Daily Market Outlook

16 June 2025

Central Bank Week

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- **USD rates**. USTs weakened on Friday, paring some of the gains attained earlier last week, probably as investors paid more attention on the implications of higher oil prices. At this week's **FOMC** meeting, the Committee is to update their GDP forecasts, inflation forecasts and the dot plot (Summary of Economic Projections, SEP). On the economy, FOMC officials have thus far refrained from putting details on their thoughts on potential impact of tariff, only highlighting the uncertainty in the outlook. At the June SEP, they nevertheless have to put some numbers – median and central tendency – which presumably incorporate the impact of trade development since the March FOMC. 2025 GDP forecast was last at 1.7% at March SEP, versus OCBC house view of 1.3%. On the dot plot, market watch as to whether the median dot will move up, to indicate one cut instead of two cuts. Our view remains that the trigger for the next rate cut is likely (further loosening in) the labour market. Fed funds futures last price 49bps of cuts for this year, with the chance of a 25bp cut by September FOMC meeting seen at 81%.

- **DXY. *Rangebound***. USD remains a touch firmer amid geopolitical escalation between Israel and Iran. This morning, Bloomberg headlines stated that Iran's new Israel strike was "more crushing" than before. While USD rebounded last Fri, the constrained price action suggests it has yet to fully reclaim its safe haven status. Geopolitical risks—especially renewed tensions between Israel and Iran—may keep risk sentiment fragile. As such, high-beta FX such as AUD and NZD may trade on the back foot if tensions continue to rise. That said, de-escalation would likely weigh on the dollar and bring support back to risk proxies. Focus this week is on FOMC (Thu 2am SGT). Status quo likely, but all eyes are on the dot plot and the press conference. Markets look for 2 cuts by year-end. If the Fed signals just one cut (last dot plot looks for 2 cut) or pushes back easing expectations, then USD could get another lift, but anything less hawkish/more dovish could trigger USD selling. DXY was last at 98.20 levels. Daily momentum is mild bearish bias while RSI shows signs of rising from near oversold conditions. Resistance at 99.20 (21 DMA), 99.70 levels (50 DMA). Support at 97.60 (recent low). Day ahead bring empire manufacturing data.

- **JPY rates.** BoJ is widely expected to stay put on policy rate on Tuesday. Focus is on the interim review of its JGB purchase plan. According to the plan set out in July 2024, BoJ's monthly JGB purchase is on a step-down schedule by the quarter; Apr-Jun 2025 monthly purchases are set at JPY4.1trn (April actual was JPY3.95trn and May was JPY4.00trn), to be reduced to JPY3.7trn/3.3trn/2.9trn over the next three quarters. Our base-case is for BoJ to stick with this plan, with some shifts in allocation of reductions by remaining maturity. That said, the central bank may also discuss JGB purchase plans beyond April 2026 and if they were to slow the pace of JGB purchase reduction, they might make up for it during the months from April 2026 onwards. Separately, MoF is meeting with primary dealers this Friday to gauge bond demand; expectation is for some further tweaks (reduction) in the auction size of 40Y JGBs; the slack is likely to be taken up via bigger sizes at 2Y and/or 5Y auctions — this appears actionable given there are six 40Y bond auctions in FY2025 while there are twelve auctions each for 2Y and 5Y JGBs.

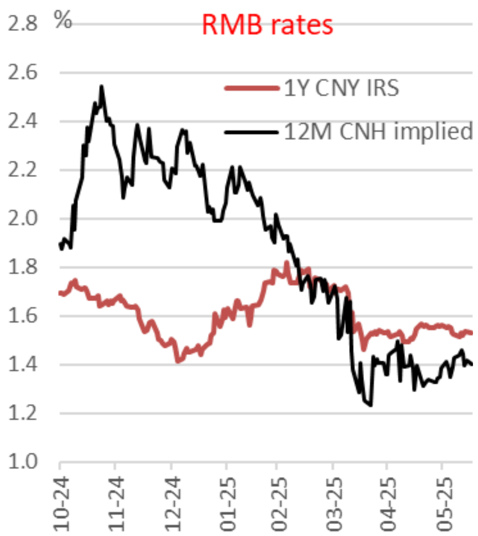
- **USDJPY. *BoJ Next.*** Geopolitical escalation in Middle East saw safe haven proxies, including JPY strengthening last Fri. USDJPY touched a low of 142.80 before rebounding. Surge in oil prices saw UST yields rising, leading to USDJPY's rebound. BoJ MPC on Tue may complicate JPY's safe haven story. Governor Ueda's recent comments that BoJ is still some distance from 2% goal gave the impression that the timing of next hike may be pushed back. Although the timing of BoJ policy normalisation may be deferred, policy normalisation is not derailed. Broadening price pressure and wage growth suggest that BoJ's next course of action remains a hike but in the interim, BoJ may prefer to stay on hold due to uncertainties on outlook and tariff. Nevertheless, we remain watchful for any surprise hawkish tone as that may pose downward pressure on the pair. USDJPY was last at 144.40 levels. Mild bullish momentum on daily chart intact while RSI rose. 2-way trades likely in the interim. Support at 144 (21, 50 DMAs), 142.50 levels. Resistance at 145.10, 145.50 levels.

- **GBPUSD. *Pullback.*** GBP eased further as escalation in geopolitical tensions weighed on sentiments. Pair was last at 1.3540 levels. Daily momentum shows tentative signs of turning mild bearish while RSI fell. Pullback lower not ruled out in the near term. Support at 1.3510 (21 DMA), 1.3440 levels. Resistance at 1.3630 (overnight high). This week's focus on BoE (Thu). No change is expected, but weaker labour market report and downside surprise to growth already saw markets add to rate cut expectations later this year. Dovish tilt in MPC vote may see GBP extend recent pullback.

- **USDTWD. *Renewed Selling.*** USDTWD saw another round of sell-off this morning, in line with USD sell-off against some Asian FX including KRW. While the USD did bounce on geopolitical tensions, the magnitude of USD's jump was not convincing. Given there is demand for exporters/FIs to reduce USD exposure, market participants want to avoid missing out on selling USD. This led to USDTWD trading heavily this morning. There is a risk of a cycle in which fears of another sharp pace of TWD appreciation lead exporters/FIs to rush to reduce their USD holdings/exposure. This may further result in excessive TWD strength and volatility (that may not be desirable for policymakers). Spot was last at 29.57. Bullish momentum on daily chart shows tentative signs of fading while RSI fell further into oversold conditions. Bias skewed to the downside but cautious of snapback risk should geopolitical/macro conditions worsen. Support at 29.50, 29.20 levels. Resistance at 29.72, 29.94 (21 DMA). CBC MPC this Thu – we do not expect a move this round.

- **USDSGD. *Near Term Rebound.*** USDSGD was a touch firmer amid geopolitical escalation in Middle East. Pair was last at 1.2830 levels. Mild bullish momentum faded while RSI shows signs of rising. Rebound likely in the near term. Resistance at 1.2870 (21 DMA), 1.3020 (76.4% fibo retracement of 2024 low to 2025 high). Support at 1.2760 levels (recent low). S$NEER continued to strengthen slightly; last at ~1.92% above our model-implied mid. Geopolitical escalation saw demand for safe-haven proxies, and SGD benefited from a trade-weighted perspective.

- **CNY rates.** PBoC conducted CNY400bn of outright reverse repos of tenor 182-day this morning; together with the CNY1trn of 91-day outright reverse repos conducted earlier, net injection amounts to CNY200bn given CNY1.2trn matured/matures in the month. This is in line with our expectation for PBoC to be supportive of liquidity. There are CNY2.3trn of NCDs maturing for the rest of the month. 12M AAA NCD rate was last at 1.67% versus 1Y implied CNY rate at 1.11%, still providing decent pick-up. Front-end funding rates stay anchored, with DR001 at 1.3850% and DR007 at 1.5191% this morning. In offshore, CNH points traded a tad lower this morning, on higher USD rates. 1Y implied CNH rate will likely stay below onshore 1Y repo-IRS before additional monetary easing upon which onshore rates may fall more. Southbound Stock Connect registered net-buy for 13 days in a row, although the daily amounts fluctuated.



Source: Bloomberg, OCBC Research

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