Daily Market Outlook

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UST auctions and FOMC minutes in focus

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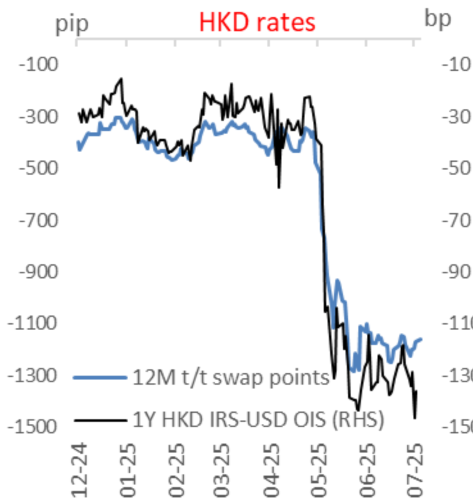
- **USD rates**. USTs stabilised in futures and cash markets in Asia morning, after the sell-off last Thursday. This week brings coupon bond auctions of 3Y, 10Y and 30Y tenors where the 30Y sales is the key test to market demand, more so given the passage of the One Big Beautiful Bill Act. At the front end, Fed funds futures pricings were little changed from before payroll release, as market has not been expecting a July rate cut; a total of 53bps of Fed funds rate cuts this year are priced, less dovish than our base-case of 75bps of cuts. But for 2026, market prices effective Fed funds rate at as low as 3.07% which corresponds to Fed funds rate target range of around 3.00-3.25%, a tad below our expected 3.25-3.50%. Lingering fiscal concerns on the one hand, bonds may benefit from safe haven flows ahead of 9 July tariff deadline. On balance, near-term range for 10Y UST yield is seen at 4.25-4.40%. On the calendar, this week's key releases are NY Fed inflation expectations, FOMC minutes and jobless claims. Given the divided FOMC, market will look for the rationale of the different dots and clues on the triggers for the next rate cut. The debt ceiling is raised, and hence US Treasury will be able to issue bills – after the previous bills paydown - to replenish its cash position. TGA balance stood at USD372bn as of 2 July, while US Treasury has a target of USD850bn.

- **GBP rates**. In GBP market, Gilt yields rebounded from intraday lows on Friday to end the day a tad higher. Speaking after market close on Friday, BoE's Taylor opined disinflationary forces are building this year and advised cutting rate further as an insurance against deteriorating demand. Taylor was one of the three dissidents who voted for a 25bp cut at the June MPC meeting. GBP OIS last priced 56bps of cuts for the rest of the year, in line with our base case of two 25bp cuts in the Bank Rate. Long-end bond/swap spreads edged lower last week amid fiscal concerns. Gilts at 20Y and beyond may be more responsive to fiscal news, while 10Y bond/swap spread at -54bps appear supporting of the bond.

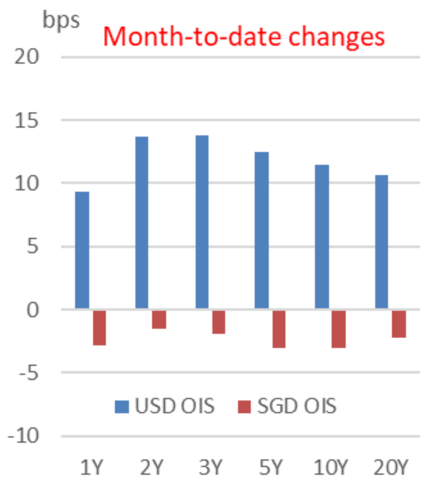
- **HKD rates**. Aggregate Balance (interbank liquidity) will fall to HKD114bn after last week's FX intervention which amounted to HKD49.6bn. Spot USD/HKD is still trading just below the topside of the band (1pip away from 7.8500 as of writing). T/n remaining at around -9pips and the still wide USD-HKD rate differentials continue to encourage carry trades; further FX intervention cannot



Source: Bloomberg, OCBC Research

be ruled out until more material increases in HKD interest rates happen. We wrote "we expect to see this process of carry trade pushing spot higher, triggering FX intervention which in turn pushes HKD rates higher to repeat itself in the periods ahead". Back-end forward points did not entirely follow HKD-USD rate spreads lower of late, with the 1Y implied HKD basis trading a tad higher. HKD rates may become more responsive to further FX intervention as aggregate balance falls to a lower level.

- **SGD rates**. SGD OIS have further outperformed USD OIS over recent days, resulting in yet more negative SGD-USD rates spreads. 2Y SGD OIS remains as the lowest point on the SORA OIS curve, reflecting expectation for the flush SGD liquidity to stay. Further out the curve, 1.5% is seen as the interim floor for rates. Last week's 6M T-bills cut off at 1.85%, 15bps lower than the cut-off at the 19 June auction, while during that period 6M implied SGD rate fell by around 22bps. This suggest that investors might have become slightly more reluctant to lock in the rate at lower levels. 2Y bond/swap spread (OIS – yield) was last at -27bps, a few bps below 1-year average. Asset-swap pick-up at long-end narrowed recently, last at around SOFR+38bps (before bid/offer spreads) at 10Y SGS and at around SOFR+40bps at 20Y SGS (10Y hedge); while recent movement is in line with our view that foreign investors may accept narrower pick-up, further narrowing may be less rapid from here.



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