

Daily Market Outlook

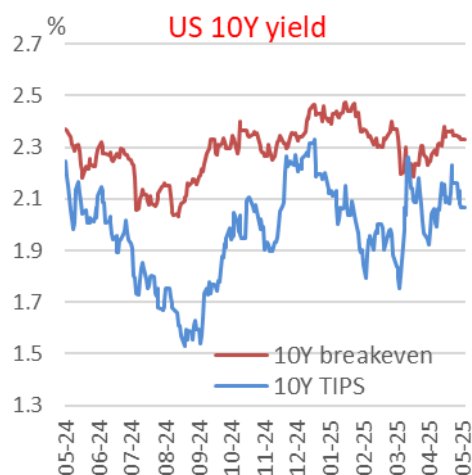
2 June 2025

Trade tensions; US heavy data week

- USD rates.** UST yields fell on Friday during NY hours to end the day a tad lower, on heightened trade tensions. Trump said to double tariffs on steel and aluminium to 50% from 25%, and he accused China of violating some of the agreements under the current trade truce – China MoF on Monday morning accused US of unilaterally introducing new discriminatory restrictions. Risk sentiment turned sour with Asian equities mostly down at open, but the small rallies in USTs have not been extended. On the data front, April PCE deflator and core PCE deflator printed mostly in line with expectations, showing mild disinflation progress. Personal spending slowed as expected. Recent survey/data mostly came in on the soft side, and investors will observe as to whether the soft economic backdrop is confirmed with this week's data, as triggers for rate cuts will likely need to come from the labour market/growth front when the FOMC remains mindful of inflation impact of tariffs. These include ISM manufacturing and services, JOLTS jobs data, ADP employment change, payrolls and other labour market statistics. Fed funds futures added mildly back to rate cut expectation, pricing 54bps of cuts for this year. There is no coupon bond auction this week, after last week's solid auctions; net coupon bond settlement is at USD94bn this week while bills payoff continues, at USD38bn as bill issuances are constrained by the debt ceiling. Near-term range for 10Y yield remains at 4.34-4.52%.

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

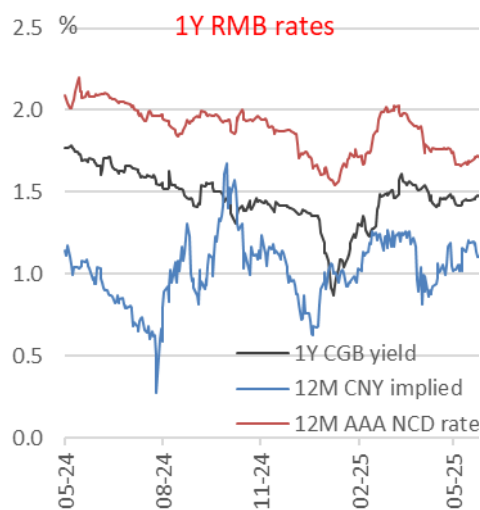
Global Markets Research and Strategy



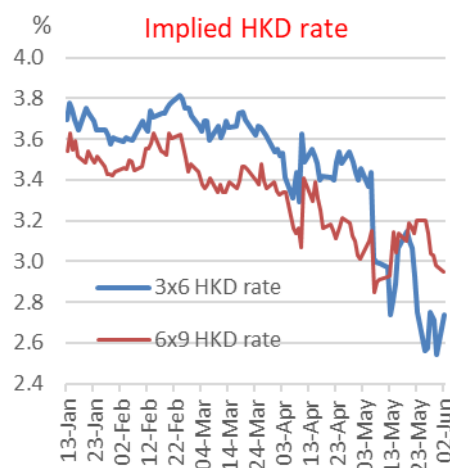
Source: Bloomberg, OCBC Research

- Fed's Waller laid out two tariff scenarios, in a prepared speech at the Bank of Korea International Conference. Under the large-tariff scenario, he expects PCE inflation to peak at 4-5%, and unemployment to rise to up to 5%. Under smaller-tariff scenario, he sees PCE inflation rising to 3%, and unemployment rate to rise but not to as high as 5%. Nevertheless, "whatever the size of the tariffs, [he] expects the effects on inflation to be temporary, and most apparent in the second half of 2025". Given his belief that any tariff-induced inflation will not be persistent and that inflation expectations are anchored, he supports "looking through any tariff effects on near term-inflation when setting the policy rate". This conclusion does not appear to represent the consensus among the Committee at this juncture, but any shift toward this thought process will add to the chance that the FOMC delivers additional Fed funds rate cut before year-end.

- EUR rates.** Bund yields rose in response to German May CPI inflation which did not ease as much as expected. Bund yields retraced from intra-day high to end little changed, taking cue from UST market. EU harmonized CPI inflation for Germany eased to 0.2% MoM (consensus 0.1%) versus 0.5% MoM prior, or to 2.1% YoY (consensus 2.0%) versus 2.2% YoY prior. The inflation backdrop is nevertheless a benign one which supports further removal of policy restraint; ECB is widely expected to deliver another 25bp rate cut on Thursday. After this expected rate cut, interest rates are probably around neutral levels. Thereafter, the decision to be made is whether to have an outright easy policy to simulate growth – our base-case is for ECB to push its policy Deposit Facility Rate to 1.75%, i.e. additional 50bps of cuts including the expected cut for this week.
- CNY rates.** Repo-IRS opened 1bp lower on Friday, while CGBs were stable. PBoC conducted PBoC conducted CNY700bn of outright reverse repos in May, comprising CNY400bn of 91-day tenor and CNY300bn of 182-day tenor, which was smaller than the maturity of CNY900bn in the month. Focus this month is the massive CNY4.16trn of NCDs which mature, together with the maturity of CNY1.2trn of outright reverse repos (CNY700bn of original 3M tenor and CNY500bn of original 6M tenor). NCD rates have been edging up over recent days, although still being below levels before the RRR and interest rate cuts. 1Y AAA NCD rate edged lower back to 1.70% level; 1Y implied CNY rate at 1.11% and 1Y implied CNH rate at 1.39%. While still viable pick-up at NCDs may render some support from inflows, PBoC liquidity support is probably needed.
- HKD rates.** Spot rose to a high of 7.8445 on Friday late afternoon, and was trading at 7.8418 as of writing, reminding near the weak side convertibility undertaking of 7.8500. There has been some recovery in Southbound Stock Connect flows in recent days; but these flows together with dividend payment flows, appear not enough to more than offset the wide USD-HKD rates differentials, keeping an upward bias to spot. 1Y HKD IRS was paid up by 6bps this morning, against the mild drops in USD OIS, as investors are probably mindful of the risk of HKMA FX intervention which will drain HKD liquidity – we wrote that “as and when it happens, any reversal in HKD rates move can be rapid and forceful.” Forward implied 3x6 HKD rate was last at 2.74%, while implied 6x9 HKD rate was at 2.95%; these compared to 3M HIBOR fixing of 1.32286% on Friday.



Source: Bloomberg, OCBC Research



Source: Bloomberg, OCBC Research



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!