Daily Market Outlook

6 May 2025

Retracement

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 edged higher overnight in a steepening manner, as ISM services index came in firmer than expected. Market further pared back rate cuts expectation, to a total of 76bps by year end, with the chance of a 25bp cut by June FOMC meeting seen at 29%. Overnight there were 3M and 6M T-bills auctions; the 6M T-bills went particularly well, garnering a bid/cover ratio of 3.52x versus 2.80x prior, and indirect accepted higher to 67.1% versus 59.7%; this may suggest that the market is still positioning for rate cuts ahead. Meanwhile, the 3Y coupon bond auction also went well, although the indirect accepted was lower at 62.4% versus 73.0% prior. There are still the USD42bn of 10Y and USD25bn of 30Y coupon bonds to be digested. FOMC this week is widely expected to keep the target of Fed funds rate unchanged at 4.25-4.50%; the Committee may also refrain from sounding dovish at this juncture, before the data point to more rapid deceleration in growth or to further disinflation progress. Near-term range for 10Y UST yield is seen at 4.28-4.41%.

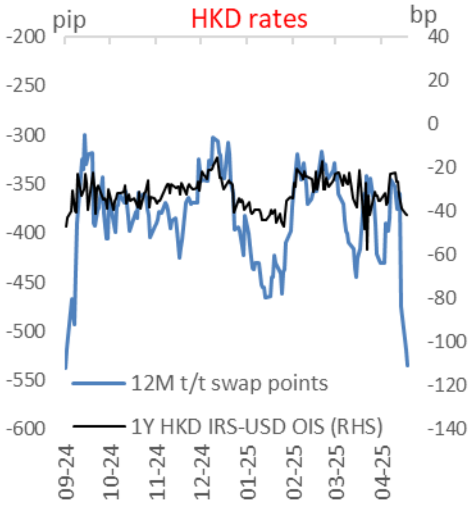
- **USD/AxJs. *Retracing From Stretched Decline.*** USD saw a slight bounce this morning as FX volatility eased and market liquidity gradually improved with the return of China (from holidays). Japan and Korea markets will reopen tomorrow. Markets will likely reassess trade talk optimism – if it has gotten ahead of itself. Some central banks, including Taiwan's CBC and HKMA have reportedly said that they have stepped into the FX market to smooth excessive volatility and slow the pace of appreciation in local currency. This morning, USDCNY fix was set at 7.2008, largely around the prior fix of 7.2014 (before China closed for holidays). The lack of follow-through in USDCNY fix to the downside dampened market enthusiasm. The fix also leaves the impression that Chinese policymakers prefer to pursue broad stability in FX. The absence of downside momentum in USDCNH has spillover effects onto other USD/AxJs including USDTWD. In a way, this may temporarily restrain the extent of decline in USDAxJs. On the day, MYR, SGD and TWD led losses vs. USD.

- **USDTWD. *Retracement.*** USDTWD spot rebounded, taking cues from the bounce in USDCNH, while market liquidity gradually normalises. CBC held an emergency press conference to address some questions with regards to TWD FX market. Governor Yang clarified that CBC did not participate in US-TW economic and trade working group and the US Treasury has not requested the appreciation of TWD. The Governor also urged market commentators not to speculate irresponsibly about the foreign exchange market as such comments can destabilise the market and potentially impact the broader economy. Separately, Taiwan's Office of Trade Negotiations said it had wrapped up the first round of tariff-reduction negotiations with the US last week. The talks did not touch upon the issue of FX policy. USDTWD spot was last at 30.18 levels. Bearish momentum on daily chart intact but RSI is deeply oversold. We continue to caution for risk of rebound. Resistance at 30.4 (50% fibo retracement of 2022 low to 2025 high). Support at 29.73 (61.8% fibo). More broadly, the momentum behind TWD strength can 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 near term, some calm should prevail and a mild rebound within range of 29.8 – 30.4 is not unexpected.

- **DXY. *Rebound Risk*.** DXY rebounded, alongside higher UST yields as ISM services surprised to the upside overnight. The recent sell-off in USDAxJ has also somewhat abated as FX volatility ease and market liquidity gradually improve. DXY was last at 99.81 levels. Daily momentum is bullish but recent rise in RSI slowed. Immediate resistance at 100 levels (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). A relatively resilient labour market (especially as NFP surprised with +177k increase), better than expected ISM services, new orders and renewed focus on price stability justifies the Fed to keep policy rate on hold at the upcoming FOMC (Thu).

- **USDSGD. *Consolidate.*** USDSGD rebounded this morning, tracking the rebound in USDCNH after daily USDCNY fix was set higher than expected. Pair was last at 1.2930 levels. Bearish momentum on daily chart intact but RSI rose from oversold conditions. Some retracement is likely. Resistance at 1.3020, 1.3160 levels. Support at 1.2910 levels 1.2890. With S$NEER trading near the upper bound of the band, we see fairly limited room for SGD to gain vs. some of its trade peers, including KRW, JPY could be plausible.

- **HKD rates**. 1Y and 2Y HKD IRS were offered down 8-10bps at open and back-end t/t points slid, upon HKMA FX intervention which adds to HKD liquidity. There was another round of FX intervention, bringing the total since Saturday to HKD116.61bn; all are settled on 7 May, by then the Aggregate Balance (interbank liquidity) will rise to HKD161.4bn (with minor adjustments in EFB interest payment) from 44.6bn before intervention. Additional HKD liquidity in the system may help buffer potential liquidity tightness at an upcoming IPO, dividend payout activities, and other potential inflows (including Southbound Stock Connect flows). Although history suggests that the extra liquidity could be shifted to EFBs (Exchange Fund Bills) at a later stage, the interbank liquidity will challenge our view for short-end HKD rates to underperform USD rates in the interim. The extra liquidity may also mean the recent compression at 1M-3M HIBOR is coming to a pause. Over the years, there were several periods of inflows into HKD, with more significant ones being year 2020 and late 2008-2009, at magnitude of HKD384bn and HKD646bn respectively, based on the changes in Aggregate Balance due to market activities (fund flows concept based on currency conversion). There were reasons behind each period of major inflows into HKD, including diversions of flows from the USD and equity-related inflows. HKMA had mopped up a lot of this liquidity by increasing issuances of EFBs upon demand for the paper, leaving Aggregate Balance at around HKD45bn level for an extended period – which was a relatively low level at which we had held the view that front-end HKD rates would be volatile and subject to spikes.



Source: Bloomberg, OCBC Research

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