

Daily Market Outlook

16 May 2025

HKD-USD rates spreads

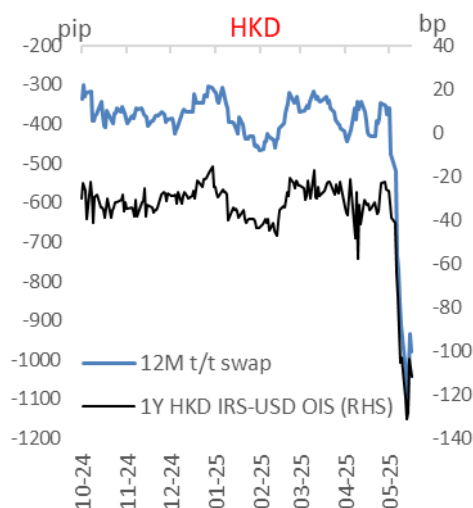
- **USD rates.** UST yields slid across the curve on the PPI and retail sales report which came in softer than expected. Market added mildly to rate cut expectations, with Fed funds futures pricing in a total of 56bps for this year. Absence of strong rebound in inflation will provide the environment for the Fed to deliver interest rate cuts, but uncertainty on tariff impact remains and the FOMC may want to see a couple more months of data for the greenlight to cut rates. We have been of the view that the triggers for the next rate cut will still likely need to come from the labour market/growth front. Our base-case is a 25bp Fed funds rate cut in Q3 and two 25bp Fed funds rate cuts in Q4. At the longer end, 10Y real yield fell by 6.6bps to 2.08%; we have seen real yield above 2.0% level as a somewhat elevated, although part of it is attributable to the term premium which reflects concerns over US fiscal position. Fiscal position will remain as a risk factor, but in the coming months, there are potential support factors to USTs that we can look forward to, including potential exemption of USTs from SLR calculation and a complete stop in QT with MBS proceeds being reinvested into T-bills/USTs. A few times the 10Y UST yield tested and broke the key 4.52% levels but didn't stay sustainably above it. Near-term range for 10Y yield is seen at 4.34-4.52%. On a multi-month horizon, we maintain a downward bias to USD yields.
- **DXY. *Slight Downside Risk.*** USD turned lower, tracking UST yields lower. US data underwhelmed. Retail sales came in softer, PPI saw its sharpest decline in 5 years while industrial production and empire manufacturing data printed weaker than expected. Decline in USD was more pronounced vs. CHF and JPY. Data focus shifts to import/export price index, housing starts, building permits and Uni of Michigan sentiment data. Another round of softer than expected print may further weigh on USD. DXY was last at 100.6 levels. Bullish momentum on daily chart shows gradual signs of it fading while RSI eased. Slight downside risk. Support at 99.90 (21 DMA), 99 levels. Resistance at 100.80 (23.6% fibo retracement of 2025 peak to trough), 101.60 (50 DMA) and 102.60 (38.2% fibo).

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- USDJPY. Short Bias.** USDJPY continued to trade lower amid decline in UST yields. Pair was last at 145.40 levels. Bullish momentum on daily chart shows signs of fading while RSI fell further. Support next at 144.15/40 levels (21 DMA, 23.6% fibo). Resistance at 146.15 (50 DMA), 147.10 (38.2% fibo retracement of 2025 high to low). We kept our short USDJPY (entered at 148 (as per FX Weekly on Mon), targeting a move towards 141. SL at 151. We reiterate that while timing of BoJ policy normalisation may be deferred, policy normalisation is not derailed. Fed-BoJ policy divergence and USD de-dollarisation theme should still support USDJPY's broader direction of movement to the downside
- USDCNH. Consolidation.** USDCNY fix continues to come in slightly softer (and below spot) for the whole week. This morning fix was set at 7.1938 (vs. 7.1963 yesterday). We believe policymakers are likely to still adopt a measured approach to appreciation (if any) like how they took a measured approach when USDRMB was trading higher previously. Maintaining RMB stability is a key objective for policymakers. Any sharp RMB appreciation may trigger exporters rushing 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 continued to trade in subdued range. Last at 7.1990 levels. Mild bearish momentum on daily chart intact while RSI was flat. 2-way trades likely. Support at 7.18 before 7.1475 (61.8% fibo retracement of 2024 low to 2025 high). Resistance at 7.2200/30 (200 DMA), 7.25 levels.
- USDSGD. Heavy Tone.** USDSGD traded lower, tracking USD, UST yield lower. Pair was last at 1.2950 levels. Daily momentum is mild bullish but RSI fell. Risks remain skewed to the downside. 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 1.85% above model-implied mid.
- HKD rates.** The benchmark 3M HIBOR was fixed mildly higher on Thursday and this morning, after some days of materially lower fixings. HKD IRS – USD OIS spreads also went a tad higher albeit remaining at very negative levels. HKD IRS were offered down 9-11bps this morning, mostly following USD rates with no further outperformance. HKD liquidity has stayed flush, as the earlier injection stays in the system, unless there is FX intervention in the opposite direction (when USD/HKD touches 7.8500), or HKMA proactively shifts liquidity to the bills market – if it happens it is likely at a later stage and recent commentaries suggested HKMA appeared comfortable with the lower HKD rates at this juncture which was somewhat different from their usual stance. 12M forward point was last at -980 with implied rate at 2.79%; this is roughly in line with interest rate differentials with implied 1Y HKD basis at -13bps – the uncovered part of the interest rate parity is



Source: Bloomberg, OCBC Research

within range. That all being said, we maintain an upward bias to HKD-USD rates spreads which we have held since the start of the week, and by extension an upward bias to back-end forward points. First, we expect HKD liquidity to become less flush as the dividend payment season is coming, and prospects remains for additional inflows into HKD assets on improved China sentiment and at times because of safe-haven demand. Second, HKD-USD rates spreads are at very negative levels (corrected mildly higher of late); 1Y HKD IRS – USD OIS spread was last at -112bps which was 3.6 standard deviation below 6-month average; 2Y rates spread was last at -92bps which was 3.4 standard deviation below 6-month average. Third, we have a downward bias to USD rates.



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