

Daily Market Outlook

19 May 2025

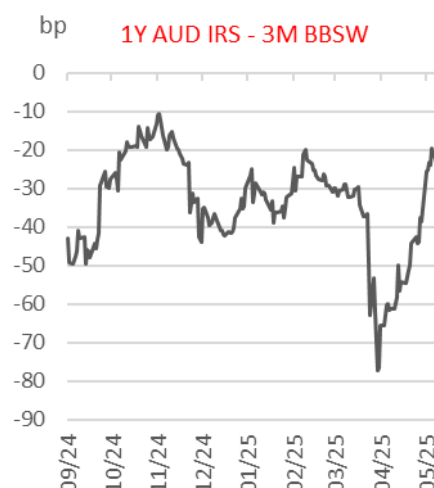
RBA MPC; US Rating Downgrade

- 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.
- DX.** *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.

Frances Cheung, CFA
FX and Rates Strategy
FrancesCheung@ocbc.com

Christopher Wong
FX and Rates Strategy
ChristopherWong@ocbc.com

Global Markets Research and Strategy



Source: Bloomberg, OCBC Research

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).



Macro Research

Selena Ling

Head of Research & Strategy
lingssselena@ocbc.com

Herbert Wong

Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Jonathan Ng

ASEAN Economist
jonathannq4@ocbc.com

Tommy Xie Dongming

Head of Asia Macro Research
xied@ocbc.com

Lavanya Venkateswaran

Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ong Shu Yi

ESG Analyst
shuyionq1@ocbc.com

Keung Ching (Cindy)

Hong Kong & Macau Economist
cindyckeung@ocbc.com

Ahmad A Enver

ASEAN Economist
ahmad.enver@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA

Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong

FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong

Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo, CFA

Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA

Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA

Credit Research Analyst
mengteechin@ocbc.com

This report is solely for information purposes and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein or to participate in any particular trading or investment strategy. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this report is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this report may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This report may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, it should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. In the event that you choose not to seek advice from a financial adviser, you should consider whether the investment product mentioned herein is suitable for you. Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), Bank of Singapore Limited ("BOS"), OCBC Investment Research Private Limited ("OIR"), OCBC Securities Private Limited ("OSPL") and their respective related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future, interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial or securities related services to such issuers as well as other parties generally. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. There may be conflicts of interest between OCBC Bank, BOS, OIR, OSPL or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OCBC Bank and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

The information provided herein may contain projections or other forward looking statements regarding future events or future performance of countries, assets, markets or companies. Actual events or results may differ materially. Past performance figures are not necessarily indicative of future or likely performance.

Privileged / confidential information may be contained in this report. If you are not the addressee indicated in the message enclosing the report (or responsible for delivery of the message to such person), you may not copy or deliver the message and/or report to anyone. Opinions, conclusions and other information in this document that do not relate to the official business of OCBC Bank, BOS, OIR, OSPL and their respective connected and associated corporations shall be understood as neither given nor endorsed.

Co.Reg.no.: 193200032W

Follow our podcasts by searching 'OCBC Research Insights' on Telegram!