

Daily Market Outlook

15 May 2025

Markets Sensitive to Headlines

- **USD rates.** UST yields rose across the curve in a steepening manner, on improved sentiment and reduced recession risks. Fed funds futures last priced a total of 50bps of cuts for this year, with the chance of a 25bp cut by July FOMC meeting seen at around 40%. Our base-case remains for three 25bp Fed funds rate cuts this year. However, with the FOMC in no hurry to cut rates while the cooling in the labour market has been a slow process, we have pushed our expectation for the next Fed funds rate cut to Q3. We now expect one 25bp Fed funds rate cut in Q3 and two 25bp Fed funds rate cuts in Q4, instead of one 25bp cut each in Q2, Q3 and Q4. We have been of the view that triggers for rate cuts will likely need to come from the labour market/growth front; continued cooling in the labour market will justify rates at less restrictive levels as long as there is no strong rebound in inflation. Recent labour market indicators suggest the labour market is moving in line with gradual cooling. Following from the change in the timing of our expected Fed funds rate cuts and considering the improved market sentiment upon the recent trade development, we have also revised upward mildly our UST yields forecasts. We maintain a downward bias on UST yields on a multi-month horizon; expect 2Y yield to edge lower to 3.90% and 10Y yield to 4.35% by end-Q2.
- **DXY. Sideways.** There was quite a bit of volatility in FX markets overnight, with USD declining at first, in response to the Bloomberg headline that US discussed FX with South Korea. This was also separately confirmed by South Korea's finance ministry spokesperson. To put in perspective, this was not exactly a fresh headline as it was originally reported last week by Korea Times but was not picked up by the mainstream media outlets. At the ADB event in Milan last week, BoK Governor Rhee said that *Asian currencies, including the Korean won, have been gaining ground partly due to the U.S. administration's pressure on Asian countries to appreciate their currencies.* Then USD losses were partially retraced after Bloomberg carried a separate report saying that US officials are not seeking to include currency pledges in trade deals (according to a person familiar with the matter, without naming the person). The sharp 2-way moves highlighted how markets are very sensitive to comments surrounding FX especially against a backdrop of chatters of de-dollarisation and questions if FX policy or pledges were part of US bilateral trade talks. Uncertainty on this

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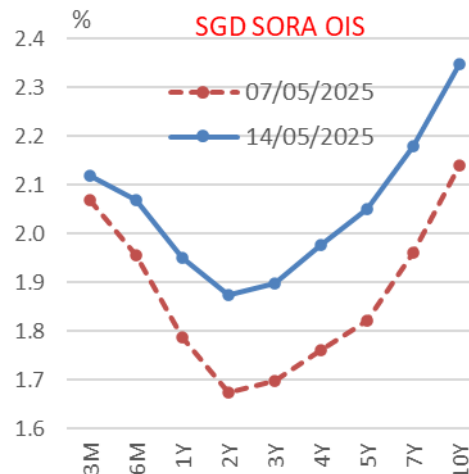
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front may still prove volatile for USD. DXY was last at 100.9 levels. Bullish momentum on daily chart intact but RSI eased. Sideway trades likely for now unless a fresh catalyst emerges. Resistance at 101.80 (50 DMA), 102.60 (38.2% fibo). Support at 100.80 (23.6% fibo retracement of 2025 peak to trough), 99.85 (21 DMA). The next set of US data to watch out for is retail sales, empire manufacturing, industrial production, initial jobless claims and PPI (tonight).

- Gold. Heavy Bias.** Gold has continued to trade with a heavy bias as tariff de-escalation momentum gained pace, while Fed cut expectations was scaled back in terms of the timing of next cut and quantum. The other driver may have been the misinformation about gold being re-classified as Tier 1 HQLA under Basel III as of 1 July (which may have partially contributed to the earlier run up in gold price). Tier 1 refers to capital rules while HQLA is a function within the liquidity rules of LCR and NSFR. As it is, gold is already a Tier 1 asset under the Basel Capital Accords, but gold is not due to be reclassified as a Level 1 HQLA. So far, no announcement has been made, though there was proposal/research to suggest that gold meets all criteria to warrant Level 1 HQLA status. Further unwinding of long position is not ruled out should market expectations for Fed cut further pare back and/or de-escalation (tariff, geopolitics) picks up pace. Gold was last at 3152 levels. Bearish momentum on daily chart intact while RSI fell. Downside risks intact. Support at 3150 (50 DMA), 3050 levels (50% fibo retracement of 2025 low to high). Resistance at 3230, 3288 (23.6% fibo).
- USDJPY. Short Bias.** USDJPY continued to trade lower. The Bloomberg headline that US discussed FX with South Korea spilled over to other USD/Asia, including USDJPY. Recall that 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 (in Jun). Although no detail/agenda was made known, the suspicion of FX policy being discussed during bilateral trade talks with the US may weigh on USD. Pair was last at 146.10 levels. Bullish momentum on daily chart shows signs of fading while RSI fell further. Support here at 146.10 (50 DMA) before 144.40 (23.6% fibo). Resistance at 147.10 (38.2% fibo retracement of 2025 high to low), 148.40 and 149.40/70 levels (50% fibo, 200 DMA). We kept our short USDJPY (entered at 148 (as per FX Weekly on Mon), targeting a move towards 141. SL at 151.
- USDSGD. Heavy Tone; 21DMA Caps.** USDSGD traded choppy, tracking 2-way moves in the USD (driven by Bloomberg headlines). Pair was last at 1.2990 levels. Daily momentum is mild bullish but RSI fell. Consolidation likely with risks skewed to the downside in the near term. Support at 1.2910, 1.28 levels. Resistance at

1.3020 /40 levels (76.4% fibo retracement of 2024 low to 2025 high, 21 DMA), 1.31. S\$NEER last seen around 1.77% above model-implied mid.

- SGD rates.** SGD OIS has risen by cumulative 16-22bps over the past week since the lows on 7 May, in line with our bottoming-out view. SGD rates have however continued to outperform USD rates, pushing SGD-USD rates spreads further lower. There is room for SGD rates to play some catch-up with USD rates. Within the SGD market, SGS outperformed SGD OIS, leading to higher/less negative bond/swap spreads (OIS minus bond yield). We had noted earlier that bond/swap spreads were supportive of SGS. After recent adjustments, the spreads still appear supportive of SGS at the short end. We maintain an upward bias to 2Y bond/swap spread but we are neutral at 5Y and 10Y bond/swap spreads noting the upcoming 5Y SGS auction and 10Y SGS mini auction on 28 May may lead to some pre-positioning. Asset-swap pick-up at SGS has mostly narrowed, due to the higher SGD basis and the recent SGS outperformance against swap. Pick-up was last at around SOFR+40bps (before bid/offer spreads) at 5Y SGS, and at around SOFR+50bps at 10Y SGS. Wednesday's MAS bills cut off at 2.42% for 4W, 2.40% for 12W and 2.25% for 36W; the spreads with the respective implied SGD interest rates were within expected range.



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