Weekly Macro Views (WMV)

Global Markets Research & Strategy

07 July 2025

Weekly Macro Update

Key Global Data for this week:

7 July	8 July	9 July	10 July	11 July
• **CH** Foreign Reserves • **EC** Retail Sales MoM • **GE** Industrial Production SA MoM • **JN** Labour Cash Earnings YoY • **MA:** Foreign Reserves • **SG** Foreign Reserves • **TH** CPI YoY	• **AU** RBA Cash Rate Target • **GE** Exports SA MoM • **JN** Current Account Balance • **PH** Unemployment Rate • **US** NFIB Small Business Optimism	• **CH** PPI YoY • **CH** CPI YoY • **MA** BNM Overnight Policy Rate • **NZ** RBNZ Official Cash Rate • **EC** Unemployment Rate • **SI** Automobile COE Open Bid • **US** MBA Mortgage Application	• **GE** CPI EU Harmonized YoY • **GE** CPI YoY • **JN** PPI YoY • **JN** CPI YoY • **SK** BoK Base Rate • **US** Initial Jobless Claims	• **FR** CPI EU Harmonised YoY • **FR** CPI YoY • **MA** Industrial Production YoY • **TH** Gross International Reserves • **UK** Industrial Production YoY • **UK** Manufacturing Production YoY

Summary of Macro Views:

Global	• **US:** One Big Beautiful Bill passed • **US:** Upside surprise to June nonfarm payrolls • **US:** ISM mixed across manufacturing and services • **Eurozone**: Modest uptick in June CPI
Asia	• **SI:** Retail sales higher, lifted by supermarket sales • **SI:** Revisions to Seller's Stamp Duty • **ID:** Higher inflation in June and strong May export growth • **MY:** BNM 9 July meeting preview - 25bp cut likely • **PH:** Inflation edged higher in June

Asia	• **TH:** Negative headline inflation persists • **TH:** PM Suspended, uncertainties remain • **VN:** Stronger than expected 2Q25 GDP growth • **VN:** Trade deal with US – not a failure, neither a win
Asset Class	• **Commodities:** OPEC+ extends supply hikes for August • **ESG:** EU CBAM compensation and expansion to downstream products • **FX & Rates:** UST auctions and FOMC minutes in focus

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Global: Central Banks

Forecast – Key Rates

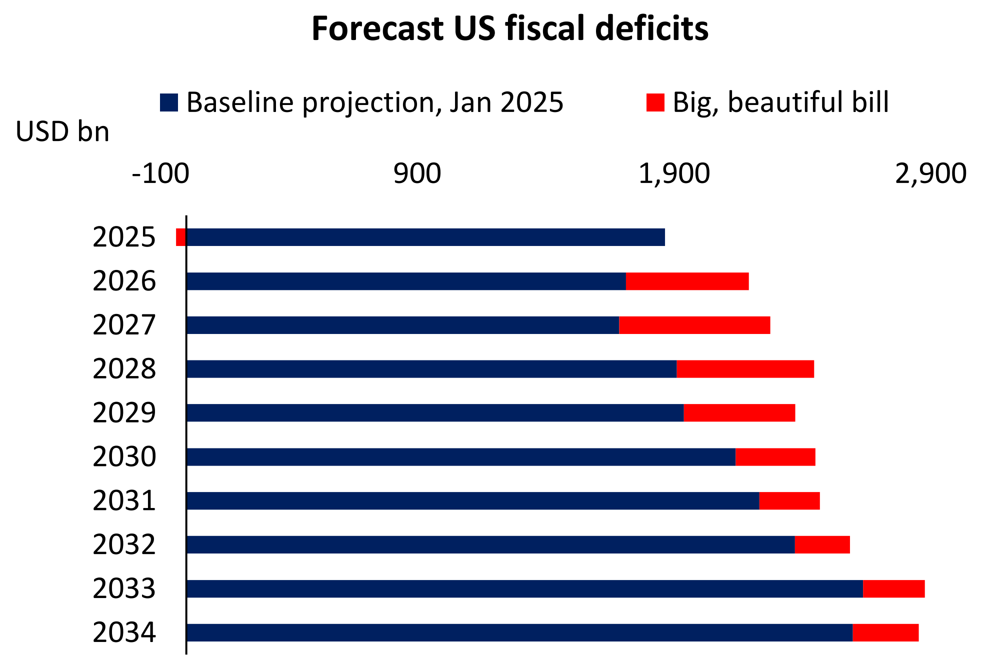
Reserve Bank of Australia (RBA)	Bank Negara Malaysia (BNM)	Reserve Bank of New Zealand (RBNZ)	Bank of Korea (BoK)
Tuesday, 8 July	**Wednesday, 9 July**	**Wednesday, 9 July**	**Thursday, 10 July**

House Views

Cash Rate Target	*Overnight Policy Rate*	*Official Cash Rate*	*Base Rate*
Likely *cut by 25bps* to *3.60%*	**Likely *cut by 25bps* to *2.75%***	**Likely *hold* at *3.25%***	**Likely *hold* at *2.50%***

US: One Big Beautiful Bill passed

- The US passed President Trump's "one big, beautiful bill" on 4 July, extending provisions from the 2017 Tax Cuts and Jobs Act, cutting more than USD1trn in spending for the healthcare and subsides for green energy infrastructure over the next decade. The bill also injects USD150bn for defence and USD129bn for immigration and enforcement.
- This will add USD3.4trn to fiscal deficit and debt over the next decade, according to CBO estimates. The question near-term is how the government will fund this bill.



Source: CBO, FT, OCBC

	Final bill
Medicaid	Stricter requirement than the House of Representative's version, which only exempts parents with children below 14; removes coverage for legal immigrants with some exemptions.
State-and-local tax (SALT) cap	Cap increase to USD40k and will return to USD10k in 2030.
Child tax credit	Raises maximum credit to USD2200 permanently (inflation indexing onwards).
No-tax-on-tips	Deductions limited at USD25K; People who earn more than USD150k (single)/USD300k (joint) are ineligible.
Overtime pay	Capped at 12.5K (single) and USD25K(joint). Also ineligible for individuals earning above a certain income threshold.
Senior standard deduction	USD6000 bonus deduction for individuals above 65; full deduction if modified adjusted gross income (MAGI) is below USD75k (single)/USD150k(joint)
Impact on the national debt	Estimated to increase by USD3.94trn by 2034, with a debt-to-GDP ratio increases to 128%- 131%

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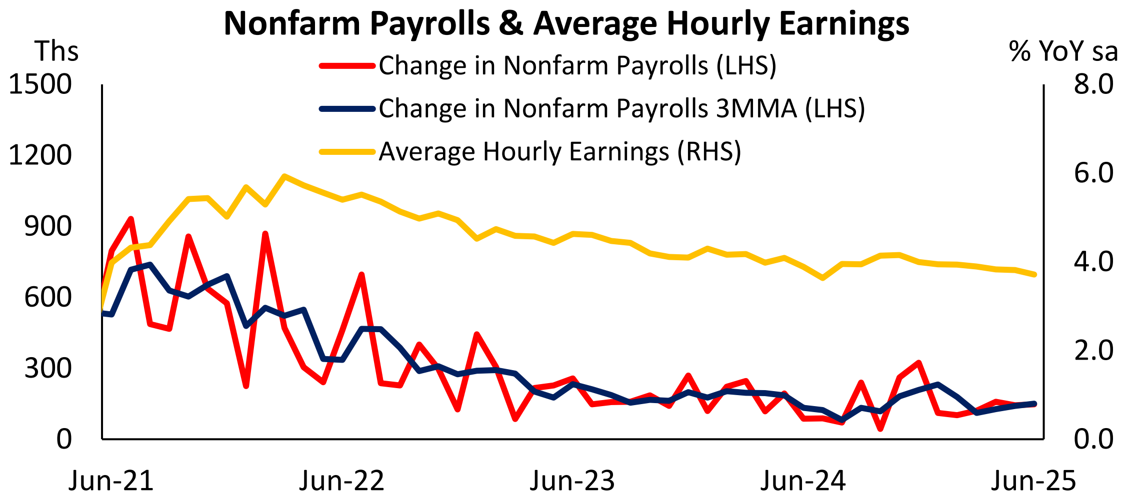
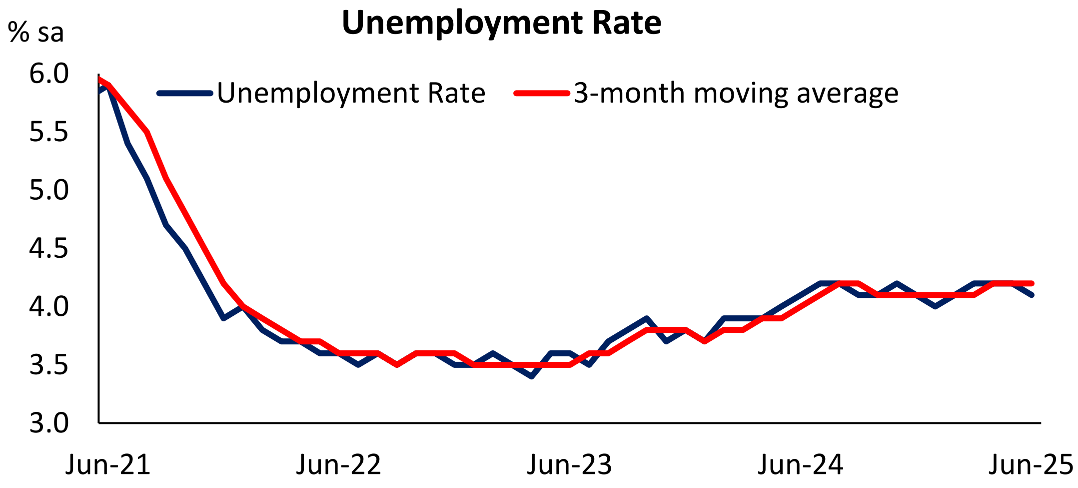
Source: CBO, FT, Bloomberg, OCBC

US: Upside surprise to June nonfarm payrolls

- June nonfarm payrolls data showed that the US economy added 147k jobs (May: 144k; consensus 110k), exceeding consensus expectations. Backward revisions added a combined 16k in payrolls. According to BLS, “Government employment rose by 73k in June. Employment in state government increased by 47k, largely in education (+40,000). Employment in local government education continued to trend up (+23k). Job losses continued in federal government (-7k), where employment is down by 69k since reaching a recent peak in January. (Employees on paid leave or receiving ongoing severance pay are counted as employed in the establishment survey).”
- Meanwhile, average hourly earnings fell slightly to 3.7% YoY in June (May: 3.8%; consensus 3.9%) while the unemployment rate ticked down to 4.1% (May 4.2%; consensus: 4.3%).



Source: BLS, Bloomberg, OCBC



Source: BLS, Bloomberg, OCBC

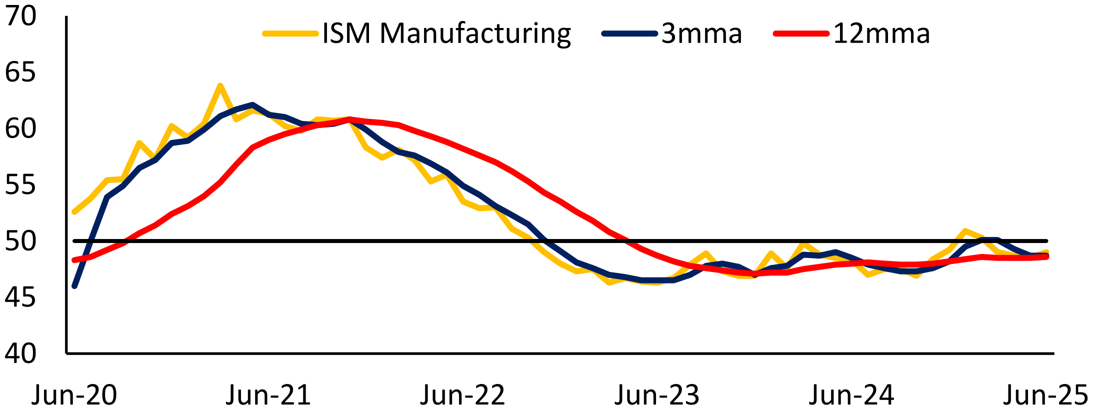
OCBC

Source: BLS, Bloomberg, OCBC

US: ISM mixed across manufacturing and services

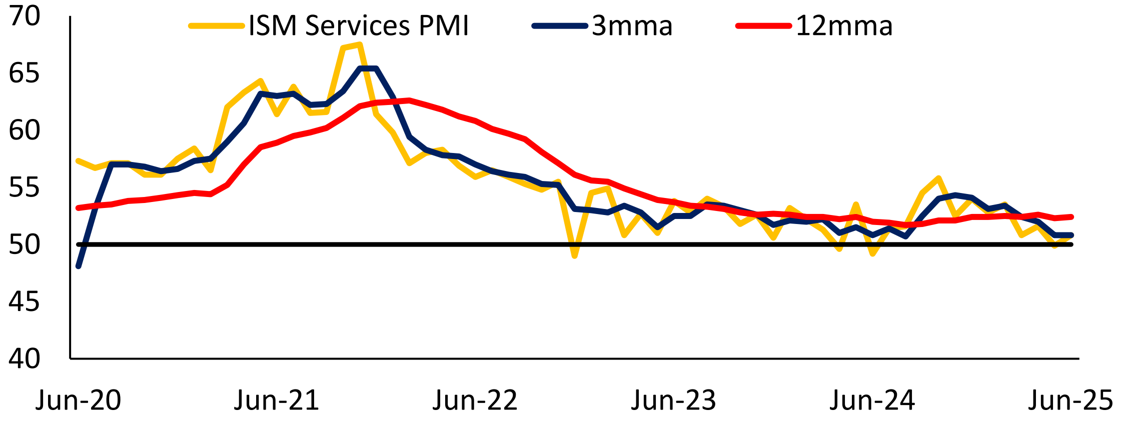
- The manufacturing sector remain sluggish, as ISM Manufacturing was 49.0 in June (May: 48.5, consensus: 48.8), marking the fourth consecutive month of contraction. The 'new orders' subcomponent remained weak at a reading of xx from xx in May. Despite President Trump's pause on reciprocal tariffs ending this month, trade uncertainty remains and may continue to weigh on the manufacturing sector.
- Meanwhile, ISM services was back into the expansionary zone to 50.8 in June (May: 49.9; consensus: 50.5), marginally above expectations. This was mainly driven by a higher reading of the 'business activity' subcomponent to 54.2 (May: 50.0) from 50 in May and 'new orders' also improved to 51.3 (May: 46.4).
- The mixed ISM readings across the services and manufacturing sector suggests that economic growth is likely at cross-roads. Uncertainty continues to cloud the manufacturing sector while some potential stabilization in the services sector maybe in the offing from progress on the domestic economic agenda.

ISM Manufacturing PMI



Source: ISM, Bloomberg, OCBC

ISM Services PMI



Source: ISM, Bloomberg, OCBC

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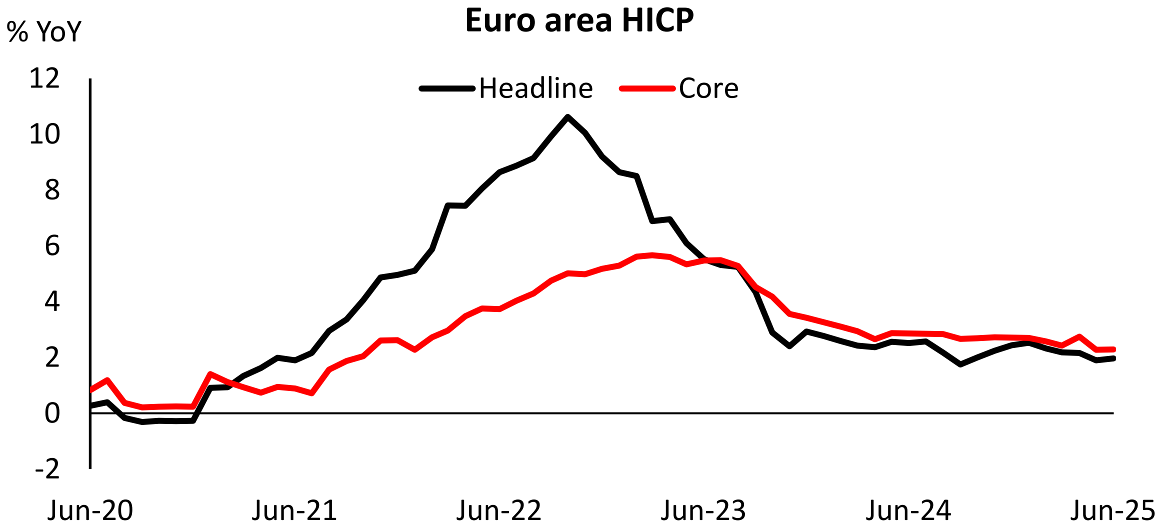
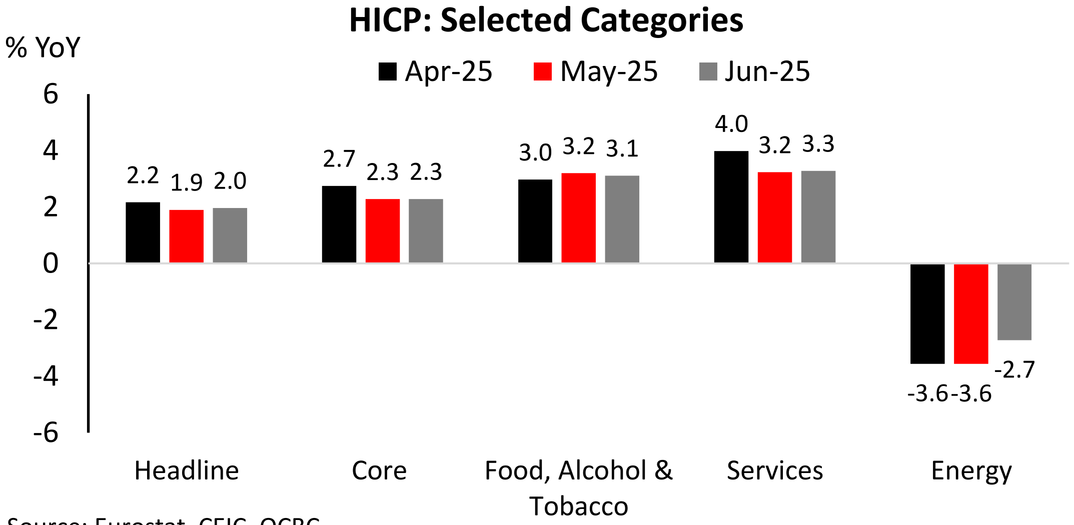
Source: ISM, Bloomberg, OCBC

Euro Area: Modest uptick in June CPI

- June preliminary Euro area headline inflation edged higher to 2.0% YoY in June from 1.9% in May, in line with consensus expectations. Core inflation, excluding food and energy prices, held steady at 2.3% YoY.
- The drivers were higher services inflation of 3.3% YoY from 3.2% in May while the negative reading on energy moderated to -2.7% YoY from -3.6% in May. 'Food, alcohol & tobacco' inflation eased slightly to 3.1% YoY in June from 3.2% in May.
- In terms of monetary policy, we expect one more 25bp cut in the ECB deposit facility rate this year, bringing the policy rate down to 1.75% by end-2025.



Source: Eurostat, CEIC, OCBC



Source: Eurostat, CEIC, OCBC

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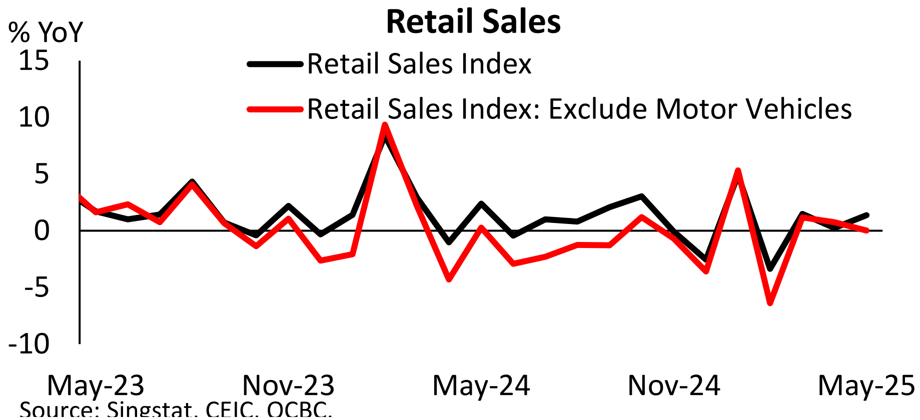
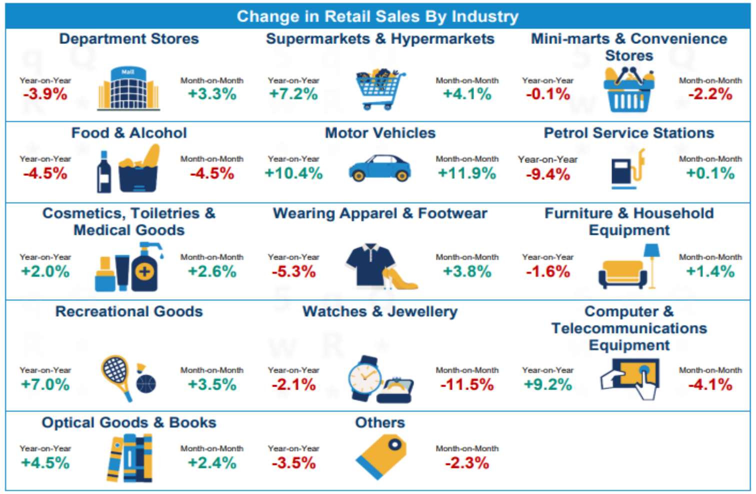
Source: Eurostat, CEIC, OCBC.

Singapore: Retail sales higher, lifted by supermarket sales

- Retail sales rose 1.4% YoY (1.0% MoM sa) in May, accelerating from the revised 0.2% YoY (0.0% MoM sa) print in April. Excluding autos, however, retail sales was flat YoY in May, versus a 0.8% expansion in April, and is the weakest since February 2025.
- By retail segments, the best performers apart from motor vehicles were supermarkets & hypermarkets (7.2% YoY versus 1.0% previously), recreational goods (7.0% YoY versus 5.0% previously) and computer & telecommunications equipment (9.2% YoY versus 16.4% previously).
- Retail sales remain sensitised to the broad market sentiments which is influenced by the global tariff developments, which in turn impacts business and consumer confidence, as well as the domestic labour market conditions. The key milestone to watch on the global economic landscape would be the US tariff letters to trading partners to set unilateral tariff rates. At this juncture, Singapore appears likely to be still subject to 10% tariffs, and DPM Gan has warned that the region will face increased export costs to the US.





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Source: Singstat, CEIC, OCBC

Singapore: Revisions to Seller's Stamp Duty

- The MND, MoF and MAS announced longer holding period and higher rates for sellers of private homes, and will come into effect on 4 July. Currently, those who sell a private residential units less than 4 years after the date of purchase are subject to SSD rates set at 12% in the first year, 8% in the second year, and 4% in the third year. The respective rates have been increased by 4% each year, now set at 16% in the first year, 12% in the second year, and 8% in the third year.
- The reason for the increase comes after a significant increase in sub-sale transactions of private home units. (A sub-sale is similar to resale, except that the sale of a unit takes place prior to the completion of the development.) This change brings the SSD rates back to pre-2017 levels, which were revised due to the significant fall in sub-sales.

Holding Period	Rates from 11 March 2017 to 3 July 2025	Rates on and after 4 July 2025
Up to 1 year	12%	**16%**
More than 1 year but up to 2 years	8%	**12%**
More than 2 years but up to 3 years	4%	**8%**
More than 3 years but up to 4 years	0%	**4%**
More than 4 years	0%	0% (no change)

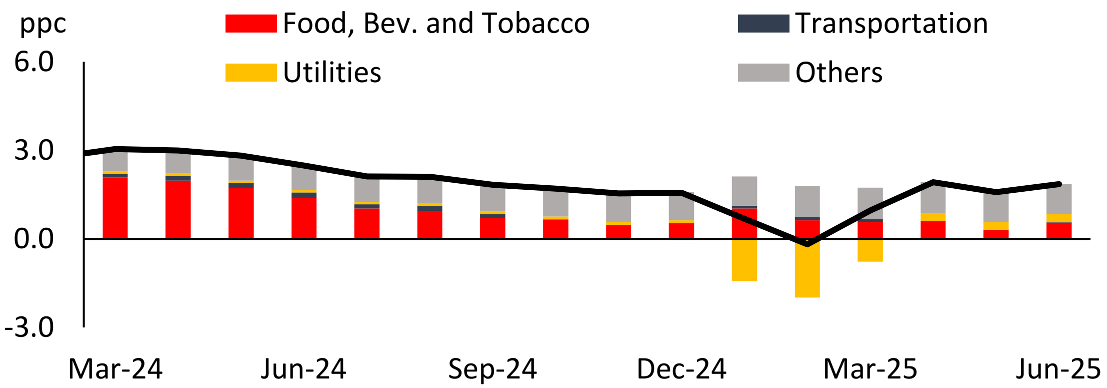
Source: MAS, OCBC

Indonesia: Higher inflation in June and strong May export growth

- Headline inflation rose by more than expected to 1.9% YoY in June from 1.6% in May (Consensus: 1.8%, OCBC: 1.7%). Meanwhile, core inflation was unchanged at 2.4%. The print was driven by the food (2.0% from 1.0%), utilities (1.6% from 1.5%) and personal care & (9.3% from 9.2%) components, while transportation CPI remained low (0.1% from 0.2%). The June print brings headline inflation to an average of 1.8% YoY in 2Q25 from 0.6% in 1Q25. Looking ahead, we expect the headline CPI to average 2.0% in 2025.

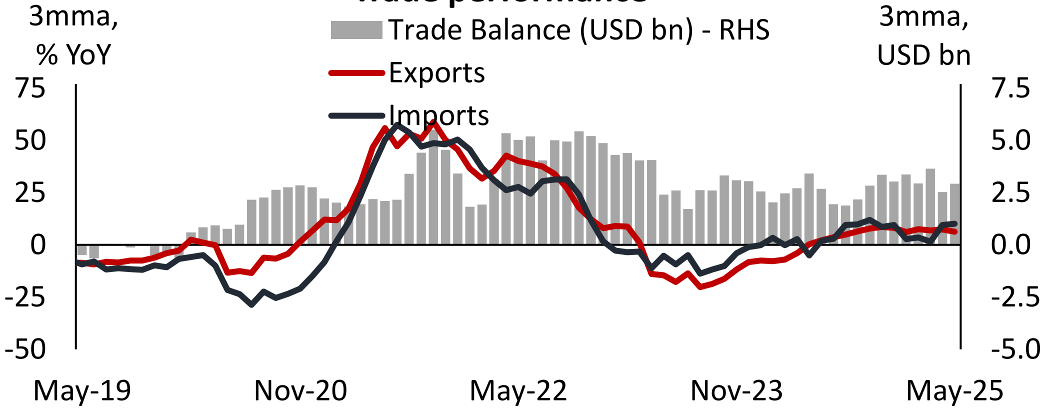
- On the trade front, export growth accelerated to 9.7% YoY in May from 5.8% in April, while import growth slowed to 4.1% from 21.8%. Consequently, the trade surplus rose to USD4.3bn in May from USD0.2bn in April. Exports to the US remained resilient at 24.8% YoY in May from from 18.4% in April. Looking at imports by end-use, the slowdown was broad-based led by raw materials (-1.2% from 18.9%), consumer goods (5.3% from 18.5), and capital goods (24.9% from 36.3%).

Drivers of CPI



Source: BPS, CEIC, OCBC.

Trade performance



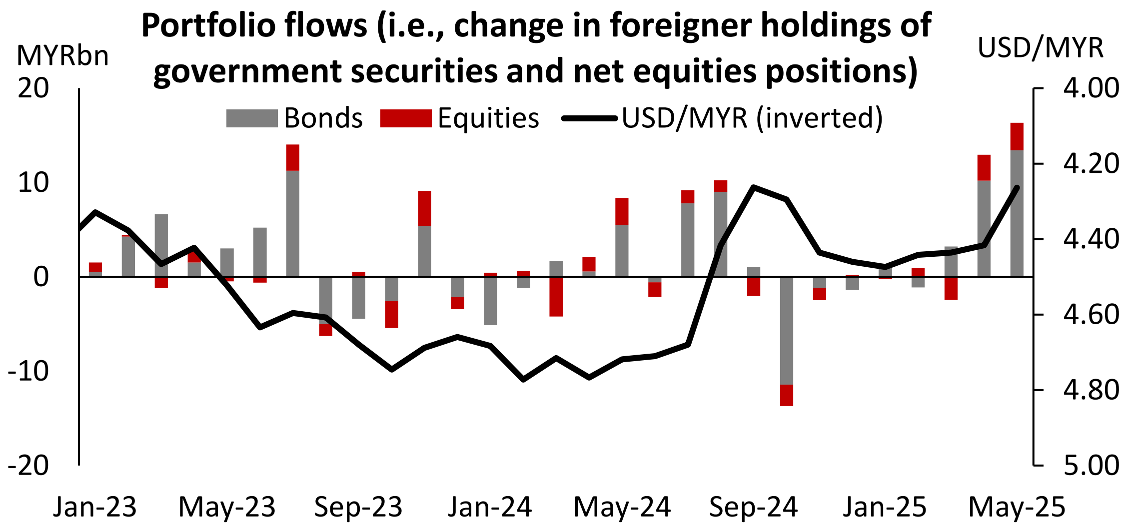
Source: Statistics Indonesia (BPS), CEIC, OCBC.

OCBC

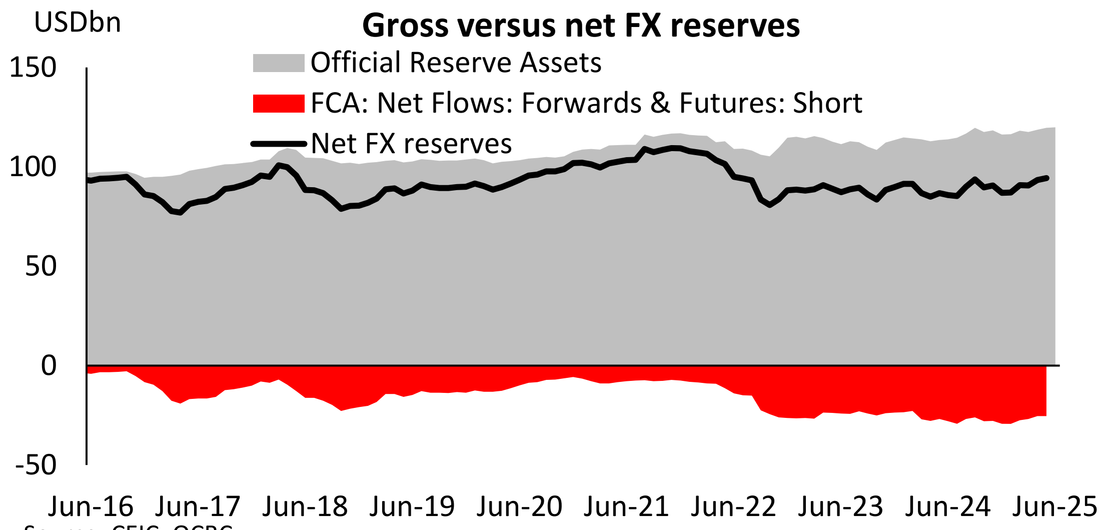
Source: BPS, Reuters, CEIC, OCBC.

Malaysia: BNM 9 July meeting preview - 25bp cut likely

- The conditions are becoming increasingly conducive for Bank Negara Malaysia (BNM) to lower its overnight policy rate. The risks to growth and inflation are to the downside, with the MYR relatively well supported versus USD and the basket of currencies (NEER). Gross FX reserves also rose to USD119.9bn as of 13 June.
- The question is whether it will come as soon as the 9 July meeting. The case for a cut include increasingly mixed activity data, low inflationary pressures even accounting for some adjustments to RON95 prices and relatively manageable MYR depreciation risks. The case of remaining on hold include waiting for further confirmation on tariff negotiation and associated growth risks, as well as, navigating near-term geopolitical uncertainties.
- On balance, the 9 July meeting is a close call and we expect a 25bp cut. If BNM chooses to remain on hold, it could signal cuts at its 4 September and 6 November meetings. Our forecast is for a cumulative 50bps in rate cuts in 2H25.



Source: CEIC; OCBC



Source: CEIC; OCBC.

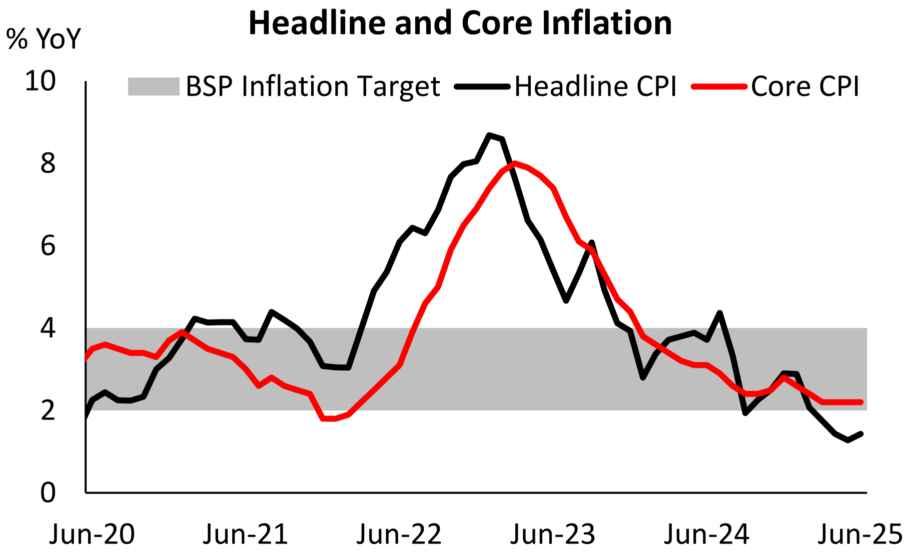
Source: CEIC, OCBC.

Philippines: Inflation edged higher in June

- Headline CPI rose by 1.4% YoY in June versus 1.3% in May. This is in line with our expectations but lower than consensus expectations (OCBC: 1.4%, Consensus: 1.5%). Meanwhile, core inflation held steady at 2.2% YoY for the fourth consecutive month.
- Higher inflation in key categories such as clothing (1.7% YoY versus 1.6% in May), utilities (3.2% YoY versus 2.3%), furnishings (2.1% YoY versus 2.0%), education (5.4% YoY versus 4.3%), and restaurants (2.1% YoY versus 2.0%) more than offset lower inflation in food (0.4% YoY from 0.9%).
- The June print brings headline inflation to an average of 1.4% YoY in 2Q25 from 2.2% in 1Q25. Looking ahead, we expect 2025 headline CPI to average 2.5% YoY, within BSP 2-4% target range, implying a pickup in headline CPI for the rest of the year. Nevertheless, lower global energy prices and food prices are downside risks to our inflation forecasts. We think the central bank has one more 25bp rate cut left for the year, taking the policy rate to 5.00% by end-2025.

Drivers of inflation, %YoY	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
Headline CPI inflation	**2.9**	**2.1**	**1.8**	**1.4**	**1.3**	**1.4**
Food & Non-Alcoholic Beverages	3.8	2.6	2.2	0.9	0.9	0.4
Alcoholic Beverages & Tobacco	3.5	3.4	3.6	3.7	3.8	3.8
Clothing & Footwear	2.3	2.1	1.8	1.6	1.6	1.7
Housing, Water, Electricity, Gas & Other Fuels	2.2	1.6	1.7	2.9	2.3	3.2
Furnishings, HH Equip & Routine HH Maintenance	2.6	2.3	2.1	2.1	2.0	2.1
Health	2.5	2.3	2.2	2.4	2.4	2.4
Transport	1.1	-0.2	-1.1	-2.1	-2.4	-1.6
Information & Communication	0.2	0.3	0.4	0.3	0.4	0.4
Recreation, Sport & Culture	2.4	2.4	2.2	2.1	2.2	2.2
Education Services	4.2	4.2	4.2	4.2	4.3	5.4
Restaurants & Accommodation Services	3.2	2.8	2.3	2.3	2.0	2.1
Financial Services	0.0	0.0	0.0	0.0	0.0	0.0
Personal Care & Misc Goods & Services	2.8	2.6	2.6	2.5	2.5	2.4
Core CPI	**2.6**	**2.4**	**2.2**	**2.2**	**2.2**	**2.2**

Source: Philippine Statistics Authority, CEIC, OCBC



Source: Philippine Statistics Authority, Bangko Sentral ng Pilipinas, CEIC, OCBC.

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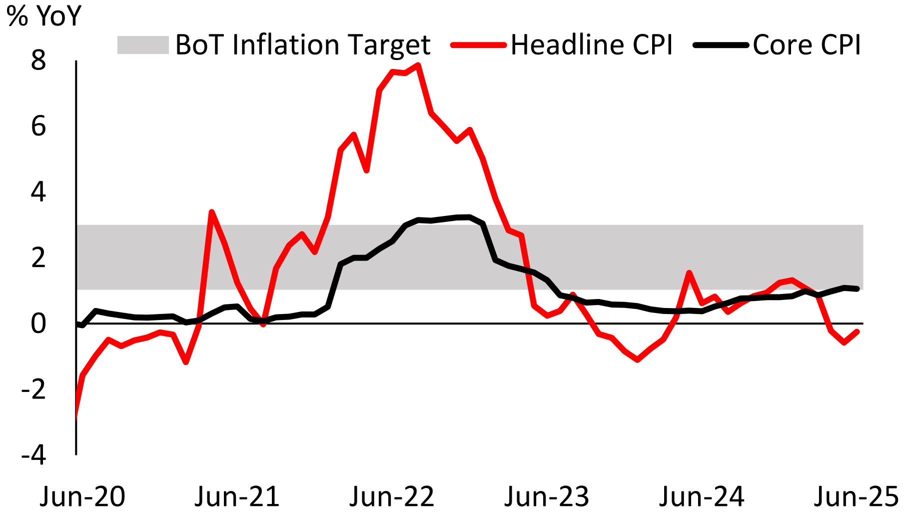
Thailand: Negative headline inflation persists

- Negative inflation persists for the third consecutive month, with headline CPI declining by 0.2% YoY in June (May: -0.6%). This is in line with our expectations but lower than consensus expectations (OCBC: -0.2%, Consensus: -0.1%).
- The moderation in the negative inflation was driven by higher inflation for food (1.6% YoY versus 0.9% in May) and less negative inflation for the transportation (-3.2% YoY versus -3.4%) component. Meanwhile, core CPI held steady at 1.1% YoY.
- The June print brings headline inflation to an average of -0.3% YoY in 2Q25 from 1.1% in 1Q25. Looking ahead, we expect headline inflation to average 0.9% YoY in 2025, implying a pickup in headline CPI for the rest of the year. We expect another 25bp cut from Bank of Thailand (BoT) for the rest of 2025, but BoT could deliver deeper cuts if the perceived political uncertainty and tariff negotiations weigh on growth.

Drivers of inflation, % YoY	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
Headline CPI	1.3	1.1	0.8	-0.2	-0.6	-0.2
Food & Non Alcoholic Beverages	1.8	2.0	2.4	1.6	0.9	1.6
Apparel & Footwears	-0.2	-0.3	-0.4	-0.6	-0.9	-0.9
Housing & Furnishing	0.4	0.5	0.0	-0.7	-0.3	-0.4
Medical & Personal Care	-0.5	-0.5	-0.6	-0.7	-1.1	-0.8
Transport & Communication	2.1	0.5	-0.4	-3.0	-3.4	-3.2
Recreation, Reading, Education and Religion	0.4	0.4	0.4	0.7	0.4	0.5
Tobacco & Alcoholic Beverages	0.8	0.3	0.1	0.1	0.1	0.0
Core Consumer Price Index	0.8	1.0	0.9	1.0	1.1	1.1

Source: Ministry of Commerce, CEIC, OCBC

Headline and Core Inflation



Source: Bureau of Trade and Economic Indices, CEIC, OCBC.

Source: Bureau of Trade and Economic Indices, Ministry of Commerce, CEIC, OCBC.

Thailand: PM Suspended, uncertainties remain

- The constitutional court voted 7-2 to suspend PM Paetongtarn Shinawatra from office until a petition seeking her removal is deliberated. Deputy Prime Minister and Interior Minister Phumtham Wechayachai has been appointed as the new interim Prime Minister (PM), succeeding Suriya Juangroongruangkit, who served as interim PM shortly after Ms. Paetongtarn Shinawatra's suspension from the role.
- The appointment was made at a special cabinet meeting following the swearing-in of the new cabinet by His Majesty King Maha Vajiralongkorn. Ms. Paetongtarn Shinawatra will retain a position in the government as the new Minister of Culture. She has 15 days to submit a clarification to the constitutional court.
- This suspension exerts further downside risk to a growth outlook already mired in uncertainty from US tariffs. Bank of Thailand (BoT) expects economic growth to slow to 1.7% in 2H25, down from 2.9% in 1H25 due to headwinds from US tariffs and slowing private consumption. We peg 2025 GDP growth at 2.0%, underscoring a similar sharp slowdown in 2H25 from 1H25. The real question is what next and that needs to be answered sooner rather later. If the uncertainty persists, there is a case for further rate cuts from the Bank of Thailand (BoT).

Reshuffled ministries	
Position	**Name**
Interim Prime Minister & Minister of Interior*	Phumtham Wechayachai
Minister Attached to the Prime Minister's Office	Suchart Tancharoen
Minister of Higher Education, Science, Research, and Innovation	Sudawan Wangsuphakijkosol
Minister of Agriculture and Cooperatives	Atthakorn Sirilatthayakorn
Minister of Commerce	Jatuporn Buruspat
Deputy Minister of Commerce	Chantawit Tantasith
Deputy Minister of Interior	Dej-is Khaothong
Minister of Labor	Pongkawin Juangroongruangkit
Minister of Culture	Paetongtarn Shinawatra
Minister of Education	Narumon Pinyosinwat
Deputy Minister of Education	Linthiporn Varinwatchararoj
Deputy Minister of Education	Thewan Liptapanlop
Deputy Minister of Public Health	Anucha Sasomsub
Deputy Minister of Public Health	Chaichana Dechdecho

Note: *Appointed as Interim PM at a special cabinet meeting after the new cabinet has been sworn in by His Majesty King Maha Vajiralongkorn.
Source: The Government Public Relations Department, OCBC.

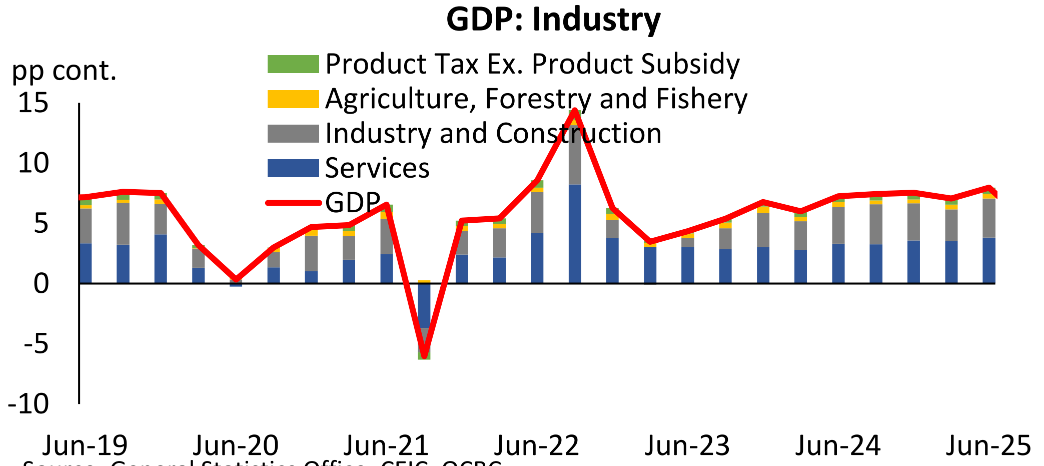
OCBC

Source: The Government Public Relations Department, Various News Agencies, OCBC.

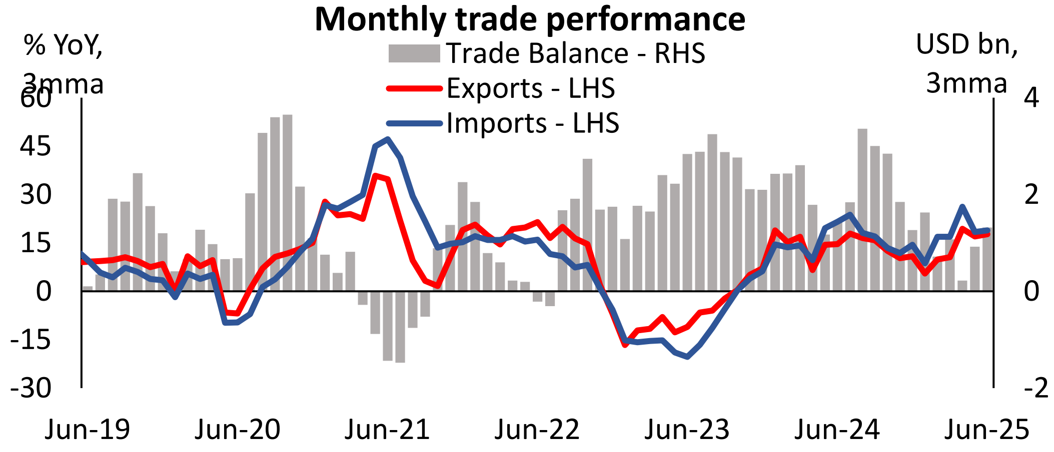
Vietnam: Stronger than expected 2Q25 GDP growth

- 2Q25 GDP growth was solid at 8.0%, racing ahead of expectations (Consensus: 6.7%; OCBC: 7.0%) from 7.0% in 1Q25. The strong 2Q25 performance brings 1H25 average GDP growth to 7.5%. Growth drivers were broad-based with industry & construction leading the improvement (9.0% YoY in 2Q25 from 7.6% in 1Q25), followed by services (8.5% from 7.8%) and the agriculture sector (3.9% from 3.8%). More specifically, the manufacturing sector, which accounts for ~23.7% of GDP in 2024, grew by 10.7% YoY in 2Q25 from 9.5% in 1Q25, and contributed 2.5 percentage points (pp) to headline growth, up 0.4pp from the prior quarter.

- The robust 1H25 print, combined with the trade deal announced with the US on 2 July 2025, suggests upside risks to our full year 2025 GDP growth forecast of 5.5%. The monthly activity data for June remained story: export growth was little changed at 16.3% YoY in June from 17.0% in May, while import growth remained more robust at 20.2%. Notably, electronics and electrical (E&E) exports, which account for ~34.5% of total exports in 2024, also decelerated to 22.4% in June from 30.6% in May. Industrial production growth was higher at 10.8% YoY in June from 9.6% in April/May.



Source: General Statistics Office, CEIC, OCBC.



Source: GSO, CEIC, OCBC

Source: BPS, Reuters, CEIC, OCBC.

Vietnam: Trade deal with US – not a failure, neither a win

- Vietnam and the United States reached a trade agreement, announced by President Trump on July 2. Under the deal, Vietnamese exports to the US will face a 20% tariff, while goods considered 'transshipments' will be subject to a 40% tariff. Conversely, the US imports into Vietnam will benefit from a zero tariff. This agreement makes Vietnam the first Asian country to secure such a deal with the US.
- Although the deal offers a more favorable tariff rate compared to the 46% reciprocal tariff announced on 2 April, it still represents a 10-percentage-point (pp) increase from the 10% universal tariff that was in place following the pause of the reciprocal tariff.
- Looking ahead, distinguishing between value-added exports and transshipment exports will be crucial to assessing the overall impact on Vietnamese exports. Currently, the definition of transshipment remains unclear, and we are awaiting further clarification from the relevant authorities. Many companies use Vietnam as an assembly hub for components imported from various countries, including China.
- For its part, the Vietnamese government has also committed to addressing fraud and illegal transshipment practices prior to the agreement's implementation.

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Source: Bloomberg, Reuters, OCBC.

Commodities

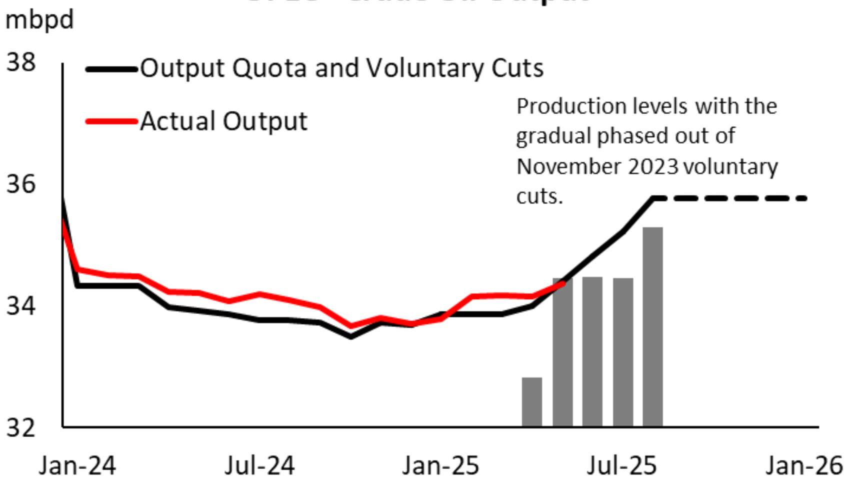
Commodities: OPEC+ extends supply hikes for August

- OPEC+ announced another production hike for August at its 5 July meeting. Importantly, the production adjustment was higher-than-expected at 548kbpd, ~33.3% higher than the required production level for July at 411kbpd.
- To date, the eight OPEC+ member countries have implemented five consecutive months of production hikes following their December 2024 announcement to phase out the voluntary adjustments made in November 20231, starting from April 2025. This would bring the total announced production hikes to ~1.92mbpd (1.9% of 2024 global oil consumption). It also means that the group is ~0.28mbpd short of fully offsetting the 2.2mbpd voluntary adjustments.
- Looking ahead, oil prices are expected to face further downward pressure as increasing OPEC+ production enters the oil market. On the demand side, heightened trade-related and policy uncertainties may weigh on the global economic outlook, and subsequently on oil demand. We prefer to maintain our forecasts for WTI and Brent crude oil prices, averaging USD64/bbl and USD68/bbl in 2025, respectively. Indeed, our forecasts have factored in the condition of a healthy global oil inventories in 2H25, as global oil supplies are projected to exceed demand.

OPEC+ Member Countries	April Actual	April Required Production	May Actual	May Required Production	June Required Production	July Required Production	August Required Production
Algeria	0.91	0.91	0.92	0.92	0.93	0.94	0.95
Iraq	4.05	4.01	4.00	4.05	4.09	4.12	4.17
Kuwait	2.43	2.42	2.43	2.44	2.47	2.49	2.52
Saudi Arabia	8.97	9.03	9.14	9.20	9.37	9.53	9.76
UAE	3.03	2.94	3.06	3.02	3.09	3.17	3.27
Kazakhstan	1.77	1.47	1.76	1.49	1.50	1.51	1.53
Oman	0.77	0.76	0.77	0.77	0.78	0.78	0.79
Russia	8.98	9.00	8.98	9.08	9.16	9.24	9.34

Note: Units are in mbpd.
Source: Platts OPEC+ survey by S&P Global Commodity Insights, OPEC, OCBC.

OPEC+ Crude Oil Output



Source: Platts OPEC+ survey by S&P Global Commodity Insights, OPEC, OCBC.

Source: OPEC, Bloomberg, Reuters, S&P Global Commodity Insights, OCBC.

ESG

ESG: EU CBAM compensation and expansion to downstream products

- The EU Commission has proposed an EU climate target for 2040 that will allow countries to use carbon credits from developing nations to meet a limited proportion of their emissions goal. The carbon credits would be phased in from 2036, and the EU will propose legislation in 2026 to establish quality criteria they must meet and rules on who would buy them. The carbon credits are expected to be high-quality and this move is designed to ease the burden on member states, particularly those concerned about the cost and competitiveness impacts of stricter climate regulations. It introduces greater flexibility but has drawn criticism for potentially weakening the EU's climate ambition and risking the diversion from implementing actual emissions reduction measures.
- The EU Commission will also propose a scheme by end 2025 that uses revenues raised by the EU's carbon border adjustment mechanism (CBAM) to support companies exporting goods to foreign markets where competitors do not have to pay carbon border tariffs, thereby supporting companies in staying competitive and preventing carbon leakage. Aluminium and steel producers have called for such compensation, as they will gradually lose the free carbon permits they currently receive from the EU when the CBAM kicks in from 2026. The scheme also plans to prevent foreign companies from circumventing the EU carbon border tariff.
- Concurrently, there is a public consultation on an initiative that aims to extend the CBAM scope to some downstream products to further reduce the risk of downstream carbon leakage. Extending CBAM to downstream goods is intended to close loopholes in the current system, where only basic materials are covered, and prevent circumvention of carbon costs by shifting emissions-intensive activities down the value chain. The expansion may increase reporting and compliance requirements for companies, although recent regulatory changes aim to simplify procedures for smaller importers and reduce administrative burden.

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Source: EU Commission, OCBC

FX & Rates

FX and Rates: UST auctions and FOMC minutes in focus

- **USD rates**. This week brings coupon bond auctions of 3Y, 10Y and 30Y tenors where the 30Y sales is the key test to market demand, more so given the passage of the One Big Beautiful Bill Act. Lingering fiscal concerns on the one hand, bonds may benefit from safe haven flows ahead of 9 July tariff deadline. On balance, near-term range for 10Y UST yield is seen at 4.25-4.40%. On the calendar, this week's key releases are NY Fed inflation expectations, FOMC minutes and jobless claims. Given the divided FOMC, market will look for the rationale of the different dots and clues on the triggers for the next rate cut. The debt ceiling is raised, and hence US Treasury will be able to issue bills – after the previous bills paydown - to replenish its cash position. TGA balance stood at USD372bn as of 2 July, while US Treasury has a target of USD850bn.
- **GBP rates**. Speaking after market close on Friday, BoE's Taylor opined disinflationary forces are building this year and advised cutting rate further as an insurance against deteriorating demand. Taylor was one of the three dissidents who voted for a 25bp cut at the June MPC meeting. Long-end bond/swap spreads edged lower last week amid fiscal concerns. Gilts at 20Y and beyond may be more responsive to fiscal news, while 10Y bond/swap spread at -54bps appear supporting of the bond.
- **HKD rates**. Aggregate Balance (interbank liquidity) will fall to HKD114bn after last week's FX intervention which amounted to HKD49.6bn. Spot USD/HKD is still trading just below the topside of the band (1pip away from 7.8500 as of writing). T/n remaining at around -9pips and the still wide USD-HKD rate differentials continue to encourage carry trades; further FX intervention cannot be ruled out until more material increases in HKD interest rates happen. We wrote "we expect to see this process of carry trade pushing spot higher, triggering FX intervention which in turn pushes HKD rates higher to repeat itself in the periods ahead". Back-end forward points did not entirely follow HKD-USD rate spreads lower of late, with the 1Y implied HKD basis trading a tad higher. HKD rates may become more responsive to further FX intervention as aggregate balance falls to a lower level.
- **SGD rates**. SGD OIS have further outperformed USD OIS over recent days, resulting in yet more negative SGD-USD rates spreads. 2Y SGD OIS remains as the lowest point on the SORA OIS curve, reflecting expectation for the flush SGD liquidity to stay. Further out the curve, 1.5% is seen as the interim floor for rates. 2Y bond/swap spread (OIS – yield) was last at -27bps, a few bps below 1-year average. Asset-swap pick-up at long-end narrowed recently, last at around SOFR+38bps (before bid/offer spreads) at 10Y SGS and at around SOFR+40bps at 20Y SGS (10Y hedge); while recent movement is in line with our view that foreign investors may accept narrower pick-up, further narrowing may be less rapid from here.

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