GLOBAL MARKETS RESEARCH

Daily Market Outlook

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Auctions in Focus

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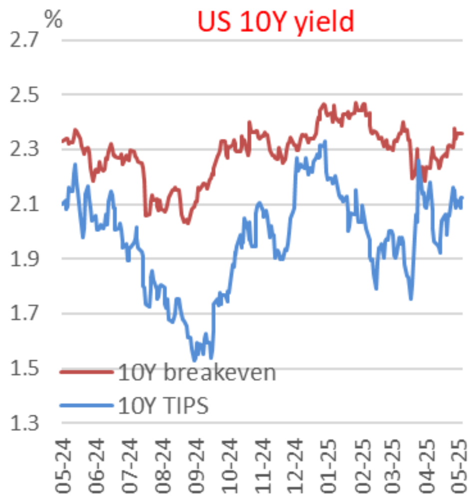
Global Markets Research and Strategy

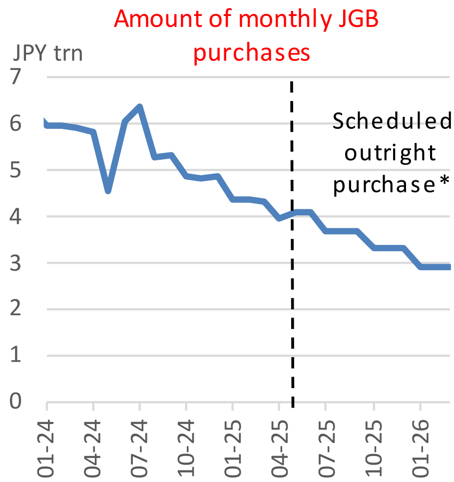
- **USD rates**. UST yields rose during London hours and retraced from session highs in NY session; long-end yields ended Tuesday higher ahead of the 20Y coupon bond auction tonight. Meanwhile, after the passage out of the House Budget Committee over the weekend, the tax cut bill is advanced to the Congress House of Representative. The progress of this bill keeps investors cautious and the term premium high, at this juncture. Meanwhile, short-end yields and market pricings of Fed funds rate were little changed, with incoming Fed official commentaries sticking with the stance of patience reflecting a wait-and-see mode. Fed officials have continued to focus on inflation impact of tariffs, as Hammack said she was assessing the outlook using scenarios – including whether inflation impact is one-time or more persistent. Fed funds futures last priced a total of 54bps of cuts this year. Data for the rest of this week include continuing and initial jobless claims, PMIs, existing and home sales. 10Y term premium was last estimated at 0.7581% by NY Fed's ACM model; 10Y real yield was last at 2.12% and breakeven at 2.36%. Near-term range for 10Y UST yield remains at 4.34-4.52% and further topside is at 4.60%.



Source: Bloomberg, OCBC Research

- **AUD rates**. RBA cut OCR by 25bps as widely expected. The rhetoric turned out to be more dovish than expected. ACGBs rallied by 12-16bps in a steepening manner; cash rate futures added to rate cut expectations, to additional 67bps for the rest of the year (versus 51bps prior, netting out the delivered rate cut). Dovish elements coming out of the 20 May decision included: 1/ Governor Bullock revealed a 50bp cut was discussed – although the strength of argument for a 25bp cut was much bigger, and there was also discussion between a hold and a cut. 2/ The statement opined that "inflation is in the target band and upside risks appear to have diminished" – while understandably the commentaries have to support yesterday's rate cut decision and hence by right would be more dovish than the previous statement, such opinion was still picked up as dovish. 3/ The Board has a scenario analysis – considering a severe downside scenario and noted that "monetary policy is well placed to respond decisively"; while this is a scenario analysis, it nevertheless reflects the asymmetric risk that the Board sees. Our call has been for OCR to be cut to 3.60% by year-end; we are, however, reviewing this call given the dovish outcome yesterday.

- **JPY rates**. Long-end (20Y and beyond) JGB yields rose by more than 10bps on Tuesday as the 20Y JGB auction did not go particularly well. BoJ released the result of market participants survey on QT, which was conducted on 1-9 May; while opinions varied, the responses were mostly on the hawkish side. Long-end yields have risen since the time of the survey. Recent market performance and the gauge on demand for JGBs will be inputs to be weighed, ahead of BoJ's interim assessment of its QT plan in June. To recap, according to the plan set out in July 2024, BoJ's monthly JGB purchase is on a step-down schedule by the quarter; Apr-Jun monthly purchases are set at JPY4.1trn (April actual was JPY3.95trn), to be reduced to JPY3.7trn / 3.3trn/ 2.9trn over the next three quarters. Our base-case is for BoJ to stick with this plan. Should the upward moves in long-end yields become more rapid, some shifts in allocation of reductions by remaining maturity cannot be ruled out.



Source: CEIC, OCBC Research *as per BoJ July 2024 plan

- **DXY. *Bias to Sell Rallies***. USD fell broadly against most currencies. Safe haven including CHF, JPY and gold strengthened more at first in reaction to a CNN report that new intelligence suggests Israel is preparing possible strike on Iranian facilities. But as the session continued, other FX in the region (including THB, MYR, KRW) played catch-up on gains. 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 question USD's status as a safe haven and primary reserve currency. As doubts over USD (relating to fiscal sustainability, protectionism measures, etc.) continue to 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, while other currencies benefit. The thematic of sell USD on rally may persist for longer. DXY was last at 99.77. Bullish momentum on daily chart is fading while RSI fell. Downside risks are seen. Support at 99.10 levels. Resistance at here at 100.10 (21 DMA), 100.80 (23.6% fibo retracement of 2025 peak to trough) and 101.40 (50 DMA).

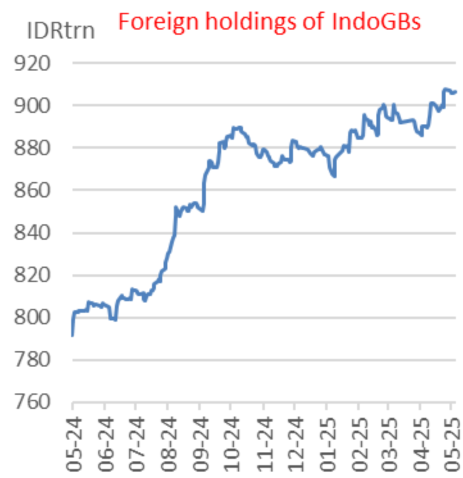
- **USDJPY. *Heavy.*** USDJPY extended its decline, tracking the broad decline in USD and concerns over reports on a potential Israel strike on Iran (leading to safe haven flows) while Japan's plan to meet US during the G7 meeting (on 23 May) to discuss topics including FX kept the pair pressured. USDJPY was last at 143.90 levels. Bullish momentum on daily chart shows signs of fading while RSI fell. Support next at 142.30, 141.80 levels. Resistance at 144.40/50 levels (21 DMA, 23.6% fibo retracement of 2025 high to low), 146 (50 DMA). We kept our short USDJPY (entered at 148 as per FX Weekly 13 May), targeting a move towards 141. SL at 151.

- **AUDUSD. *Break-out Soon?*** AUD fell post-dovish RBA yesterday. But the decline was also somewhat restrained, likely due to a softer USD trend. As much as domestic policy matters, external developments can also more than offset. A somewhat more constructive risk backdrop (i.e. China optimism, etc.) alongside bearish dollar trend should see still be supportive of AUD view. AUD last at 0.6445 levels. Daily momentum is not showing a clear bias for now. Immediate resistance at 0.6460 (200 DMA), 0.6550 (61.8% fibo retracement of 2024 high to 2025 low). Break out should open room for further upside. Support at 0.6420 (21 DMA), 0.6340 (50DMA).

- **USDSGD. *Heavy Tone.*** USDSGD extended its move lower amid broad decline in USD. Pair was last at 1.2920 levels. Mild bullish momentum on daily chart faded while RSI fell. Consolidation with risk sked to the downside. Support at 1.2910, 1.2870 levels (recent low). Resistance at 1.3020 (21 DMA), 1.3080, 1.3160 levels (61.8% fibo retracement of 2024 low to 2025 high). On data release, 1Q GDP is released on Thu and CPI on Fri. Softer core CPI should further add to market expectations for another round of easing in July. That said, external drivers such as USD trend, and to some extent RMB and JPY moves, can drive USDSGD directional bias. S$NEER is at ~1.8% above our model-implied mid.

- **USDIDR. *BI in Focus Today.*** Our Economists expect BI to cut policy rate by 25bp to 5.5% as the need to support growth becomes increasingly evident as GDP growth slowed to 4.9% in 1Q while activity data, survey remains soft. Recent appreciation of IDR (2.45% over 1 month) has also provided a timely window for policymakers to move. Pair was last at 16405 levels. Bearish momentum on daily chart intact while RSI fell. Key support at 16400 (100 DMA). Decisive break puts next support at 16236 (38.2% fibo retracement of 2024 low to 2025 high). Resistance at 16533 (23.6% fibo), 16570 (50 DMA).

- **IndoGBs** traded in ranges on Tuesday. The conventional bond auctions garnered a whopping incoming bid amount of IDR108trn – the biggest amount this year thus far, with most of the incoming bids having gone to the 5Y (FR104) and 10Y (FR103) bonds as usual. IDR28trn of bonds were awarded representing an upsize of IDR2trn. This takes quarter-to-date gross issuance amounts (conventional + sukuk) to IDR120trn, ahead of quarterly target of IDR190trn as there are still three conventional and three sukuk auctions left for the quarter. FR103 was quoted at 6.842/6.815% this morning, a tad below yesterday's cut-off of 6.87%. Foreign holdings of IndoGBs have been edging higher since the start of the month, standing at IDR906trn as of 19 May. On the IndoGB curve, we continue to prefer shorter duration, with the 2Y IndoGB-UST yield spread at the upper end of range and given the prospects of monetary policy easing. Consensus for today's decision is split



Source: Bloomberg, OCBC Research

between a 25bp cut and a hold but skewed towards a cut. Our house view is for a 25bp cut.

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