Daily Market Outlook

8 May 2025

FOMC No Surprise; BoE Next to Watch

- **USD rates**. Long-end UST yields edged lower while short-end yields ended NY session little changed, as FOMC kept rate on hold and Powell reiterated the Committee is in no hurry but mentioned risks to growth/unemployment and inflation. Yields fell running into the FOMC decision and rebounded mildly from session lows afterwards. Market pared back rate cuts expectation slightly to 77bps from 81bps, and a 25bp cut by July FOMC meeting was no longer fully priced. There is not much to be taken from the FOMC statement which was almost the same as the previous one; it continued to opine that "economic activity has continued to expand at a solid pace. The unemployment rate has stabilised at a low level in recent months, and the labor market conditions remain solid. Inflation remains somewhat elevated". Market is likely to stay sensitive to the data, as the Fed also remains highly data dependent. There are initial jobless claims and Q1 unit labour costs tonight, followed by April CPI next week. 2s10s UST at 50bps is roughly what we have been seeing as fair if market continue to trade on fundamentals. Range for 10Y UST yield remains at 4.28-4.41%.

- **GBP rates**. Gilts rallied on Wednesday, ahead of BoE decision tonight. Consensus and our call are for a 25bp cut in Bank Rate, which is also fully priced in by GBP OIS. Our base-case has been for one quarter-point cut in each quarter, which will be consistent with the gradual and careful approach. However, we watch for any additional dovishness which may point to the possibility of back-to-back rate cuts. One indicator will be the split of votes. Back at the February meeting, there were two votes for a 50bp cut; if there are again vote(s) for a 50bp cut, then market may take it as pointing to a higher chance for another cut at the June meeting. Another focus will be the QT plan, although they may not necessarily update the plan at this meeting. BoE already replaced the sales of long maturity bonds with short maturity bonds at the auction on 14 April; the Bank said to reschedule long maturity auction to the following quarter – next update is due on 20 June. We suspect they may not add back the long maturity bond sales as if they did that would mean two long maturity bond sales in one quarter.

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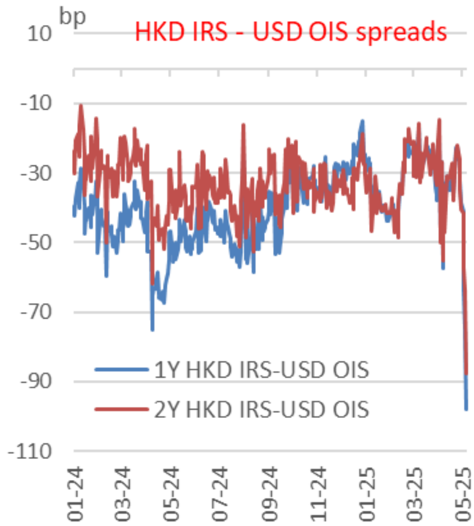
- **DXY. *Mixed Play*.** USD traded mixed, with gains more pronounced vs. MYR and KRW this morning while USD stayed soft vs AUD, NZD and GBP. NYT reported that Trump is expected to announce trade deal with Britain. This saw a bounce in GBP and some major FX. Elsewhere, higher than expected USDCNH fix this morning dampened the USDAxJ selloff momentum and provided a bid tone for most USDAxJs. To add, FOMC outcome was no surprise. Fed Chair Powell said that "if the large increases in tariffs that have been announced and sustained, they're likely to generate a rise in inflation, a slowdown in economic growth, and an increase in unemployment". He reinforced patience and said "we don't feel like we need to be in a hurry". He also added that when things develop, they can "move quickly when that's appropriate". DXY was last at 99.66 levels. Daily momentum remains bullish while RSI rose. Risks remains somewhat skewed to the upside. Resistance at 100.20 levels, 100.80 (23.6% fibo retracement of 2025 peak to trough) and 102.40 (50 DMA). Failing which, DXY may revert to trading the range near recent lows. Support at 99.20, 98.90 levels. Elsewhere, we continue to pay close attention to the US-China meeting (China Vice Premier He Lifeng to meet with US Treasury secretary Scott Bessent and US Trade representative Jamieson Greer) in Switzerland.

- **USDSGD. *Rebound Risk.*** USDSGD rebounded, tracking the mild rebound in USDAxJ. FOMC outcome was no surprise, while USDCNY fixing came in higher than expected. Pair was last at 1.2945. Bearish momentum on daily chart shows signs of fading while RSI rose from oversold conditions. Rebound underway. Resistance at 1.3020, 1.3080 (21 DMA). Support at 1.2910 levels 1.2890. S$NEER last seen around 1.65% above model-implied mid.

- **USDMYR. *Rebound Underway; BNM MPC Today.*** MYR had its fair share of the recent wave of AxJ appreciation, rising 5.5% YTD as of 7 May (vs USD). But the MYR was not alone and the gains were largely in line with other regional FX including SGD and KRW. Broad USD sell-off was a key driver alongside signs of tariff de-escalation. Hopes of a US-China dialogue and signs of progress on possible trade deals (US may announce deal with Britain soon) further supported the de-escalation narrative. This in turn helped to stabilise sentiments, aiding the rebound in procyclical FX including MYR. The overshoot in MYR to under 4.20 at one point earlier this week was also partially exacerbated by thin market liquidity. We continue to expect some calm to be restored as market liquidity gradually return, while relative stability in USDCNY fix somewhat helped to anchor sentiments. Unless we get a fresh leg down in USD, we should expect USDMYR to consolidate. Other triggers to watch include the US-China meeting in Switzerland this week, BNM MPC (today), overall USD trend and US-Malaysia trade talks in mid-May. Pair was last at 4.2660. Bearish momentum on daily chart shows signs of fading while RSI rose. Rebound risks likely.

Resistance here at 4.26/4.27 levels (61.8% fibo retracement of 2024 low to 2025 high), 4.29 and 4.31 levels (50% fibo). Support at 4.2250, 4.19 levels (recent low). BNM MPC today – our Economist expects BNM to keep its policy rate unchanged at 3.00% but policymakers could sound more dovish alluding to downside risks to growth and uncertainties on the external front.

- **HKD rates**. HKD IRS fell again across the curve, with 1Y and 2Y IRS down by 23-25bps thus far this morning. Back-end forward points slid further; we noted at one point on Tuesday, back-end points deviated from interest rates differentials by a relatively wide margin; but as HKD IRS have played catch-up in the downward move, this deviation has narrowed. 1Y implied HKD rate was last at 2.79% versus 1Y HKD IRS at 2.92%, implying 1Y HKD basis at -13bps which was within range. That said, 12M forward outright at 7.6786 may look a bit stretched compared to strong-side convertibility undertaking of 7.7500. Upon another leg lower in HKD rates, HKD-USD rates spreads fell to yet more negative levels. 1Y HKD IRS-USD OIS fell to -98bps, which was 7.5 standard deviation below 6-month average; 2Y HKD IRS USD OIS was at -53bps, 6.5 standard deviation from 6-month average. Yesterday we wrote "over a multi-month horizon, we have an upward bias to short-end USD-USD rates spreads". At current levels, a reversal in the spread moves may happen sooner than expected. Prospects remain for continued inflows into the HKD market, amid a strong IPO pipeline. CSRC said REITS would be included in Stock Connect. Meanwhile, the dividend payout season is expected to being in late May.



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