# Daily Market Outlook

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## US ISM manufacturing softer; BoJ bond purchase plan

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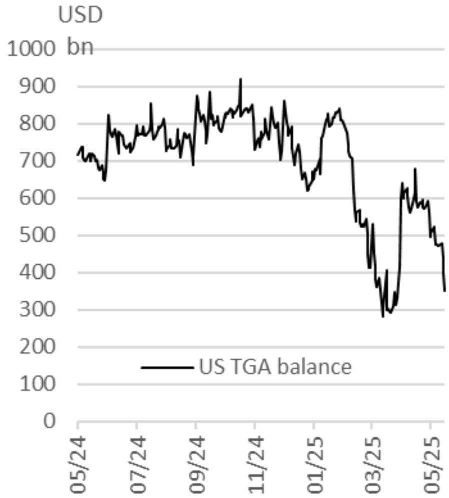
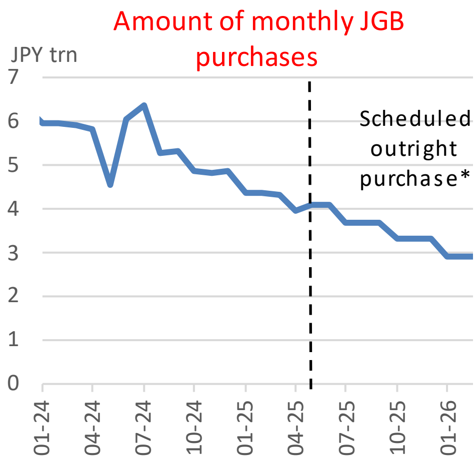
- **USD rates**. UST yields rose overnight as the risk sentiment improved mildly on prospects of progress on trade talks. But overall, USTs have been trading in ranges over the past week, without much direction. Recent survey/data mostly came in on the soft side, and overnight it was ISM manufacturing, which printed below the 50-point threshold for a third month, and lower at 48.5 in May. Percentage of industries reporting growth in import activity fell to 17% from 33% prior, suggesting front-loading activities might be mostly done for now. Percentage of industries paying higher prices edged up to 89% versus 83% prior, likely reflecting tariff impact. 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: ISM services, JOLTS jobs data, ADP employment change, payrolls and other labour market statistics. Fed funds futures last priced a total of 52bps of cuts for this year. Near-term range for 10Y UST yield is seen at 4.34-4.52%. US Treasury's cash balance (TGA balance) was last at USD351bn as of 30 May, while extraordinary measures left was at USD68bn on 28 May; expected "X-day" remains around late August.




Source: Bloomberg, OCBC Research

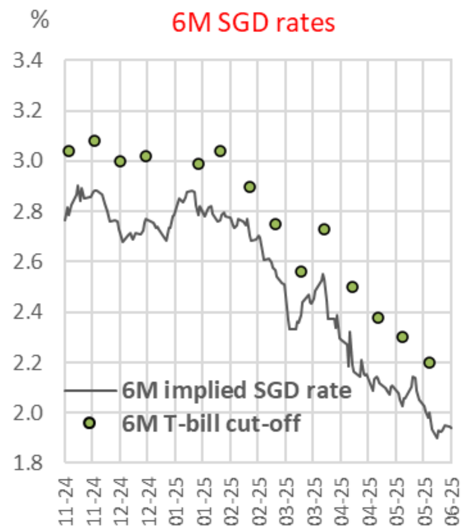
- **JPY rates**. JGBs showed mixed performances at open this morning, with long-end bonds holding up ahead of the 10Y JGB auction. Demand at the 10Y JGB auction turned out to be strong, with bid/cover rising to 3.66x, the highest since the auction of the same tenor in June 2024. BoJ Governor Ueda was on the wire commenting that many market participants surveyed were of the view that it would be appropriate for the BoJ to keep reducing the amount of JGB purchase. He referred to the survey conducted on 1-9 May; long end JGB yields had risen further after the survey but have since retraced back. 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. The interim assessment of this plan is due this month. 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. Ueda went further to say it is important to consider bond purchase cut plan beyond April next year.




Source: Bloomberg, OCBC Research

- **CNY rates.** CGB yields traded a tad higher this morning as onshore returned from holidays, while repo-IRS also traded on the firm side. Sentiment held up on hopes for Xi-Trump call. Caixin manufacturing PMI printed low at 48.3 but it was shrugged off by the market as it deviated from some recent, firmer data/survey. PBoC conduced CNY700bn of outright reverse repos in May, comprising CNY400bn of 91-day tenor and CNY300 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.

- **SGD rates**. SGD OIS have been trading in narrow ranges over recent days, while SORA the overnight rate was well anchored. OIS moved up by 15-20bps around mid-May from earlier lows but have since fallen back. Near-term range for 2Y SGD OIS is seen at 1.7-1.9% and level nearer the lower end of this range is probably seen as viable for some interest rates hedging. On cash side, there is the auction of SGD7.6bn of 6M T-bills on Thursday. The cut-off fell to 2.20% at the last auction on 22 May. The 6M implied SGD rate has since edged lower by 2-3bps; unless demand for the bills turns weaker, it is unlikely that the cut-off can stage a material rebound. We expect cut-off range at 2.15-2.23% as per today's market levels.




Source: Bloomberg, OCBC Research

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