GLOBAL MARKETS RESEARCH

Daily Market Outlook

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RBA MPC; US Rating Downgrade

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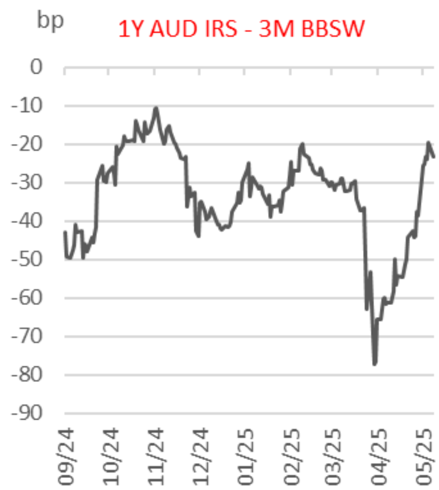
Global Markets Research and Strategy

- **USD rates**. UST yields rose upon the credit downgrade, despite the Moody's downgrade was just playing a catch-up with other rating agencies. The reasons cited for the downgrade, including sharply rising debt over the past decade, and "large annual fiscal deficits and growing interest costs" were not something that the market had not noted. Just that with the confirmation of downgrade after Moody's put the credit outlook for the US on negative for more than a year, market reacted to some extent. To be sure, US' rating remains high and Moody's justify it by the opinion that "the US retains exceptional credit strengths such as the size, resilience and dynamism of its economy and the role of the US dollar as global reserve currency". While fiscal position will remain as a risk factor in the long run, there are potential support factors to USTs that we can look forward to over the coming months, including potential exemption of USTs from SLR calculation and a complete stop in QT with MBS proceeds being reinvested into T-bills/USTs. Near-term, we watch as to whether 10Y yield will break above the key 4.52% level sustainably. At the short end, market pricing of Fed funds rate had little change, with Fed funds futures pricing a total of 52bps of cuts this year.

- **AUD rates**. RBA is widely expected to cut OCR by 25bps on Tuesday, which is also our call. We however see cash rate futures pricing of a total of 76bps of cuts (including the expected Tuesday one) as overly dovish. We expect additional 50bps of cuts for the rest of the year which will bring OCR to 3.60%. Trimmed mean CPI was last at 2.9% YoY (Q1) moving to within target range (was 2.7% YoY for March), but wage growth was still decent at 3.4% YoY or 0.9% QoQ in Q1. On balance, we continue to hold the view that the easing cycle at the RBA is likely to be a shallow one. AUD IRS have nevertheless rebounded from recent low; and the gap between 3M BBSW and 1Y AUD IRS has narrowed reflecting tamer expectation for lower rates which appears more realistic. There may still be some room for bonds to outperform swaps as and when market dials back rate cut expectations.



Source: Bloomberg, OCBC Research

- **DXY. *Bias to Sell Rallies***. Moody's downgrade of US rating late last Fri (near NY close) was a catch-up to earlier downgrades by S&P in 2011 and Fitch Ratings in 2023. Technically, US rating is now aligned across all 3 rating agencies. FX markets are largely well-behaved.

Safe haven proxies including JPY, CHF, gold and SGD were better bid. Nevertheless, Moody's downgrade comes as a timely reminder that rising US debt and deficits should not go unnoticed. A rise in budget deficit in the absence of fiscal discipline and heightened policy uncertainty (owing to Trump tariffs) further question USD's status as a safe haven and primary reserve currency. A continuation of diversification flows out of US assets, including the USD, as well as more proactive hedging (to reduce USD exposure) can weigh on USD over time. Elsewhere, while US bilateral trade talks with some partners were a good start, Trump also said that the US will send letters to some of its trading partners to unilaterally impose new tariff rates over the next 2-3 weeks. It was not immediately clear if the new tariffs would be in addition to what is already in place or, if these adjustments supersede previous tariff rates. Fresh threats/uncertainty on this front may further support the appeal of safe haven plays. DXY was last at 100.81. Bullish momentum on daily chart remains intact though there are early signs of it fading while RSI shows signs of falling. Downside risks not ruled out intra-day. Support here at 100.80 (23.6% fibo retracement of 2025 peak to trough), 100 (21 DMA) and 99.10 levels. Resistance at 101.60 (50 DMA), 102.60 (38.2% fibo).

- **EURUSD. *2-Way Trades.*** EUR gapped higher in the open this morning, in reaction to Moody's' downgrade of US rating late last Fri. But the gap up has steadied. EUR was last seen at 1.1180 levels. Daily momentum is bearish while RSI was flat. 2-way trades likely for now. Key support here at 1.1110 (50 DMA) before 1.1030 levels (38.2% fibo retracement of 2025 low to high). Resistance at 1.1235 (23.6% fibo), 1.13 (21 DMA) and 1.1450 levels. Over the weekend, ECB's Lagarde commented in an interview that "It's impressive to note that in a period of uncertainty when we should normally have seen the dollar appreciate significantly, the opposite happened: the euro appreciated against the dollar. It's counterintuitive but justified by the uncertainty and loss of confidence in US policies among certain segments of the financial markets". She also took the opportunity to emphasise the importance of EUR's stability and called for leaders to accelerate the process of deepening the European Union. She also said "At a time when we see the rule of law, the judicial system, and trade rules being called into question in the US, where uncertainty is permanent and renewed daily, Europe is rightly perceived as a stable economic and political area, with a sound currency and an independent central bank".

- **GBPUSD. *Break of 21 DMA May Open Room for Further Gains.*** GBP consolidated last week after the 2% pullback from 2025 high. Its performance has also been surprisingly resilient amongst the DM FX on MTD change, and this may be attributed to better-than-expected growth momentum (reflected in 1Q GDP), less dovish than expected BoE rhetoric as well as the US-UK trade deal (removes uncertainty element). Pair was last at 1.33 levels. Bearish momentum on daily chart intact while RSI was flat. 2-way trades likely. Immediate resistance at 1.3310 (21 DMA), 1.3430/40 levels (double top). Support at 1.3120/30 levels (23.6% fibo retracement of 2025 low to high, 50 DMA), 1.3020 levels.

- **USDSGD. *Downside Risk.*** USDSGD traded a touch lower, taking cues from the lower-than-expected USDCNY daily fixing while safe havens outperformed. Moody's downgrade comes as a timely reminder that rising US debt and deficits should not go unnoticed. A rise in budget deficit in the absence of fiscal discipline and heightened policy uncertainty (owing to Trump tariffs) further question USD's status as a safe haven and primary reserve currency. Pair was last at 1.2985 levels. Daily momentum is mild bullish while RSI dipped. Consolidation with slight risk to the downside. Support at 1.2940, 1.2910 levels. Meanwhile, we watch 1.2950 – 1.3090 range this week. Next resistance at 1.3040 (21 DMA), 1.3140/60 levels (61.8% fibo retracement of 2024 low to 2025 high).

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