GLOBAL MARKETS RESEARCH

Interest Rates Monthly

22 April 2025

Key themes taking turns to dominate interest rates markets

- **USD rates**. A few key themes have been taking turns to dominate the interest rates market: inflation worries versus growth concerns, and liquidation demand versus risk of more rapid structural shifts away from USD assets. Near-term, investors may look to reduce duration amid policy uncertainties. Swap spreads stayed near the lows attained days after the 2 April announcement of reciprocal tariffs, suggesting the recent stabilization in the bond market failed to gain further traction. On FOMC outlook, we have argued our base-case for three 25bp Fed funds rate cuts this year reflects a no-recession scenario. We see risks to our base-case in terms of quantum and of timing.

- **EUR rates**. Bunds outperformed USTs across the curve over the past month, and markets added to ECB rate cuts expectations. Lagarde appeared open to cutting rates to below neutral levels. We expect additional 50bps of cuts, i.e. a terminal rate of 1.75%. Asset swap pick-up (from USD-funded perspective) has narrowed of late; still, if there is any further liquidation from USD assets, long-end Bunds may continue to benefit.

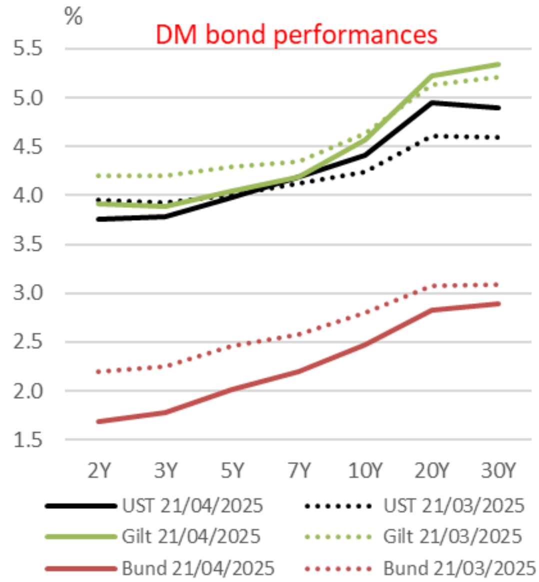
- **AUD rates.** Given a more subdued growth outlook amid uncertain impact of tariffs, and that underlying inflation is moderating, we have added rate cuts to our expected profile, now expecting a total of 50bps of cuts for the rest of the year. This view remains less dovish than market pricing.

- **SGD rates**. SGD rates extended their outperformances against USD rates in the past month, having fallen more than USD rates did. While chasing 2Y and 3Y SORA OIS lower is not preferred, SGS and bills may benefit from safe-haven flows. Current bond/swap spreads and asset swap pick-up are also supportive of SGS.

- **RMB rates**. CNH liquidity is flush, amid Southbound flows, lack of biding interest at front-end, low supply of CNH papers, and possibly as a reflection of relatively tight USD liquidity. Some of these dynamics may be changing, which may point to more limited downside to front-end CNH rates from current levels.

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

Global Markets Research and Strategy



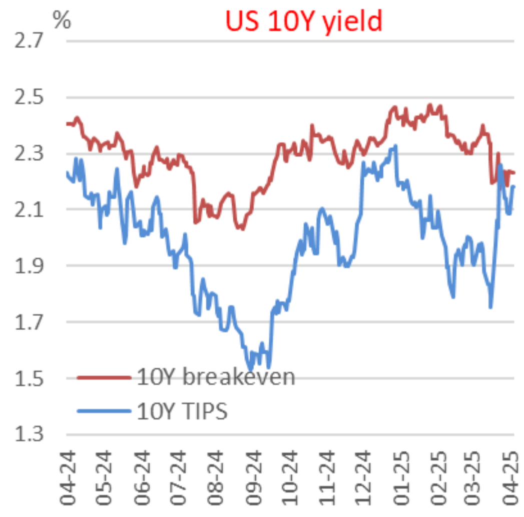
Source: Bloomberg, OCBC Research

USD:

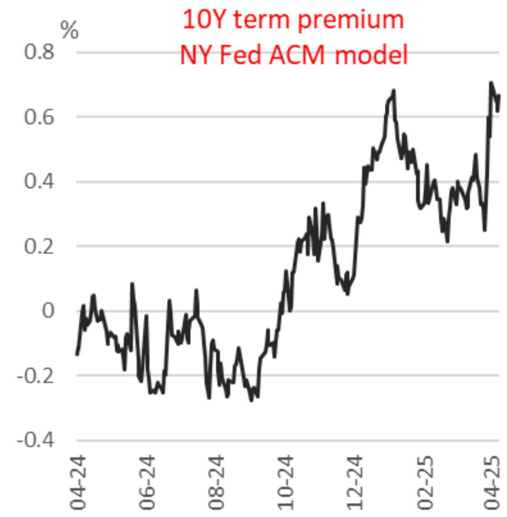
USTs and USD rates movements have been volatile as a few key themes have been taking turns to dominate the market: inflation worries versus growth concerns, and liquidation demand versus risk of more rapid structural shifts away from USD assets. At this point in time, we do not jump to the conclusion that the recent sell-off in USTs represented or would develop into a much more rapid asset re-allocation away from USD assets. The gradual diversification of reserves by central banks has been a slow process. Over the years, foreign holdings of US Treasury securities as a % of total outstanding, and official sector holdings to total foreign holdings have already been falling. That said, even without a sudden pick-up in these shifts, investors may look to reduce duration near-term amid policy uncertainties with concerns over US fiscal positions and Fed independence.

10Y yield and swap spreads. 10Y real yield last at around 2.2% level appears somewhat elevated compared to the growth outlook, but the term premium is at play. Real yield needs to fall to push 10Y UST yield lower – this may happen if markets re-focus on the theme of inflation and growth impact of tariff. 10Y swap spread (OIS – yield) slid to -60bps earlier in the month matching 2016 lows. Swap spreads had edged up before moving back to near the lows attained days after the 2 April announcement of reciprocal tariffs, suggesting the recent stabilisation in the bond market failed to gain further traction. Exemption of USTs from SLR has been called for and under discussion for some time – the move higher in swap spreads earlier in the year was in response to such expectations. 10Y swap spread was last at -57bps; was above -40bps at one point in February with expectations of SLR de-regulation; was as high as around the -20bps area when USTs were temporary exempted during 2020/21. Whether or not long-end USTs will be supported to such extent remains to be seen, given the different economic environment and financial conditions. Nevertheless, these historical spreads put things into perspective. Near-term range for 10Y UST yield is seen at 4.22%-4.52%. On our 1-year forecast horizon, we maintain a downward bias to UST yields.

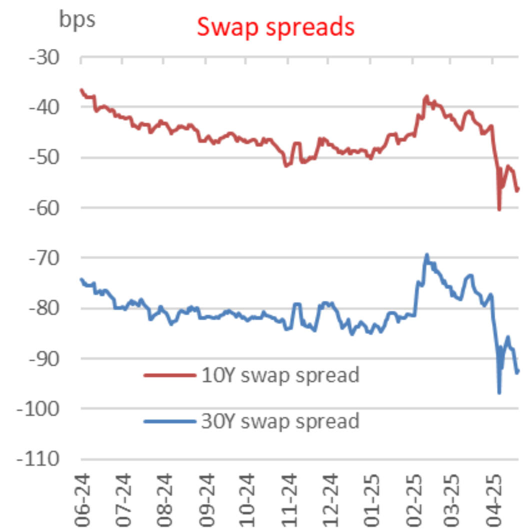
FOMC outlook. Compared to a month ago, Fed funds futures have added to rate cuts expectation, last pricing a total of 92bps of cuts for this year with the chance of a 25bp cut at the June FOMC meeting seen at 74%. We have argued our base-case for three 25bp Fed funds rate cuts this year reflects a no-recession scenario. We are of the view that triggers for rate cuts will likely need to come from the labour market/growth front; continued cooling in the labour market will justify rates at less restrictive levels as long as there is no strong rebound in inflation. We have pencilled in one 25bp



Source: Bloomberg, OCBC Research



Source: Bloomberg, OCBC Research

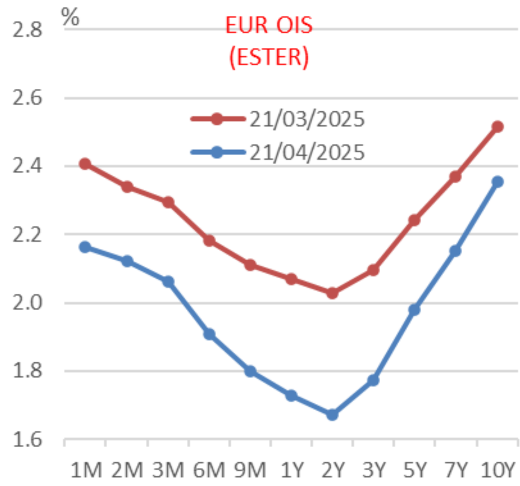


Source: Bloomberg, OCBC Research

Fed funds rate cut in each of Q2, Q3 and Q4 2025. We see two risks to our base-case, in terms of the quantum (to the upside should US growth deteriorate more than expected) and of timing. There may be delays in rate cuts if the inflation impact of tariff is reflected in the data sooner than the growth impact, given the dramatically high tariff rates to start with and the FOMC is data dependent. Should there be a delay in rate cuts compared to market and our expectation, chance is that the Fed may need to play some catch-up in the second half of the year.

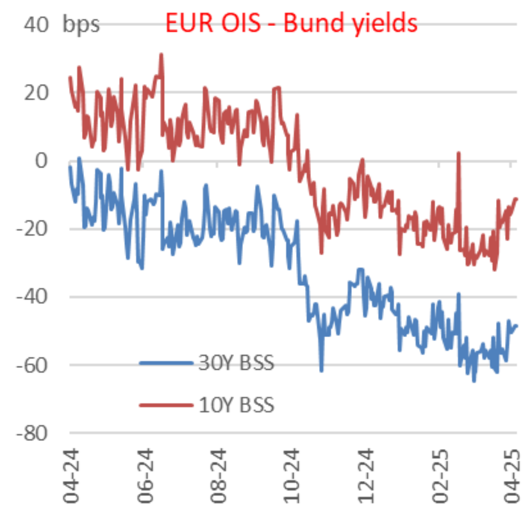
EUR:

Bunds rallied and EUR OIS added to rate cuts expectations, after ECB decided to lower the three key ECB rates by 25bps at the April meeting. The statement and Lagarde's Q&A sounded dovish overall; **Lagarde appeared open to cutting rates to below neutral levels**. 1/ The statement dropped the word "restrictive" entirely – before Lagarde's explanation at the Q&A, this could have meant rates are now roughly at neutral levels i.e. less room for further rate cuts. But Lagarde explained that the neutral rate "is a concept that works for a shock-free world" and we are not in a shock-free world. Interpretation can then be that rates could be cut to below neutral levels, and the market is pricing in this scenario. 2/ This expectation is further underlined by the assessment that "downside risks to economic growth have increased" upon major escalation in global trade tensions and associated uncertainties. 3/ Meanwhile, the inflation outlook is sanguine, as "the disinflation process is well on track". In addition, the Statement cited a few factors for the downward pressure on inflation, namely falling global energy prices, appreciation of the euro, and a re-routing of exports into the euro area from countries with overcapacity. 4/ Lagarde emphasized "readiness" and "agility" when it comes to monetary policy stance/decision. At this juncture, these attributes are interpreted to be on the dovish side.



Source: Bloomberg, OCBC Research

We have been of the view that the ECB is getting near the end of the cycle, but we also wrote that a terminal rate that is below 2% level "reflects more of a weak growth/recession driven rate-cutting cycle rather than monetary policy normalisation, which may be justified should the economy weaken by more than expected". Now, with heightened downside risks to growth, **we expect an additional 50bps of cuts, i.e. a terminal rate of 1.75%.** EUR OIS last priced 65bps of cuts before year-end.



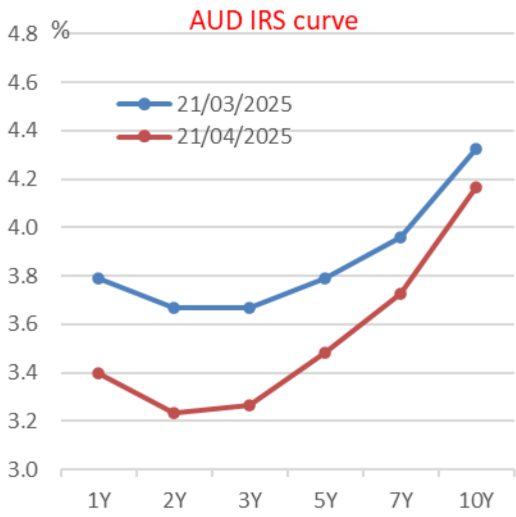
Source: Bloomberg, OCBC Research

Bunds outperformed USTs across the curve over the past month, upon a combination of domestic factors (slower growth prospects) and possibly upon asset re-allocation flows. Bond/swap spreads (EUR OIS – Bund yield) corrected higher over the past month, as we wrote in our Interest Rates Monthly last month "the recent movements in bond/swap spreads helped raise asset swap pick-up at Bunds especially at the long end, offsetting the earlier upward move in EUR basis. Long-end Bunds may start to find some support at current levels." Asset swap pick-up (from USD-funded perspective) has since narrowed as a result, which was not particularly attractive at the 2Y and 10Y; better at longer tenors. If there is any further liquidation from USD assets, long-end Bunds may still benefit.

Interest rates forecasts	Q225	Q325	Q425	Q126
ECB Depo	2.00	1.75	1.75	1.75
1M EURIBOR	1.98	1.75	1.75	1.75
3M EURIBOR	2.00	1.80	1.80	1.80

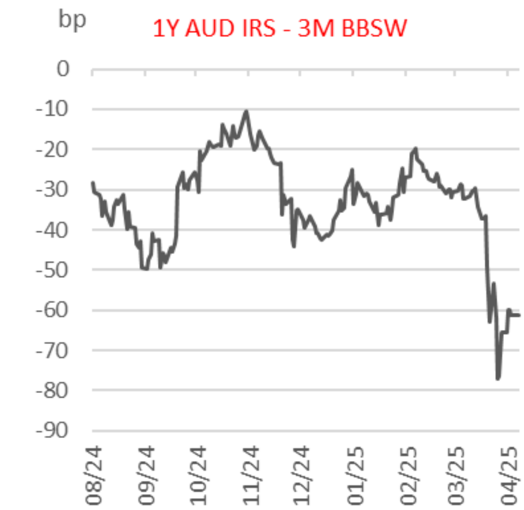
AUD:

Short-end ACGBs rallied by around 40bps over the past month, as market added to rate cuts expectation. Cash Rate futures last priced 30bps of cuts at the May meeting, and a total of 117bps of cuts before year end. Given a more subdued growth outlook amid uncertain impact of tariffs, and that underlying inflation is moderating, we have added rate cuts to our expected profile, now expecting a total of two 25bp cuts for the rest of the year. This view remains less dovish than market pricing. We have pencilled in one 25bp OCR cut in each of Q2 and Q3.



Source: Bloomberg, OCBC Research

RBA kept its OCR unchanged at 4.10% at the 1 April meeting. The statement had it that the tariffs announced thus far (back then) were "having an impact on confidence globally and this would likely be amplified if the scope of tariffs widens, or other countries take retaliatory measures" – and these happened. US's announced reciprocal tariff rates were way higher than expected, global equities were sold off, and some of US trading partners retaliated to various extent. The main **reasons that have usually been cited for keeping OCR unchanged (instead of cutting it) may also be undergoing some shifts in dynamics** from here; and these include "labour market conditions remain tight" and "private domestic demand appears to be recovering". According to RBA minutes, "members observed that the May meeting would be an opportune time to revisit monetary policy setting" with additional information. We believe additional information has thus far added to the chance that the RBA will deliver another rate cut as soon as at the May meeting.



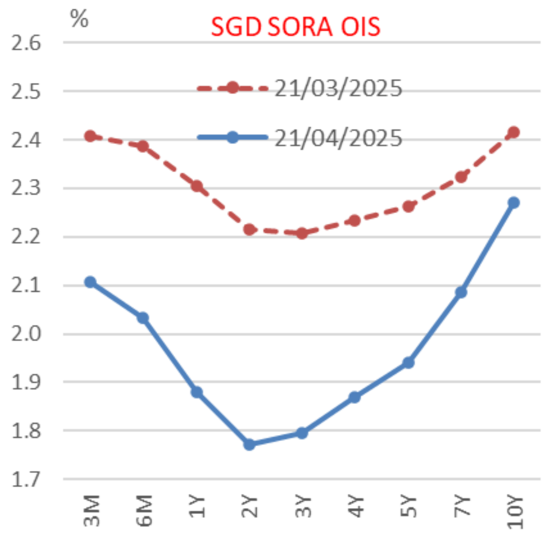
Source: Bloomberg, OCBC Research

Interest rates forecasts	Q225	Q325	Q425	Q126
RBA OCR	3.85	3.60	3.60	3.60
1M BBSW	3.85	3.65	3.65	3.65
3M BBSW	3.85	3.70	3.70	3.70

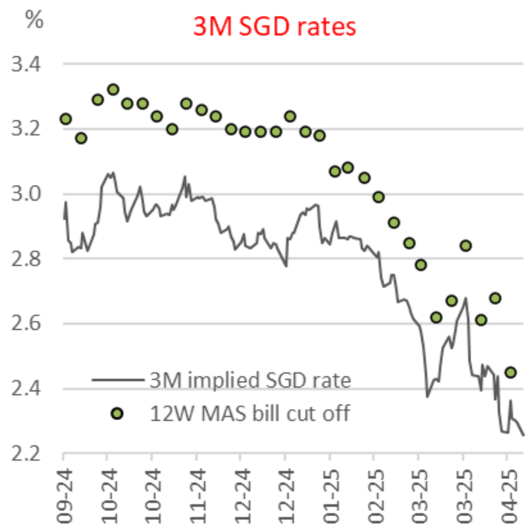
SGD:

SGD rates extended their outperformances against USD rates in the past month, having fallen more than USD rates did, i.e. the "pass-through" that we usually look at was more than 100%. This deviated from the historical pattern. This was notwithstanding another slope reduction in S$NEER. Given the more volatile USD rates and the soft Dollar itself, near term performances in SGD rates are not driven much by MAS policy outcome. But looking further ahead, the dynamic of a more dovish MAS exerting some upward pressure on short-end SGD rates may still kick in especially with front-end SGD-USD rates differentials very negative to start with. **The 2Y and 3Y rates have stayed as the lowest points on the SORA OIS curve; chasing these rates lower is not preferred.** SORA the overnight rate itself has fluctuated in a wide range, at 2.01%–2.98% in a matter of one month. Last level of 2.15% was nearer the lower end of the range. The 2Y and 3Y SGD OIS at around/below 1.8% level reflects expectations for an extended period of flush liquidity condition and for the floating rate SORA to move lower from here sustainably – this outlook is highly uncertain.

On cash side, **SGS and bills may benefit from safe-haven flows**. At the 15 April auctions, days following the massive UST sell-off, 4W and 12W MAS bills cut off at 2.55% and 2.45%, respectively, below expectations. The spreads between cut-offs and implied SGD rates narrowed a lot to within 10bps, which might have represented some safe-haven flows into the SGD market. SGS underperformed SORA OIS at times; we consider **current bond/swap spreads as being supportive of SGS**. Asset swap pick-up was decent, last at around SOFR+65bps (before bid/offer spread) at 10Y SGS and at around SOFR+75bps at 20Y SGS (10Y hedge). Next coming up is the reopening of 30Y Green SGS (Infra) on 28 April.



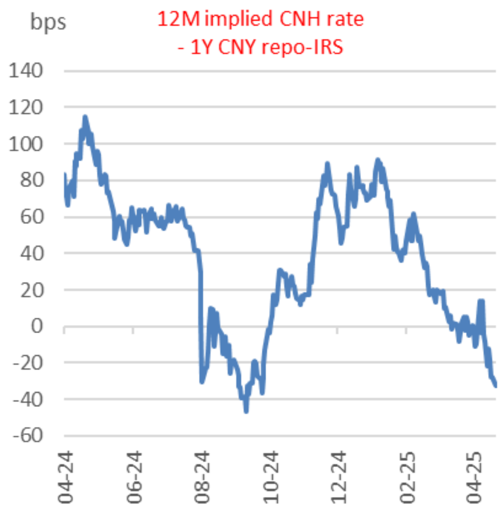
Source: Bloomberg, OCBC Research



Source: MAS, Bloomberg, OCBC Research

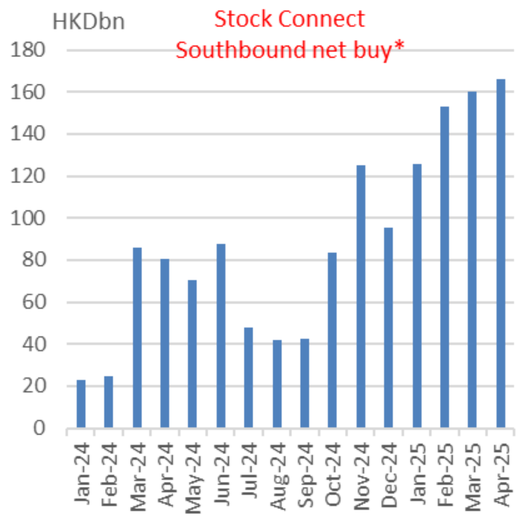
CNY:

CGB yields retraced from recent highs, as the growth outlook turned softer amid heightened trade tensions. Prospects remain for continued fiscal and monetary policy support, which may point to a steepening bias on the CGB curve. OCBC Economists expect an RRR cut as early as this month which could also open the door for policy rate reductions within Q2. We note NCD maturities increase over the coming months, at CNY2.47trn in May and CNY4.02trn in June; some liquidity support will be welcome, while the asset swap pick-up may attract some foreign demand. 12M AAA NCD rate was last at 1.76%, compared to 12M implied CNY rate at 0.90% and 12M implied CNH rate at 1.25%. 1Y repo-CNY IRS was at 1.54%, meaning the RMB basis – both CNY and CNH – are low.



Source: Bloomberg, OCBC Research

CNH liquidity is flush, with 1M implied CNH rate trading at around 1% level. Offshore implied CNH rates are lower than onshore implied CNY rates for tenors 6M and below. Factors behind the flush CNH liquidity include: 1/ Stock Connect inflows have been adding to the offshore CNH liquidity pool. Net-buy via Southbound Stock Connect amounted to HKD166bn month-to-date (as of 17 April), surpassing the HKD160bn in the whole of March which was already on the high side. RMB deposits in Hong Kong moved back to above the RMB1trn mark, standing at RMB1035bn as of end-February. 2/ There appears to be a lack of bidding interest at front-end for now given the relatively stable spot. 3/ Demand for CNH beyond the front-end also appears limited with not much supply of papers – there was net paydown of offshore RMB bonds in March. 4/ The other side of the equation is tighter USD liquidity, which has been a phenomenon at times of heightened market volatility. But some of these dynamics may be changing, which may point to more limited downside to front-end CNH rates from current levels. First, net offshore RMB bonds issuances will likely be positive this month given light maturities, reversing from the net paydown in March. Second, USD liquidity appears to have improved somewhat as reflected by the basis in some other markets.



Source: CEIC, OCBC Research *as of 17 April 2025

GLOBAL MARKETS 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

This report is solely for information purposes and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein or to participate in any particular trading or investment strategy. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this report is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this report may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This report may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, it should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. In the event that you choose not to seek advice from a financial adviser, you should consider whether the investment product mentioned herein is suitable for you. Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), Bank of Singapore Limited ("BOS"), OCBC Investment Research Private Limited ("OIR"), OCBC Securities Private Limited ("OSPL") and their respective related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future, interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial or securities related services to such issuers as well as other parties generally. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. There may be conflicts of interest between OCBC Bank, BOS, OIR, OSPL or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OCBC Bank and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

The information provided herein may contain projections or other forward looking statements regarding future events or future performance of countries, assets, markets or companies. Actual events or results may differ materially. Past performance figures are not necessarily indicative of future or likely performance.

Privileged / confidential information may be contained in this report. If you are not the addressee indicated in the message enclosing the report (or responsible for delivery of the message to such person), you may not copy or deliver the message and/or report to anyone. Opinions, conclusions and other information in this document that do not relate to the official business of OCBC Bank, BOS, OIR, OSPL and their respective connected and associated corporations shall be understood as neither given nor endorsed.

Co.Reg.no.: 193200032W