Daily Market Outlook

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US Treasury Refunding; SGS and MAS Bills Auctions

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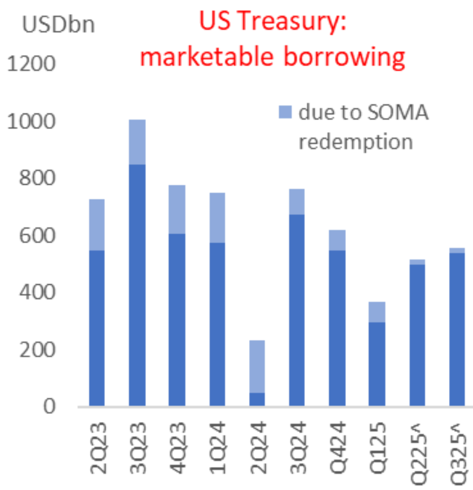
- **USD rates.** Short-end USTs rallied by 5bps while long-end bonds were little changed, as market added to rate cuts expectation. Fed funds futures last priced a total of 92bps of cuts for this year, with the chance of a 25bp cut by the June FOMC meeting seen at 67%. These pricings appear dovish enough at this juncture, which may limit further downside to short-end yields near-term. At the longer end, 10Y real yield has fallen further to 1.95%; the downward momentum may also become slower which hinges on a lower term premium. US Treasury Quarterly Refunding estimates were out overnight. Estimated borrowing for Q2 is revised up to USD514bn from USD123bn, but that was primarily because of below-target issuances in Q1 constrained by the debt ceiling leading to lower cash balances. Excluding this effect, Q2 borrowing is USD53bn lower than previous estimate. Taking Q1 and Q2 together, borrowing (including estimates) are USD55bn lower than previous estimates, roughly equalling the USD60bn impact of the slower QT pace. Next to watch is individual auction sizes to be announced on Wednesday; given latest refunding estimates, there is flexibility to keep auction sizes unchanged. Near-term range for 10Y UST yield is seen at 4.06-4.34%, but 4.20% level appears to be a firm resistance for the bond; our quarter-end forecast stays at 4.05%. March JOLTS data and Conference Board Survey are out tonight.



Source: US Treasury, OCBC Research
^estimates by US Treasury

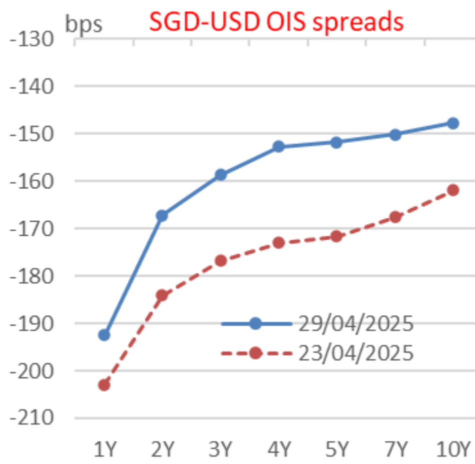
- **DXY.** ***Mixed.*** Tariff developments remain fluid even if we are in a de-escalation phase. Trump/Bessent continued to speak about how “all aspects” of the US government are in contact with China regarding trade even as Beijing denied the existence of negotiations. It appears that the US is still waiting for China to make the first official move to de-escalate. In an overnight interview with CNBC, Bessent said “As I’ve repeatedly said, I believe it’s up to China to de-escalate because they sell five times more to us than we sell to them, so these 125% tariffs are unsustainable”. He also added that “the Chinese exempting some goods from tariffs indicates they are interested in reducing tensions”. Bessent further said that he has “an escalation ladder in my back pocket and we’re very anxious not to have to use it… Escalation could include an embargo”. It remains uncertain how China views Bessent’s recent remarks. But a stand-off in de-escalating tariff tensions can also result in higher volatility if either party decides not to play ball. This implies that safe-haven proxies, including JPY, CHF and gold may strengthen at the expense of further USD sell-off. DXY was last at 99.20 levels.

Bearish momentum on daily chart faded but recent rise in RSI has slowed and started to exhibit signs of falling. Renewed USD softness cannot be ruled out. More importantly, the recent lows at 98 levels is key. Decisive break below may open another round of decline for DXY. Next support at 97.50, 96.90 levels before 95.50. Resistance at 99.80, 100.80/101 levels (23.6% fibo retracement of 2025 peak to trough, 21 DMA). Focus this week on JOLTS jobs openings (Tue); ADP employment, core PCE, 1Q GDP (Wed); US ISM mfg (Thu) and US NFP (Fri). This morning, USD traded mixed with strength pronounced against CHF, NZD and precious metals but USD traded softer vs. AxJ FX. In particular, RMB-proxy THB and MYR led gains. Firmer RMB, following the lower-than-expected USDCNY daily fix (lowest since 7 Apr), chatters of Chinese exporters increasing the pace of USD conversion to RMB and mild USD softness were some of the triggers. Elsewhere, we caution that month-end USD rebalancing flows this week may also distort FX price action.

- **EURUSD. *Watch Price Action.*** EUR drifted lower after rising to >3Y high of 1.1570 levels last week. De-escalation in tariff angst somewhat slowed USD’s decline and helped to moderate the pace of rally in EUR. To add, ECB rhetoric also turned more dovish. ECB’s Villeroy said that inflation risks seem to have abated, and that ECB can respond quickly to new data. Rehn said that he sees downside risks to the region’s inflation outlook and that the value of EUR is important in assessing policy. He earlier added that ECB should keep lowering interest rate at its next meeting in June if forecasts show eurozone inflation falling below the ECB’s 2% target. He also said that ECB should not rule out larger interest rate cuts. Knot also said that “In the short term, it’s 100% clear that the demand shock will dominate, so inflation will go down”. ECB Chief Economist Lane said that there is no reason to say that a 25bp move is always the default although he would not pre-commit to any rate path. He also warned that EUR’s strength is weighing on the region’s economic recovery via disinflation. On the other hand, Kazaks said ECB should only lower rates into accommodative territory if growth outlook deteriorates much further. He added that while US tariff policies may slow down inflation and even cause a recession, visibility about the next developments is low and cutting too much would squander policy space. EUR was last seen at 1.1390 levels. Daily momentum is flat while recent decline in RSI showed tentative signs of slowing. 2-way trades likely as we watch for signs of breakout/rejection. Resistance at 1.1490, 1.1570 levels (recent high). Decisive break out of recent high should see another leg higher in EUR towards 1.17 levels. However, failure to break out may point to an interim bearish reversal (as head and shoulders pattern may play out). Support at 1.1280, 1.1200/35 (21 DMA, 23.6% fibo retracement of 2025 low to high) before 1.11, 1.1030 levels (38.2% fibo). Focus this week on 1Q GDP (Wed); CPI estimate (Fri).

- **USDSGD. *Price Action Dictates.*** The recent rebound in USDSGD seems short-lived as USD weakness resumed amid concerns that tariff de-escalation may fail to find momentum. Bessent's overnight interview on CNBC mentioned "an escalation ladder in my back pocket and we're very anxious not to have to use it… Escalation could include an embargo". Such threats could lead to renewed stand-off and demand for safe haven (including SGD, JPY, CHF and gold). Pair was last at 1.3080 levels. Bearish momentum on daily chart is fading but recent rise in RSI moderated and is showing signs of falling again. 2-way risks from here. Support at 1.3010 levels (76.4% fibo retracement of 2024 low to 2025 high), 1.2960 levels. Break below these key support levels may point to another leg lower for USDSGD towards 1.2790 (2024 low). Resistance at 1.3160 (61.8% fibo), 1.32 levels. S$NEER was last at 1.41% above model implied midpoint.

- **SGD rates**. Monday's 30Y Green SGS sales garnered a bid/cover ratio of 1.84x, cutting off at 2.62%; average yield was 2.50%. The auction was solid, but not as strong as we had expected. While we did put down an indicative range of 2.62-2.65% for the cut-off expectation, that was with reference to 24 April's market levels; bonds had rallied since 24 April going into yesterday's auction. The cut-off of 2.62% came in above market level. 30Y yield rose by around 5-6bps upon the auction result. Nevertheless, bond/swap spreads have stayed supportive of SGS. Asset swap pick-up was last at around SOFR+50bps (before bid/offer spreads) at 5Y SGS, at around SOFR+65bps at 10Y SGS, and at around SOFR+75 at 20 SGS (using 10Y hedge). SGD OIS were little changed over the past week, underperforming USD rates after an extended period of outperformance. SGD-USD OIS spreads became slightly less negative as a result. Short-end SGD-USD OIS spreads are still very negative compared to historical pattern, while the SGD SORA OIS curve itself exhibits a deep V shape with 2Y and 3Y rates staying as the lowest points. We see chance for 2Y and 3Y SGD OIS to bottom out. There are 4W, 12W and 36W MAS bills auctions today. 1M and 3M implied SGD rates were trading at 2.35% and 2.27% respectively this morning, where were around 4-6bps below the levels a week ago. We do not expect cut-offs to match the falls; see 4W cut-off at 2.42-2.46% and 12W cut-off at 2.44-2.48%.



Source: Bloomberg, OCBC Research

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