Daily Market Outlook

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China Bond Inflows; FX Mixed

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- **USD rates**. UST yields retraced from session highs during NY hours and ended Monday mildly lower. Yields are now only 1-2bps higher than Thursday's close. USTs exhibited different performances around the previous episodes of credit rating downgrades in 2011 by S&P and in 2023 by Fitch; these performances suggest that economic fundamentals and monetary policy cycle were the major drivers of UST performances. 10Y UST yield again failed to break above the key 4.52% level on a sustained basis. Next to watch is the USD16bn of 20Y coupon bond auction on Wednesday; to recap, US Treasury continue to anticipate "maintaining nominal coupon and FRN auction sizes for at least the next several quarters". On a multi-month horizon, the supply outlook is neutral. 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 in T-bills. We maintain a mild downward bias to US yields amid such domestic dynamics, while fiscal position remains as a concern for foreign investors likely leading to continued, gradual diversification. Near-term range for 10Y yield is seen at 4.34-4.52%.

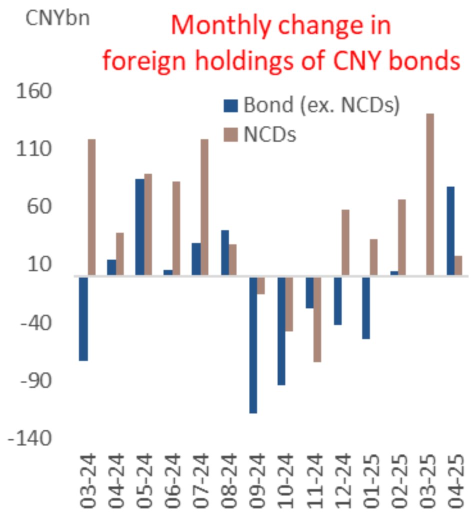
- **DXY. *Bias to Sell Rallies***. USD consolidated after the initial moves post-Moody's downgrade. FX markets remain well-behaved as the downgrade was only a catchup to earlier downgrades by S&P in 2011 and Fitch Ratings in 2023. Over a 2-day % change since 16 May NY close, EUR, NZD and AUD remain outperformers in DM space while in the AxJ space, KRW and SGD led gains. USD trades on the backfoot. We reiterate that Moody's downgrade comes as a timely reminder that a rise in budget deficit in the absence of fiscal discipline and heightened policy uncertainty (owing to Trump tariffs) is not sustainable and further questions USD's status as a safe haven and primary reserve currency. As doubts over USD grow, 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 100.33. Bullish momentum on daily chart is fading while RSI shows signs of falling. Downside risks not ruled out intra-day. Support here at 100 (21 DMA) and 99.10 levels. Resistance at 100.80 (23.6% fibo retracement of 2025 peak to trough), 101.60 (50 DMA), 102.60 (38.2% fibo). There is no tier-1 data today and tomorrow for markets to digest but there will be a handful of Fedspeaks including Bostic, Barkin, Collins and Musalem tonight.

- **USDJPY. *Decline Nears Key Support.*** USDJPY fell, tracking the decline in UST yields while Japan planning to meet US during the G7 meeting (23 May) to discuss topics including FX kept the pair pressured. It remains uncertain if the meeting will go ahead. But if it does not go as planned, USDJPY may risk a short term rebound. Pair was last at 144.80 levels. Bullish momentum on daily chart shows signs of fading while RSI fell. Support next at 144.40/50 levels (21 DMA, 23.6% fibo). Resistance at 146 (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 13 May), targeting a move towards 141. SL at 151. The 90-day trade truce between the US and China may calm broad market sentiments but we caution that the devil is in the details (during discussions). Moreover, Trump has 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 see safe havens regaining appeal.

- **AUDUSD. *RBA In Focus (1230 pm SGT).*** Markets expect RBA to deliver a second 25bp cut for the year as CPI has fell into RBA's target range. There will also be focus on RBA's language with respect to guidance on future rate trajectory. To some extent, a stronger job market and rising wages may suggest less haste for RBA to cut aggressively going forward. Potentially, this can be supportive of AUD if guidance is indeed less dovish (especially when markets are pricing in about 3 cuts for the year). AUD last at 0.6450 levels. Daily momentum and RSI indicators are not showing a clear bias. Immediate resistance at 0.6460 (200 DMA), 0.6550 (61.8% fibo retracement of 2024 high to 2025 low). Support at 0.6410 (21 DMA), 0.6340 (50 DMA).

- **USDSGD. *Consolidate.*** USDSGD continued to trade with a heavy bias. Pair was last at 1.2948. Mild bullish momentum on daily chart shows signs of fading while RSI fell. Consolidation with slight risk to the downside. Support at 1.2940, 1.2910 levels. Resistance at 1.3030 (21 DMA), 1.3140/60 levels (61.8% fibo retracement of 2024 low to 2025 high). We continue to watch 1.2920 – 1.3020 range this week. S$NEER is at ~1.9% above our model-implied mid.

- **CNY rates**. Onshore CNY bonds saw inflows of CNY67bn in April with CNY49bn going into CGBs; inflows to CGBs were the biggest since Dec 2023. CGBs have probably benefited from some diversification of flows while foreign holdings are on the low side after earlier months of outflow (foreign holdings of CGBs to outstanding stood at 5.9% at end April). Inflows into NCDs slowed to CNY18bn from the whopping CNY141bn in March. Meanwhile, FX flows to China were also positive in April, with receipts mainly through trade in goods. Net FX settlement by banks on behalf of clients was a positive USD6bn in April. Willingness of corporates to covert foreign currency receipt into RMB recovered further to 64.4% (from a low of 54.4% in February), reflecting improved RMB sentiment. From here, prospects remain for continued recovery in flows, with a benign monetary policy backdrop. 1Y and 5Y LPR have been cut by 10bps this morning as widely expected. Various banks also announced to reduce deposit rates with most fixed deposit rates being cut by 15-25bps. Asset swap pick-up at NCDs has narrowed somewhat but may still be seen as viable as part of a portfolio; AAA rated 1Y NCD rate was last at 1.67% vs 1Y implied CNY rate at 1.13%. In offshore, front-end implied CNH rates have stayed low, despite the much reduced Southbound Stock Connect flows.



Source: CEIC, OCBC Research

- **IndoGBs** have outperformed USTs thus far this month, as US yields rose on idiosyncratic factors and IndoGBs did not follow. Domestically, the soft 1Q25 GDP growth adds to the case for rate cuts; our house view is that 'the recent IDR gains versus USD, if sustained, may open the door for a 25bp rate cut at its 21 May meeting". Consensus for tomorrow's decision is split between a 25bp cut and a hold but skewed towards a cut. After recent IndoGB outperformance, 10Y IndoGB-UST yield spread has narrowed to around the 240-250bp area which we have seen as supportive of the domestic bonds but not a particularly attractive level. We prefer shorter duration, with 2Y IndoGB-UST yield spread still at the upper end of range and given the monetary policy outlook. Today's conventional bond auction comprises the reopening of Fr104 (2030 bond), FR103 (2035 bond), FR106 (2040 bond), FR107 (2045 bond), FR102 (2054 bond), FR105 (2064 bond), and bills. Indicative target is IDR26trn with possibility of an upsize to IDR39nm. Quarter-to-date gross issuances of IndoGBs (conventional and sukuk) amounted to IDR82trn, well on track with/slightly ahead of quarterly target of IDR190trn.

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