GLOBAL MARKETS RESEARCH

Daily Market Outlook

7 May 2025

China support measures; Inflows into HKD

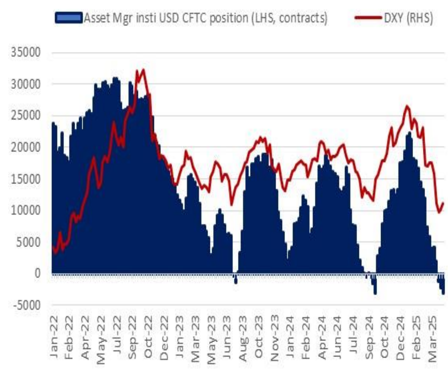
Frances Cheung, CFA
FX and Rates Strategy
FrancesCheung@ocbc.com

Christopher Wong
FX and Rates Strategy
ChristopherWong@ocbc.com

Global Markets Research and Strategy

- **USD rate**. UST yields edged lower overnight as the 10Y coupon bond auction was well received. The 10Y coupon bond sales garnered a bid/cover ratio of 2.600x, cutting off at 4.342% which was a tad below WI level; primary dealer accepted was low at 8.9% reflecting strong demand. UST yields fell after the auction results. There remains the USD25bn of 30Y coupon bond auction this week. Near-term range for 10Y UST yield is still seen at 4.28-4.41%, as market is consolidating with focus back to fundamentals and the usual supply-demand matrix. At the front end, FOMC 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. Fed funds futures last priced a total of 80bps of cuts by year-end, similar to our base-case of 75bps.

- **DXY. *Short Unwinding***. USD was broadly firmer against most FX ahead of FOMC tonight (2am SGT Thu). Earlier, Fed Chair Powell said the Fed could keep benchmark interest rate steady "to wait for greater clarity before considering any adjustment to our policy stance". He also said *their obligation is to keep longer-term inflation expectations well anchored to make certain that a one-time increase in the price level does not become an ongoing inflation problem.* More likely than not, we expect the Fed to repeat a similar message. 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. This morning, China MFA said that China Vice Premier He Lifeng is to meet with US Treasury secretary Scott Bessent and US Trade representative Jamieson Greer in Switzerland this week. This helped to support the tariff de-escalation narrative but it appeared that FX is not reacting too much to it. This could be due to pre-emptive moves ahead of the talks, a sign of fatigue or one of "buy the rumour, sell the fact". Nevertheless, USD shorts for asset managers are near 6-month record high. An unwinding of stretched USD shorts on any trigger should see a decent short squeeze in USD. DXY was last at 99.55 levels. Daily momentum remains bullish while RSI rose. Risks remains somewhat skewed to the upside. Immediate resistance at 100 levels (21 DMA), 100.80 (23.6% fibo retracement of 2025 peak to trough), 102.40 (50 DMA).



Source: Bloomberg, OCBC Research

Failing which, DXY may revert to trading the range near recent lows. Support at 99.20, 98.90 levels.

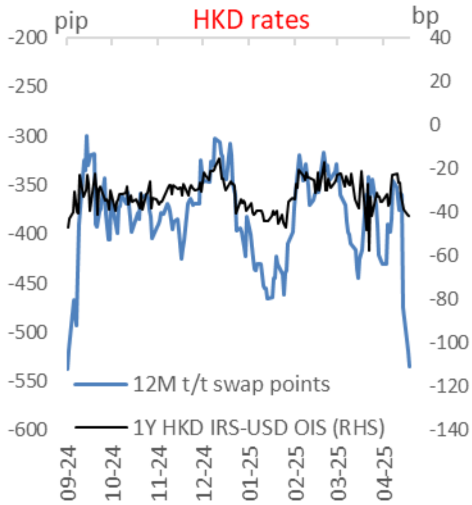
- **CHFJPY. *Short Bias.*** Long CHF (safe haven proxy) position should have room to unwind if the de-escalation narrative further gains traction. Also, CHF has appreciated quite significantly and SNB has increasingly turned more vocal about its currency strength, not just against the USD but also from a trade-weighted perspective. While it is a standard protocol for SNB to say that they are "ready to intervene in the FX market if that is necessary for price stability", the SNB this time went further to add that they have not ruled out taking the policy rate to zero or even negative, with regards to the June meeting. SNB policy rate is currently at 0.25% and the markets have already shifted to price in negative rates. SNB is not new to a negative rate regime as they did cut rate to -0.75% in Jan 2015. Moreover, macroeconomic conditions do allow them to cut rates. Inflation has already fallen to a 4-year low of 0%, while PMI survey shows the manufacturing sector is in contractionary territory. One may not want to underestimate the extent of SNB's ability to manoeuvre monetary policy or even conduct FX intervention. On the other side of the equation, we prefer to stick to long JPY, as BoJ policy normalisation still lean towards hiking rates, although the timing may be deferred somewhat. On net, policy divergence between SNB-BoJ may still underpin the direction of travel to the downside. This trade idea was first shared in our FX Weekly published on 5 May. Cross was last at 173.40. Bearish momentum on daily chart intact those decline in RSI shows tentative signs of moderation. Resistance at 173.90 (21 DMA), 174.40 (61.8% fibo retracement of 2024 high to low) and 176.60 (76.4% fibo). Support at 172.69 (50% fibo), 171 levels (50, 100, DMAs).

- **USDSGD. *Rebound Risk.*** USDSGD attempted to go lower but the momentum seems to have stalled, even with the news that China Vice Premier He Lifeng will meet with US Treasury secretary Scott Bessent and US Trade representative Jamieson Greer in Switzerland this week. The same price action of USD rebound appears to be seen across a range of currencies including JPY, CHF and THB. Pair was last at 1.2914. Bearish momentum on daily chart intact but RSI is rising from oversold conditions. Rebound likely. Resistance at 1.3020, 1.3160 levels. Support at 1.2910 levels 1.2890. S$NEER last seen around 1.74% above model-implied mid.

- **CNY rates.** 1Y repo-IRS were offered down 3bps in reaction to RRR and interest rate cuts. PBoC announced a 50bp RRR cut, and a 10bp cut in key interest rates, together with other support measures on Wednesday morning. OMO 7-day reverse repo rate is cut to 1.40% from 1.5% effective 8 May. Some loan rates to fund property purchases will be cut by a bigger magnitude. On liquidity, PBoC has been using a combination of tools to support liquidity, as special

CGBs come to the market. Last month it was MLF, and now the long-awaited RRR cut which should be welcomed by the market. We expect this week's reopening of the 30Y special CGB to be well received. But today's announcement is more than that, representing an orchestrated effort to not only support liquidity, but to stimulate the broader market and economy. Hence, any downside to long-end CGB yields may be limited. At the short-end, bond/swap spreads (yield – repo-IRS) have been moving up steadily since the start of the year, which may provide room for bond yield to at least follow IRS lower, if not outperform. Taking together, we have a mild steepening bias on the CGB curve.

- **HKD rates**. The RRR and interest rate cuts announced by PBoC, together with other support measures, may sustain inflows into the HKD market. Net-buy under Southbound Stock Connect amounted to HKD13.5bn on Tuesday after the long holidays; this followed three months of relatively big inflows. Although HKD IRS-USD OIS spreads have fallen a lot over the past days, a reversal may not be in sight yet, given potential inflows and risk of further liquidity injection should there be more FX intervention. On balance, we are neutral HKD-USD rates spreads at current level, as inflows may meet with FX intervention when spot is still trading near strong side convertibility undertaking. HIBORs were fixed sharply lower on Tuesday as Hong Kong returned from holidays, upon the additional liquidity brought about by FX intervention (albeit with settlement on the follow day only), compounded by the passing of month-end/long weekend. Today marked another day of materially lower HIBOR fixings. Back-end t/t points collapsed; 12M was last at -700pips with 12M forward outright at 7.6833, far away from 7.7500 level. The 12M points deviated from 1Y HKD IRS-USD OIS differentials but such deviation is not overly stretched and may be maintained; intra-day on Tuesday, the 1Y implied HKD basis was at one point below -30bps versus direct quote at around -17bps (not a very liquid market though). Some of these deviations have since been corrected; 1Y HKD basis was last quoted at -22/-13bps versus implied basis at -21bps which is not overly suppressed given LHS pressure in some other Asian basis as well.



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