

Daily Market Outlook

Rates Catch Breath

- **Rates Catch Breath:** Relief in European bonds helped calm global rate volatility, supporting EUR and EM carry trades. Focus now shifts to the FOMC minutes, which should reveal how united policymakers are behind further tightening and how quickly they want to move.
- **USD: Gains Capped?:** The USD's structural support remains intact, but near-term upside looks more limited. Softer labour market trends, easing wage pressures and a less hawkish Fed narrative could prompt markets to dial back overly aggressive rate hike expectations.
- **KRW firmed,** helped by exporter USD supply. Softer USD, yields and oil may allow further gains, though persistent equity outflows may restrain gains.

Sim Moh Siong

FX Strategist

(G10 & oil)

Christopher Wong

FX Strategist

(Asia & precious metals)

Rates Catch Breath: Interest rate volatility eased overnight as global bond markets found relief from the recent selloff. French government bonds led the rebound, with the OAT-Bund spread tightening by around 10bp as investors pared back some of the political risk premium embedded in French assets.

The EUR edged higher, while safe-haven CHF underperformed after Marine Le Pen, the leader of France's main opposition party and the frontrunner for the 2027 presidential election, reiterated her commitment to fiscal discipline and pledged to reduce France's budget deficit below 3% of GDP. However, markets remain sceptical. Once higher debt-servicing costs are taken into account, achieving that target would likely require fiscal consolidation of roughly 3% of GDP over two years, raising questions about both the credibility of the plan and its potential impact on economic growth.

The pullback in global yields also provided relief for EM carry trades, which had come under pressure from the recent surge in US Treasury yields. With Treasuries rallying alongside European bonds, lower rate volatility helped stabilise risk appetite, allowing high-yielding currencies such as MXN and ZAR to outperform.

Oil prices initially softened as exports from the Persian Gulf improved, but later recovered on renewed geopolitical concerns. Meanwhile, recent Fed commentary continues to point to a tightening bias,

although some members are less comfortable with a quick pace of tightening.

San Francisco Fed President Mary Daly said additional rate hikes will depend on whether inflationary shocks from tariffs, higher energy prices and AI-related demand pressures prove temporary or more persistent. She warned that these factors could reinforce one another and keep inflation elevated for longer. Reuters also reported that Daly sees AI-driven supply constraints as a potential source of persistent inflation pressure.

Separately, Kansas City Fed President Jeff Schmid stressed that the Fed's credibility remains tied to its commitment to restoring price stability. Against this backdrop, the upcoming FOMC minutes will be closely watched for clues on the degree of support for further tightening and whether policymakers favour a gradual approach or a faster pace of rate increases.

USD: Gains Capped?: We continue to expect the USD to remain supported by the US economy's strong exposure to the technology and AI sectors, which have helped sustain growth and productivity. However, after the recent rally, we are becoming more cautious on the scope for further near-term USD gains.

Recent Fed communication has pointed to a more patient and data-dependent approach to further tightening, even as policymakers remain focused on inflation. Markets are still pricing slightly more than three Fed rate hikes over the next 12 months, which appears aggressive given the emerging signs of labour market moderation. Recent employment data suggest hiring momentum is slowing and wage growth is easing, reducing the risk of persistent wage-driven inflation.

If upcoming inflation data confirm that underlying price pressures remain contained, investors may begin to scale back expectations for additional Fed tightening. That could remove an important source of support for the USD. Moreover, higher long-term Treasury yields have already tightened financial conditions significantly, reducing the need for the Fed to do all the heavy lifting through policy rates. With financial conditions doing more of the tightening work, the hurdle for further significant Fed hikes remains high.

Asian FX. Breather. The external backdrop has turned somewhat more supportive for Asian FX overnight, with the USD and US Treasury yields easing from recent highs while Brent fell to below USD100/bbl as Middle East crude exports recovered and supply concerns eased. This should provide some near-term relief for the region's net oil importers,

including THB, PHP and IDR, which have faced pressure from the combination of higher energy costs, elevated US Treasury yields and a firmer USD.

Near term, there may be room for some catch-up gains, particularly given relatively bearish positioning in these currencies. However, a more sustained Asian FX recovery would likely require the pullback in oil and US Treasury yields to extend. In particular, we would keep a close watch on upcoming treasury auction this week, including 10y on Thu and 30y on Fri, for protentional implications on US Treasury yields, USD.

USDKRW. Downside risks. USDKRW continued to trade heavy. Market chatters of exporter dollar selling provided some support, while importer demand and continued foreign equity outflows partially capped the currency's gains. Foreign investors sold around USD1.2bn of Korean equities.

On the policy front, Finance Minister Lee Hyoung-il said the government would work actively to stabilise the FX market amid uncertainty stemming from the Middle East conflict and monetary policy in major economies. He also reiterated plans to push ahead with the internationalisation of the won and lower barriers to foreign investment.

The external backdrop has turned somewhat more supportive overnight, with the USD, US Treasury yields and oil easing. Near term, this could allow USDKRW to extend lower, particularly if exporter dollar supply persists. However, continued foreign equity outflows remain a constraint, with upcoming technology earnings an important test of foreign investor sentiment.

Pair was last at 1339 levels. Bullish momentum on daily chart faded while RSI fell. Risks skewed to the downside. Next support at 1333 (2026 low), 1320 levels. Resistance at 1350, 1357 (21 DMA).

Technical Levels Table

	EURUSD	USDJPY	GBPUSD	USDCHF	AUDUSD	NZDUSD	USDCAD	XAUUSD	USDSGD	USDPHP	USDINR
Resistance 3	1.1394	159.00	1.3424	0.8372	0.7034	0.5691	1.4389	4310	1.2850	63.27	96.65
Resistance 2	1.1320	158.52	1.3339	0.8343	0.7006	0.5652	1.4311	4231	1.2816	63.00	96.53
Resistance 1	1.1290	158.31	1.3308	0.8330	0.6994	0.5638	1.4260	4197	1.2795	62.89	96.48
Spot	1.1256	158.26	1.3271	0.8323	0.6981	0.5625	1.4212	4168	1.2777	62.78	96.43
Support 1	1.1216	157.83	1.3223	0.8301	0.6966	0.5599	1.4182	4118	1.2761	62.63	96.35
Support 2	1.1172	157.56	1.3169	0.8285	0.6950	0.5574	1.4155	4072	1.2748	62.48	96.27
Support 3	1.1098	157.08	1.3084	0.8256	0.6922	0.5535	1.4077	3992	1.2714	62.21	96.14
Bollinger Band											
Bollinger Upper	1.1640	159.79	1.3536	0.8384	0.7202	0.5817	1.4353	4421	1.2834	62.91	96.68
Bollinger Lower	1.1168	154.02	1.3116	0.8133	0.6898	0.5560	1.3819	4083	1.2687	62.46	94.81

Source: Bloomberg, OCBC Group Research. Potential resistance and support levels are identified based on pivot points

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