, 1.1830 levels. For the day, we watch for details from French PM Bayrou with regards to defence spending.

- **USDJPY. *Nearing Overbought Conditions.*** USDJPY rose amid rise in UST yields, tariff implications, sell-off in longer-dated JGBs and upper house election uncertainty. Struggle in the upper house has resulted in pledges of spending hikes and tax cuts in attempt to shore up votes. Moody's has earlier warned that election results may impact fiscal health and ratings. USDJPY was last at 147.60 levels. Bullish momentum on daily chart intact while rise in RSI shows tentative signs of turning near overbought conditions. Next resistance at 148.20, 149.40/70 levels (200 DMA, 50% fibo retracement of 2025 high to low). Support at 147.15 (38.2% fibo), 146.20 levels. US CPI tonight may also have influence over USDJPY, with hotter print likely to see the pair extend its move while a softer than expected print may slow the recent rally.

- **USDSGD. *Consolidation.*** USDSGD inched slightly higher; last at 1.2820 levels. Daily momentum is mild bullish while RSI rose.

Consolidation still likely. Resistance at 1.2860 (50 DMA), 1.2910 levels. Support at 1.28, 1.2750 levels. US CPI data today is likely a binary event and may influence USDSGD. Slippage in US data may weigh on USDSGD while a hotter print may see the pair extend its move higher. S$NEER was stable near upper bound; last at ~1.96% above our model-implied mid. From a trade weighted point of view, there may be limited room for SGD to appreciate against trade peers, but due to SGD's safe haven characteristics, S$NEER may still stay near upper bound for now. On upcoming MAS MPC in July, we reiterate our view that we believe MAS can afford to wait and monitor, rather than ease for a 3rd consecutive time after 2 back-to-back easing in first half this year. The last time in the last 10y when MAS did back-to-back easing to reduce to zero appreciation was during COVID in Mar-2020 and Apr-2016 global growth slowdown. But this time SG growth had surprised to the upside. That said, there may still be room for further easing at later MPCs in Oct or Jan-2026 should growth and inflation dynamics worsen more materially. Taking stock, YTD core inflation averaged 0.65%. Vs. MAS projection for 0.5 - 1.5%. MAS-MTI joint statement noted that imported inflation should remain moderate. Domestically, enhanced government subsidies for essential services are likely to dampen services inflation.

- **MYR rates**. MGS were resilient on Monday shrugging off the UST sell-off and tariff headlines. Monday's auction of the new 30Y MGS went well; bid/cover ratio was at 2.000x, lower than those at similar auctions, but was still considered as healthy. The auction had been expected to suffer somewhat from the recent richening in bonds with outperformances against swaps, but to be supported by the maturity of MYR3bn of the 2005 bond today. Maturity is getting heavier in August and further in September and October, supportive of gross issuances. Long end bonds were better bid after the auction. Bond outperformances against swaps have been our view but at current bond/swap levels, room for further bond outperformances appears more limited.

- **SGD rates**. SGD OIS opened a tad higher this morning. The SORA OIS curve has shifted up mildly over recent days. We opined that 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. We continue to see 1.5% as the interim floor for SGD rates for most tenors. The upticks in SGD rates coincided with the recent mild retracement in S$NEER which might mean fewer liquidity injection was needed. Today brings auctions of 4W and 12W MAS bills; 1M and 3M implied SGD rates traded at 1.79% and 1.73% respectively this morning, which were around 10bps and 7bps higher than levels around last MAS bills auctions, pointing to upside to the cut-offs. We expect cut-offs to come in the range of 1.85-1.95%. Any widening in the spreads between cut-offs and implied rates may support the rates bottoming view.

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