Daily Market Outlook

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TWD Leads Gains

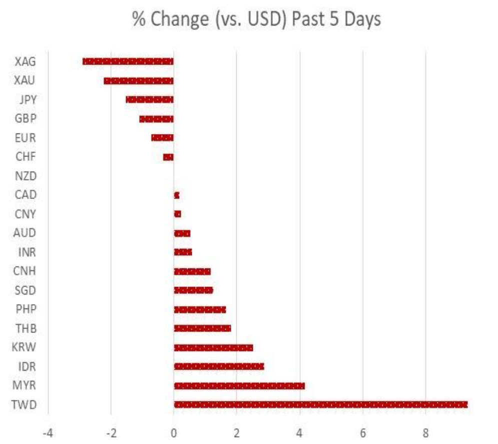
Frances Cheung, CFA
FX and Rates Strategy
FrancesCheung@ocbc.com

Christopher Wong
FX and Rates Strategy
ChristopherWong@ocbc.com

Global Markets Research and Strategy

- **USD rates**. UST yields rose by 7-13bps on Friday with the curve flatter, as payroll and labour market report alleviated growth worries. Market pared back rate cut expectation, with Fed funds futures last pricing a total of 82bps of cuts this year, nearer our base-case of 75bps. April non-farm payroll printed 177K, although March's outcome was revised lower to 185K from 228K prior; we wrote "a print that is above 160K may be seen as strong". Under the household survey, the unemployment rate stayed at 4.2%, the underemployment rate edged lower to 7.8%, and hourly earnings eased to 0.2% MoM. These outcomes, together with the earlier reported JOLTS and job openings-to-unemployed ratio (which fell to 1.01) suggest the labour market is moving in line with gradual cooling. 10Y real yield went back to above 2% level to trade at 2.04%; range of 10Y UST yield is seen at 4.28-4.41%. This week, there is net bills paydown of USD11bn, and net coupon bond settlement of USD30.8bn. There are auctions of USD58bn of 3Y, USD42bn of 10Y and USD25bn of 30Y coupon bonds. The sizes of 10Y and 30Y bonds are higher as usual in the first month of the refunding quarter. US Treasury is planning for same auction sizes for nominal coupon bonds in the May-Jul period as in the Feb-Apr period. It also said to maintain these sizes "for at least the next several quarters".

- **USDTWD. *Under Pressure.*** USDTWD's decline last Fri was historic (largest one day gain since 1988) and the decline continued this morning (>4% move). The massive gains are catalysed by prospects of a dialogue between US and China, poor market liquidity and absence of FX support. Faster-than-expected pace of TWD appreciation had caught many market participants off guard, prompting a rush to convert USD into local currency. There were also market chatters that it may be a deliberate attempt ahead of US-TW trade talks. We believe CBC's recent tolerance for TWD appreciation likely reflects a broader policy recalibration rather than just a tactical move tied to trade negotiations with US. That said, Taiwan remains on the US Treasury's currency monitoring list, and allowing the TWD to strengthen (in line with other FX) could help pre-empt any accusations of currency manipulation especially at a time where Taiwan's role in global chip supply chains is under the spotlight. A more market-determined TWD ahead of negotiations may also be helpful during trade talks. If USD softness



Source: Bloomberg, OCBC Research

persists, we expect hedge ratios to be raised more proactively. Looking ahead, the momentum behind TWD strength may have legs if the broader de-escalation narrative holds, if tariff implication on growth proves more manageable than feared, and if broad-based USD weakness permeates. But given the sharp decline of >9% for USDTWD (5 day change), we will not rule out participants "hoping" to see any bounce in USD. But any disappointment would again see another wave of USD selling in the pair. Spot last seen at 29.62 levels. Daily momentum is bearish but RSI is deeply oversold. 29.50/60 in the spot will be the next key support to watch. Decisive break may trigger further sell-off. Next support at 29.10, 28.90 levels. Resistance at 30.3, 30.65 levels

- **DXY. *21 DMA Stalls Advance.*** USD traded softer this morning as gains in AxJs spilled over to DM FX, resulting in DXY trading softer for the session so far. Hopes of a US-China dialogue (although it may still be early days) and signs of progress on possible trade deals (likely US with India first) have reinforced the de-escalation thematic, helping to stabilise sentiments. Regional equities also outperformed today. Focus this week on ISM services (Mon) and FOMC (Thu). There will be no dot plot guidance for this FOMC, and expectations are for Fed to stay on hold. A relatively resilient labour market (especially as NFP surprised with +177k increase) and renewed focus on price stability justifies the Fed to keep policy rate on hold. DXY was last at 99.70 levels. Daily momentum is bullish but recent rise in RSI slowed. Immediate resistance at 100.25 (21 DMA). Decisive break puts next resistance at 100.80 (23.6% fibo retracement of 2025 peak to trough), 102 (38.2% fibo) and 102.70 (50 DMA). Failing which, DXY may revert to trading the range near recent lows. Support at 98.90, 97.90 levels (2025 low).

- **USDSGD. *Consolidate.*** USDSGD continued to trade near recent lows as markets start to price in hopes of de-escalation and a softer USD. Safe haven trades unwound while AxJ FX enjoyed a significant lift last week (more so last Fri likely aided by thin market liquidity as well). USDCNH fell to near 6-month low of below 7.19 at one point while USDSGD traded close to 1.2910. Further traction may be possible if the de-escalation momentum carries on and broad USD softness permeates. That said, given a relatively outsized move lately, we do not rule out the near-term risk of a slowdown in the pace of USDSGD selloff as markets reassess trade talk optimism. Pair was last at 1.2920 levels. Daily momentum turned mild bearish while RSI fell to near oversold conditions. 2-way risks from here. Support at 1.2910 levels 1.2890. Break below these key support levels may point to another leg lower for USDSGD towards 1.2850, 1.2790 (2024 low). Resistance at 1.3020, 1.3160 levels. S$NEER was last at 1.6% above model implied midpoint.

- **HKD rates**. Rates are not trading as it is a local holiday today. The t/t swap curve was trading higher, primarily on the higher forward outright after HKMA intervention while spot stays very near 7.7500 level. Otherwise, the injection into interbank liquidity via FX intervention will help alleviate some of the liquidity pressure. HKMA intervened by buying HKD46.5bn worth of dollars from the market on Saturday Asia time, as USD/HKD touched the strong side convertibility undertaking of the HKD. That marked the first intervention since May 2023 (when they sold dollars) and the first dollar purchase since October 2020. The single-day amount was the biggest on record. Aggregate Balance will rise to HKD91.3bn (including some adjustment in interest payment) on 7 May from HKD44.6bn. This may help buffer some of the liquidity tightness at an upcoming IPO. Still, HKD liquidity is likely to stay on the tight side on potential inflows and dividend payout. We remain of the view that HKD-USD rates spreads are biased to the upside, i.e. tending to turn less negative.

CNY rates. PBoC did CNY1.2trn of outright reverse repos in April, just rolled over the same amount of outright reverse repos that matured, i.e. with no net injection. Nevertheless, the outright reverse repos comprised CNY700bn of 91-day and CNY500bn of 182-day tenors, while the original maturity of those matured was 91-day. The net CNY500bn injection via MLF in the month also means a shift to longer-term liquidity in terms of support. The key takeaways are probably that PBoC constantly adjusts its provision of liquidity in terms of amounts and tenors, while reserving some ammunition (i.e. RRR and/interest rates cuts) for periods with heightened need for support. The first batch of special bonds auctions were well received, suggesting PBoC's strategy has worked well thus far. This week, there is the reopening of the 30Y special CGB on 9 May; size is at CNY71bn with no greenshoe option. In offshore, forward points are lower on forward outright moves; implied CNH rates fell alongside. Nevertheless, front-end implied CNH rates are off previous lows, and the gap with onshore rates narrowed. At current levels, and considering potential Southbound inflows, we turn neutral to front-end CNH rates versus looking for bottoming out previously.

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@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

Co.Reg.no.: 193200032W