2H 2024 FX and Rates Outlook

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Global Markets Research and Strategy

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Summary of Rates Market Views:

Central bank policy outlook:

- Our base-case: a total of 50bps of Fed funds rate cuts in 2H-2024, which will bring the Fed funds rate target range to 4.50-5.00% at end-2024. BoE and ECB will likely each cut by a total of 50bps in 2H-2024. RBA is likely to lag in an easing cycle.
- We expect BoJ to tighten monetary policy further, in terms of both the policy rate and its balance sheet, potentially tweaking its monthly JGB purchase guidance from JPY6trn to JPY4.0-4.5trn.
- Policy direction for Asia will be mixed in the quarters ahead. We see room for BI, BSP and BoK to cut policy rates some time in H2-2024; expect BoT and BNM to keep policy rates on hold through 2H-2024.

Markets:

- **Rates to trend lower over the remainder of 2024,** in most of the markets we monitor**.** We expect UST yields to go lower over the course of 2H-2024 in a steepening manner. As time goes by, the rate cuts priced will be increasingly factored into the valuation of short-end bond yields. At the longer-end, downside to nominal yields would require real yields to go lower and we see a small downside to real yields. US fiscal position and hence bond supply will remain as risk factors.
- **Curves to normalize:** Yield curves are likely to steepen as short-end yields ease more upon central bank rate cuts. We expect the UST curve to become less inverted across the 2s5s and 2s10s segments, and to turn upward sloping some time in H1-2025.
- **Asian rates to lag on a downward move:** Asian rates and yields are likely to lag USD rates and yields on a downward move. Easing USD rates with more stable Asian rates will partially normalize rates and yield differentials, rendering Asian LCY government bonds more appealing – after these expected adjustments.
- **Risks to our call**: Inflation staying elevated and central banks turning out to be more hawkish than expected. Triggers could include another supply-side shock, stronger consumer demand and wage growth, geopolitics and/or domestic politics.

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Summary of FX Markets Views:

- US exceptionalism, high for longer (US rates) have been dominant themes underpinning broad USD strength for 1H 2024.

- **But US exceptionalism theme shows signs of softening** in recent weeks. In particular, financial strains on US consumer continue to grow while tightness in labor market is easing. Additionally, Fed officials have acknowledged progress with disinflation and increasingly are more concerned about the softening labor market. These put a Fed pivot within reach for 2H 2024.

- **USD strength is likely to ease and trend lower**. Extent of USD's decline hinges on 1/ how quick the Fed cuts and 2/ how global growth pans out. Risk of escalation in US-China tensions is a known unknown, dependent on outcome of US elections (Nov-2024). Potential shifts in foreign, trade and fiscal policies have implications on FX.

- **Room for AXJs to recover against a backdrop of DM central banks largely on an easing bias and a moderate growth momentum in the region**
  - Procyclical, tech-linked proxy FX including KRW, TWD should play catch-up to its positive correlation with semiconductor/ tech rally
  - MYR recovery can find traction from rising tech exports and foreign inflows
  - SGD could still retain relative resilience due to policy stance but there is room for strength to fade towards end-year
  - IDR weakness may be overdone and should correct if fiscal discipline is adhered to, Fed cuts rates

- **However, there are "impediments" that may potentially hinder AXJ's recovery process.**
  - Weakness in JPY and RMB, if prolonged and unchecked, may restraint the extent of AXJ recovery
  - Another delay to Fed's pivot is another factor that would undermine AXJs
  - Blow-up in US-China trade tensions (risk) may undermine RMB, and weigh on broader AXJ complex

- Amongst DM FX, **we are optimistic on AUD,** riding on rise in commodity prices. RBA is also likely to be the last DM central bank to lower rate.

- **Favor gold on geopolitical hedge** characteristic and as Fed embarks on rate cut cycle.

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Rates outlook 2H 2024 – Trends to be Established and Extended

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Summary of Rates Market Views:

Markets:

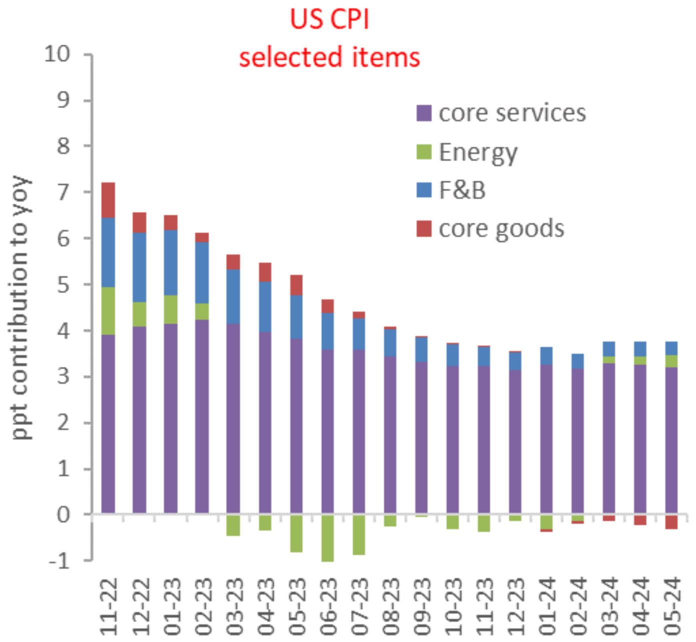
- **IDR:** The supply outlook for H2-2024 is neutral. We see less room for short-end IndoGB yields to fall compared to our expected BI rate cuts amid high SRBI rates. Yield differentials with USTs have improved but are still not decisively appealing to foreign investors. Domestic demand may cap yields.
- **MYR:** The bond supply outlook has stayed neutral. We see a mild downside to 3Y MGS yield over the coming months given room for spread with OPR to narrow; steepening momentum on the MGS curve may not be strong given our stable OPR outlook and some investor preference for duration; bias is for bond/swap spreads to widen mildly.
- **SGD:** Before USD rates embark on a more sustained downtrend, and with the S$NEER slope staying positive, SGD-USD OIS spreads are likely to stay deeply negative. Our medium-term view remains for short-end SGD rates to lag USD rates in a downward move. Asset-swap pick-up at long-end SGS has remained favourable while 5Y SGS may be less favoured given the inverted 2s5s segment.
- **CNY / CNH**: We continue to caution against taking on too much duration risks and maintain a steepening bias on the CGB curve. Meanwhile, asset swapping into certain short-end CNY instruments continue to provide decent pick-up amid low implied CNY rates. In offshore, investors may want to stay cautious against sporadic jumps at front-end CNH points.
- **HKD**: Our medium-term view remains that potential inflows into HKD assets when the risk sentiment turns for the better may prevent HKD rates from falling rapidly. Front-end HKD rates shall remain sensitive to changing liquidity demand with sporadic jumps given the low aggregate balance.
- **Risks**: Working against our bull steepening scenario would be US inflation staying elevated and the Fed turning out to be more hawkish than expected. If this were to be coupled with a US recession, then a curve bear flattening scenario might pan out; if this were to be coupled with a resilient or strong US economy, then a curve bear steepening scenario might result.

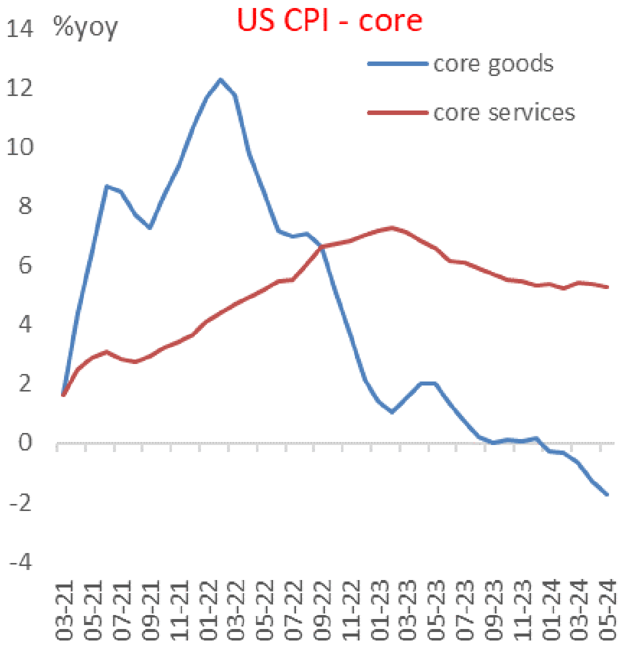
DM Rates

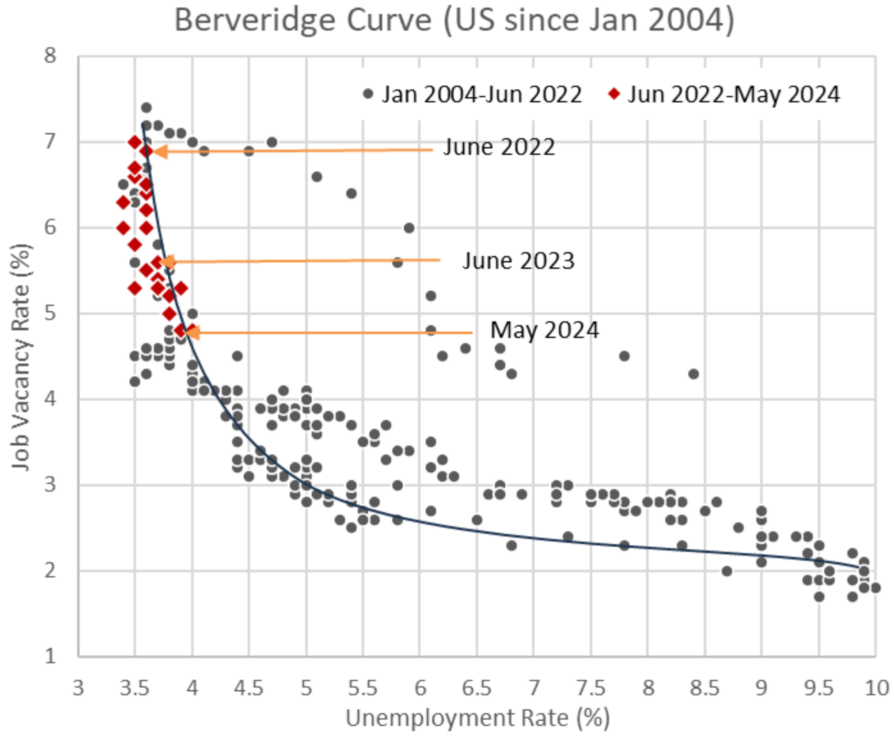
OCBC Bank

US: Path to Disinflation

- The path to disinflation has proved to be bumpy. Nevertheless, the disinflation momentum appears to have returned since Q1. Again, **further easing in core services inflation is key, which likely requires the labour market to cool.**
- **The development on this front looks promising**. First, as mentioned by Fed's Daly citing the Beveridge curve, we are probably near the point where further falls in job vacancies would translate into adjustments in actual employment itself. Second, observation by the most recent Fed Beige book* is that there were either negligible to modest gains, or no change in employment, while consumers pushed back on price increases.



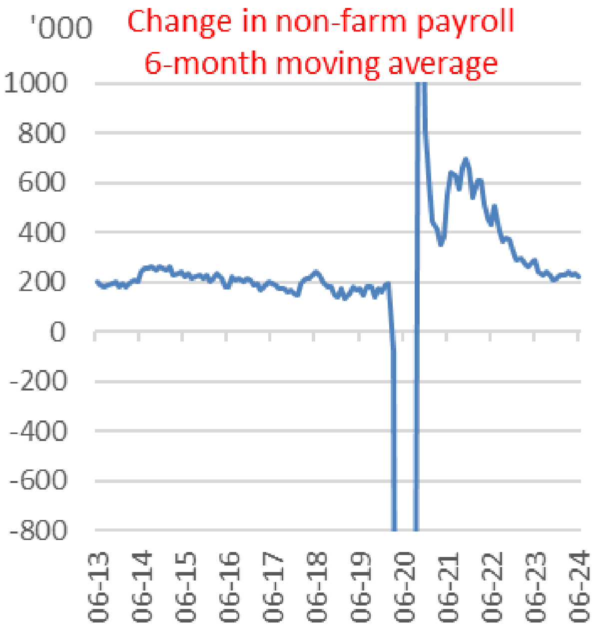


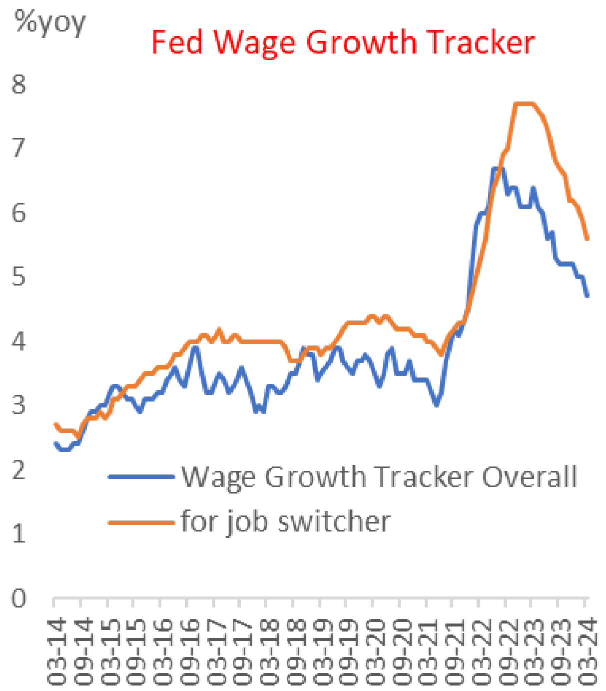


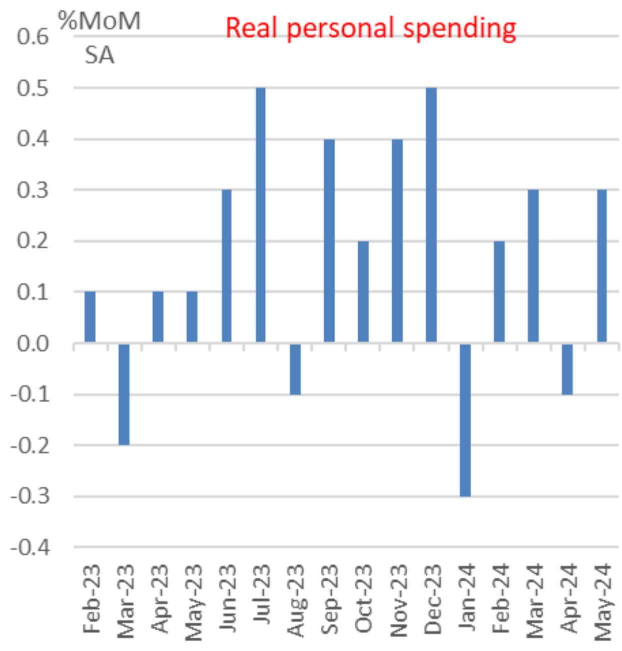
Source: Bloomberg, CEIC, OCBC Research
*This should refer to the information collected during the early-April to mid-May period.

Restrictive Rates, But Resilient US Consumers

- Six-month average of non-farm payroll change was last at 222K (as of June 2024), similar to the 200K+ levels in the years 2013-2019 before COVID. In comparison, Fed funds target rate ranged between 0.25% and 2.50% in those years. Furthermore, some FOMC members observed that “the monthly increase in employment consistent with labor market equilibrium might now be higher than in the past because of immigrationIn”. In this regards, interest rates are restrictive – or probably overly restrictive - vis-à-vis economic fundamental as suggested by some economic indicators.
- That said, US consumers appear to have stayed resilient. Real personal spending rose again in May after the mild setback in April.





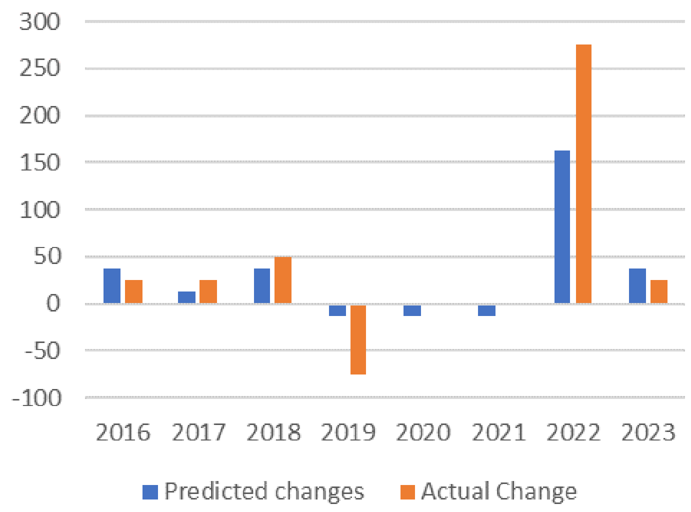


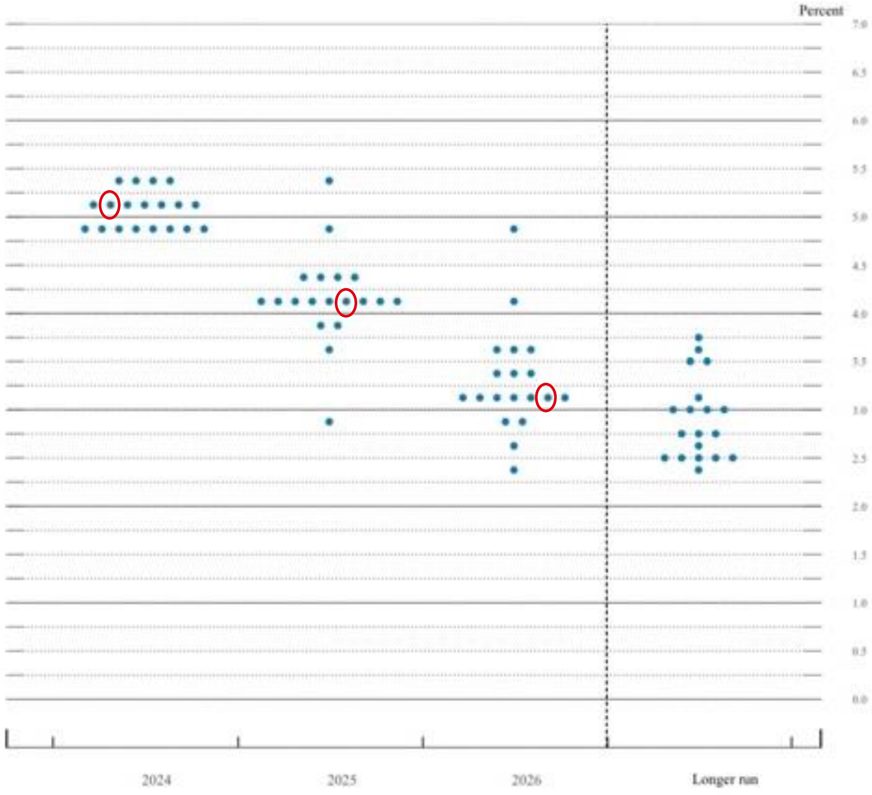
Source: Bloomberg, OCBC Research

FOMC Outlook

- Our assessment is that **the broader disinflation trend remains, so does the Fed's easing agenda**. But the FOMC would need to see more months of data to gain enough confidence, after the earlier bumps in inflation. On balance, we expect 50bps of Fed fund rate cuts in H2-2024, to be followed by 125bps of cuts in 2025.
- This view is more dovish than the median dots on the FOMC's dot-plot suggest. On the June dot-plot, the 2024 median dot reflected 25bps of cuts (8 out of 19 members expected 50bps of cuts), while the 2025 median dot reflected 100bps of cuts. We do note that past median dots have not been particularly accurate in predicting the actual outcome.
- **Key risk to our base-case** is higher than expected inflation outcome, which may arise from another supply-side shock, stronger consumer demand and wage growth, and/or domestic politics.

Predicted (June Dot plot) vs actual changes in the Fed funds rate





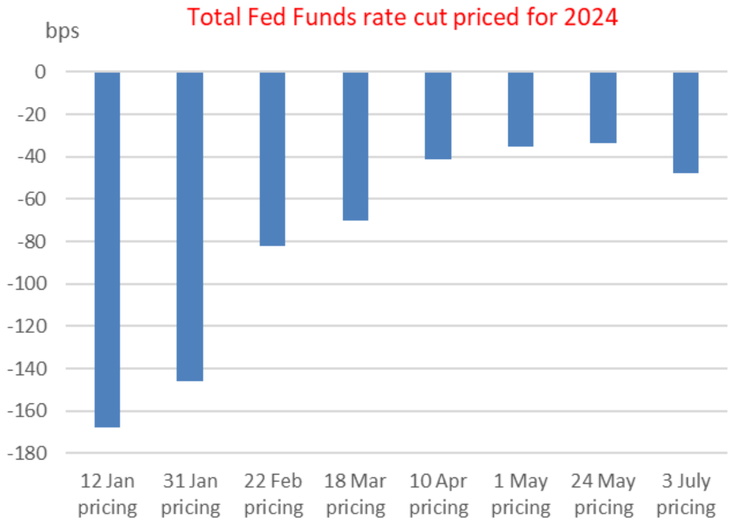
Source: FOMC, Bloomberg, OCBC Research

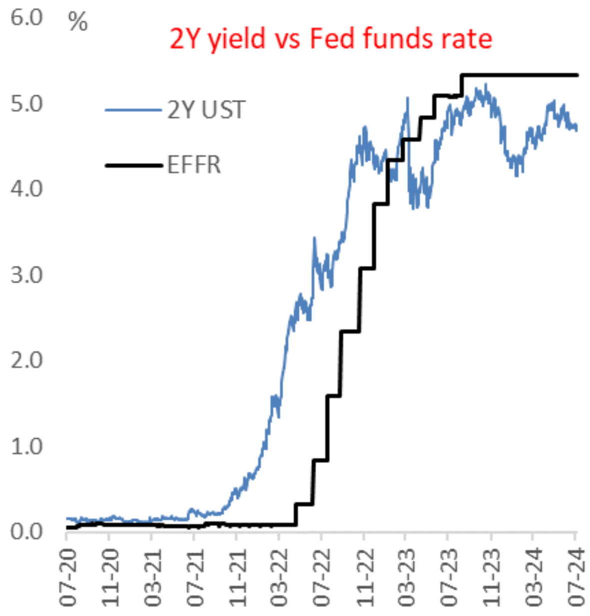
O median dot, count from left to right

Short-End UST yields

- Market pricing of Fed funds rate has fluctuated a lot. Market had pared back the aggressive pricing at the start of the year but have recently moved away from the more hawkish pricing in May. Fed funds futures last priced a total of 48bps of rate cuts by year end, with chance of a 25bp cut by the September meeting seen at 80%. Current pricings look roughly fair to us.
- The 2Y UST yield has been moving consistently with market pricing of Fed funds rates, plus a (varying) term premium. As time goes by, even without a further dovish adjustment in the market pricing of Fed funds rate trajectory, the 2Y yield shall trend lower as the rate cuts priced will be increasingly factored into the valuation of short-end bond yields.

Market pricing of Fed funds rate has been volatile





OCBC interest rates forecasts*

	Q324	Q424	Q125	Q225
FFTR Upper	5.25	5.00	4.75	4.50
SOFR	5.08	4.83	4.58	4.35
2Y UST	4.50	4.25	4.10	3.95
10Y UST	4.20	4.05	4.05	4.00

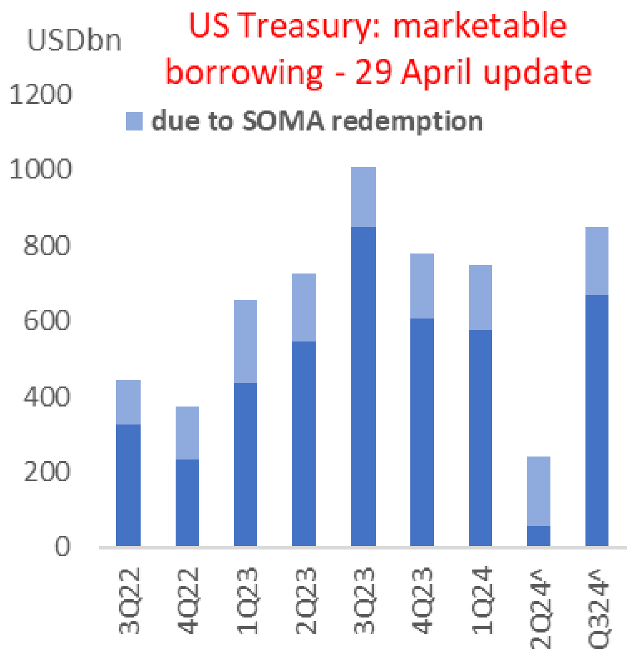
*for a full set of USD rates and UST yields forecasts, please refer to *OCBC Monthly Research Monitor.*

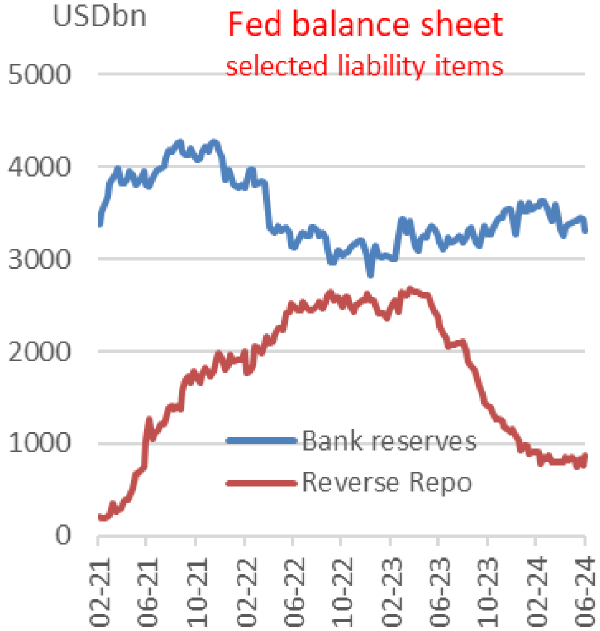
OCBC

Source: Bloomberg, OCBC Research

US Treasury's Refunding Plan

- The CBO now projects FY2024 budget deficit at USD1.9trn, USD400bn more than its projection made in February.
- **We assume additional funding needs to come mainly from bill issuances which shall be manageable in the next couple of quarters**. Coupon bond auction sizes shall be left little changed.
- First, the liquidity condition has stayed largely supportive with bank reserves last at USD3.3trn (as of 26 June), and reverse repo last at USD880bn (as of 26 June, while o/n reverse repo stood at USD426bn on 3 July).
- Second, TGA balance is on the high side at USD769bn (2 July); there is room for US Treasury to adjust its target (USD850bn for 3Q24) lower if need be.
- Third, QT taper *per se* shall lead to some downward adjustment to refunding needs; QT via Treasury securities will amount to USD175bn for the June-December period, instead of USD331bn, in our estimates, which leaves a headroom of USD156bn.
- The next quarter refunding documents are to be released on 29 July. We expect additional bills issuances at around USD200bn.
- Granted, the medium-term fiscal outlook – and hence bond supply – will remain as a risk factor.

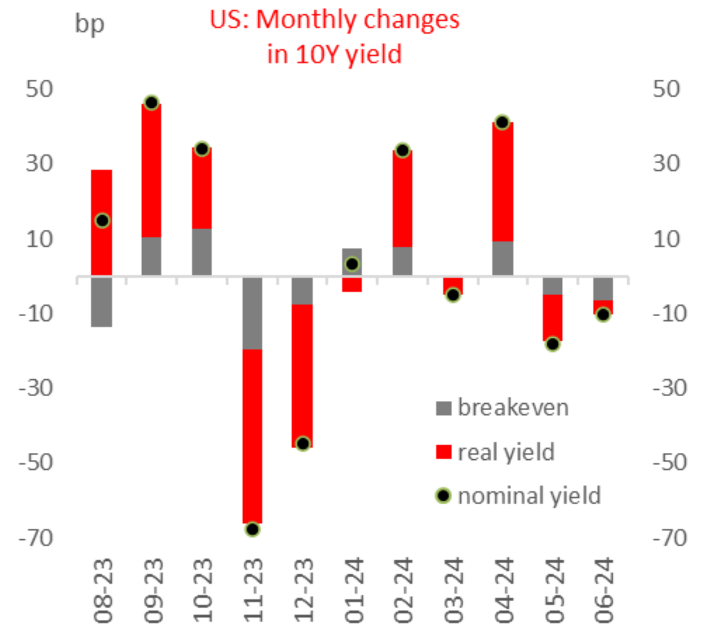


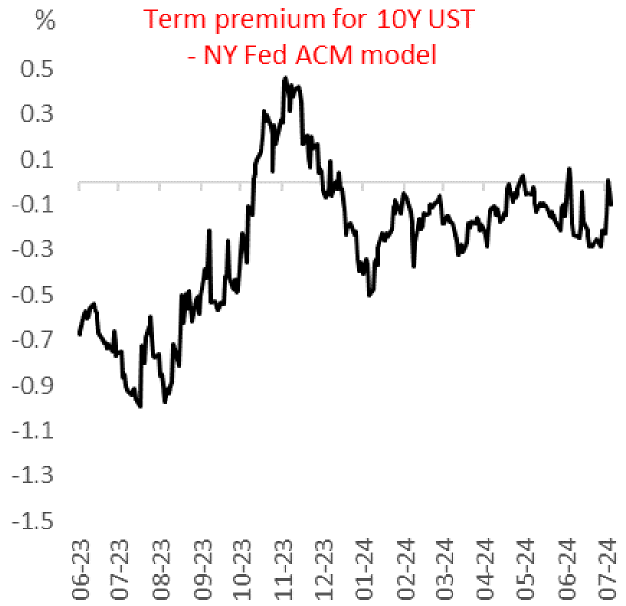


Source: US Treasury, Bloomberg, OCBC Research
^ Treasury's estimates before QT taper decision and before the June revised fiscal projections.

Long-End Yields: Real Yield, Breakeven

- During the upward move in the first four months of the year, the 10Y UST yield was driven mainly by higher real yield (which accounted for around 70% of the upticks during that period). During May and June, the downward adjustment was more evenly borne by breakeven and real yield (real yield still accounted for around 59% of the move).
- Long-term breakeven even at levels mildly above 2% shall be seen as desirable from a policy perspective, given the current 2% inflation target while inflation may exhibit some structural upside in the longer term.
- As such, **downside to nominal yield would require real yield to go lower**, in our view. It is difficult to pin down where the equilibrium real yield level should be, and it depends to a large extent on which episodes are used for comparison. Referencing the period from Q42013 to Q42019, we see downside to 10Y real yield at current level.
- **Risk to our forecasts comes mainly from the term premium**. Investors may want to incorporate higher term premium to long-end yields due to domestic politics. While this factor may post upside risk to our yield expectations, it would nevertheless add to our steepening bias.

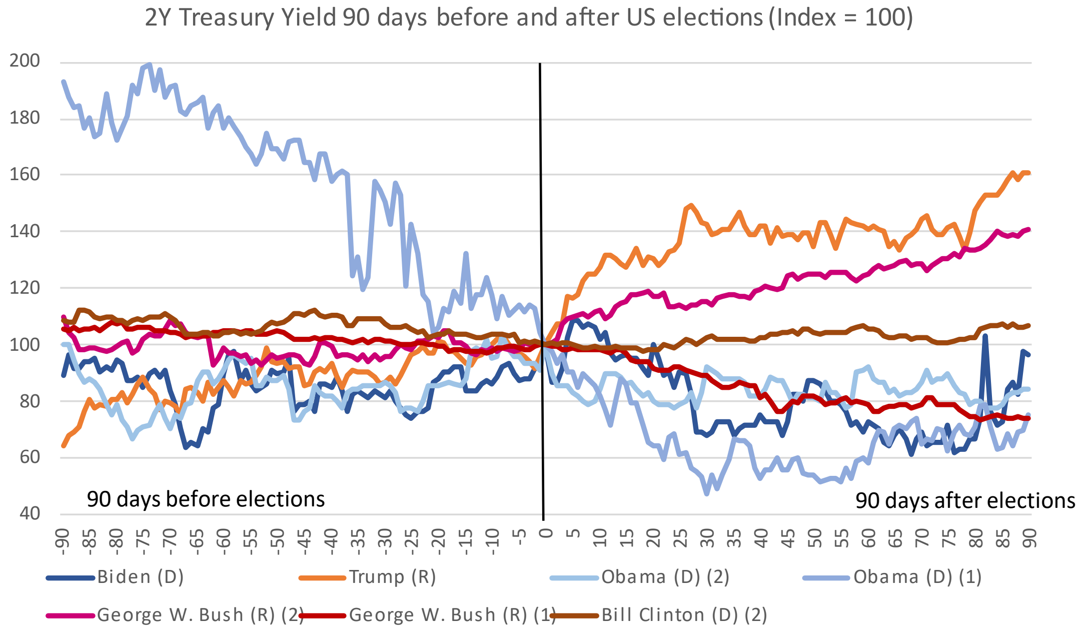




Source: Bloomberg, OCBC Research

Implications of US Elections

- We review movements in the 2Y and 10Y UST yields before and after past US elections. There may be an impression that short-end bond yields tended to go up when a Republican candidate won the presidency. But that was **mostly attributable to the prevailing monetary policy cycle**, which was in turn based on the then economic fundamentals, in our view.
- For example, in the run-up to and after *Obama 2008 election*, the 2Y UST yield was falling, as it happened after a slew of rate cuts and when market anticipated another round of rate cuts which materialized. Around *Clinton 1996 election*, the 2Y yield was relatively stable, precisely as the Fed funds rate was held steady during that period.
- Before *Trump 2016 election*, 2Y yield rose modestly after the 25bp Fed funds rate hike in December 2015; after the election, 2Y yield rose more rapidly as the Fed followed with additional rate hikes. After *Bush 2004 election*, the 2Y yield started to rise as the Fed started the hiking cycle. Around *Bush 2000 election*, the 2Y yield was relatively stable which also coincided with Fed funds rate staying steady.

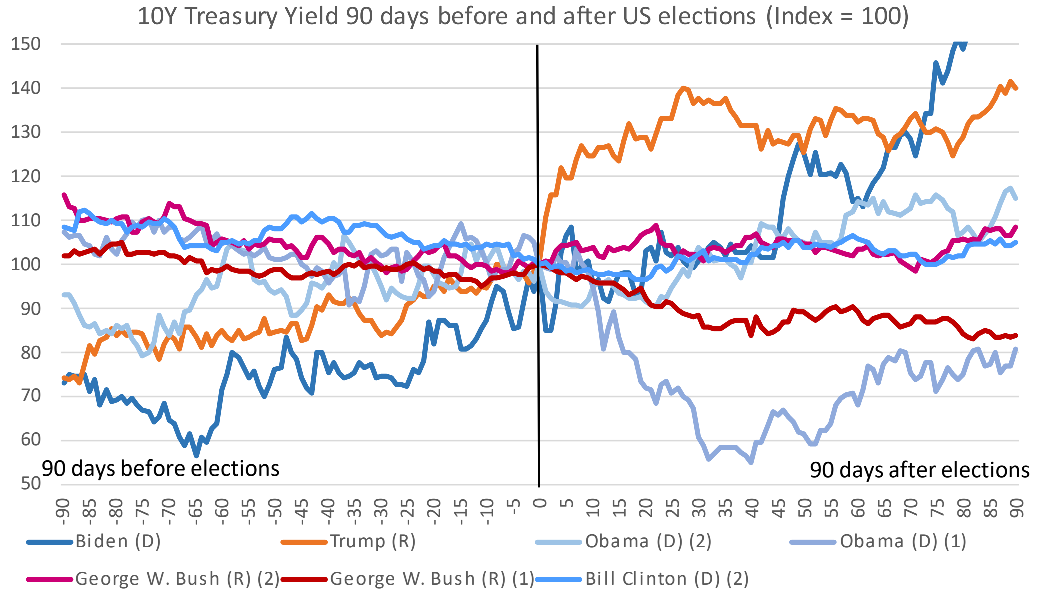


Note: (D) refers to Democrat Presidents and (R) refers to Republican Presents. (1) refers to the first term and (2) refers to their second term in office. Values are indexed to 100 on the day of the elections.

Source: NY Fed, Bloomberg, OCBC Research

Implication of US Elections

- Past movements in the 10Y UST yield may help illustrate the point that we shall not make generalized conclusions. The 10Y yield rose steadily after *Biden 2020 election* and after *Trump 2016 election*.
- The popular theory is that Trump's stance on immigration, trade, and tax may lead to an upward bias in inflation and bond supply. We however do not automatically assume that under Trump, inflation will be materially higher or fiscal deficits will be materially wider than otherwise. Our view is that **wide fiscal deficits are here to stay, regardless of which candidate wins**.
- The largest contributor to the latest upward revisions in US fiscal deficits through to 2034 was the recently enacted legislation, which included emergency supplemental appropriations that provided aid to a number of countries. Meanwhile, mandatory spending represents a significant share of fiscal outlays; these expenditure items can be fairly rigid.
- Our take on bills and bond supply for next couple of quarters has been laid out in previous slides, while we have cited term premium as a potential risk in our long-end yield forecasts.



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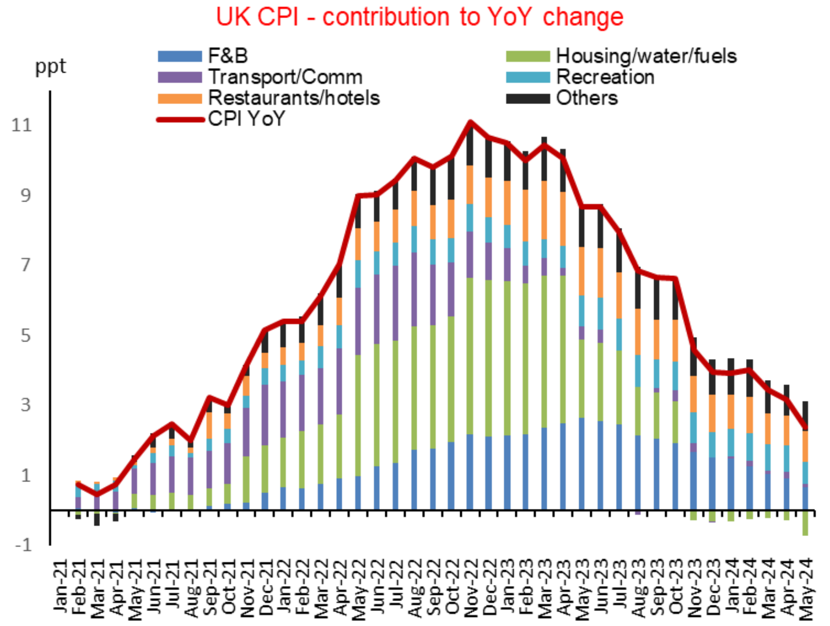
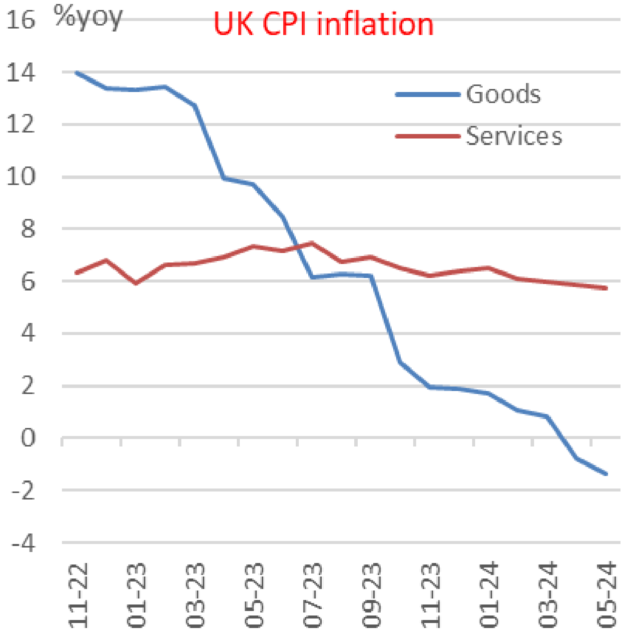
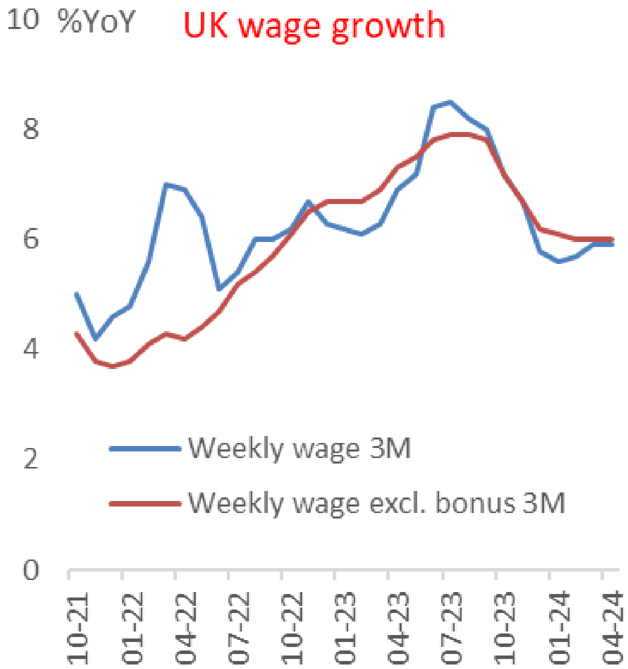
Source: NY Fed, Bloomberg, OCBC Research

UK Inflation Eased, But Watch Wages

- CPI inflation eased to the latest 2.0% YoY in May; goods price inflation fell from negative 0.8%YoY to negative 1.3%YoY while services inflation eased from 5.9%YoY to 5.7%YoY. Looking ahead, amid a combination of counteracting factors including lower energy price caps, but resilient household spending and a potential pick-up in tourism spending, we expect inflation to hover around the recent low levels in the coming months.
- **A benign inflation environment will allow the BoE to start cutting the policy rate**. Our base-case is for a total of 50bps of cuts in 2H-2024, which shall still leave the monetary policy environment restrictive.
- **Key risk to watch is wage pressure**, which appears to be sticky downward at current levels.



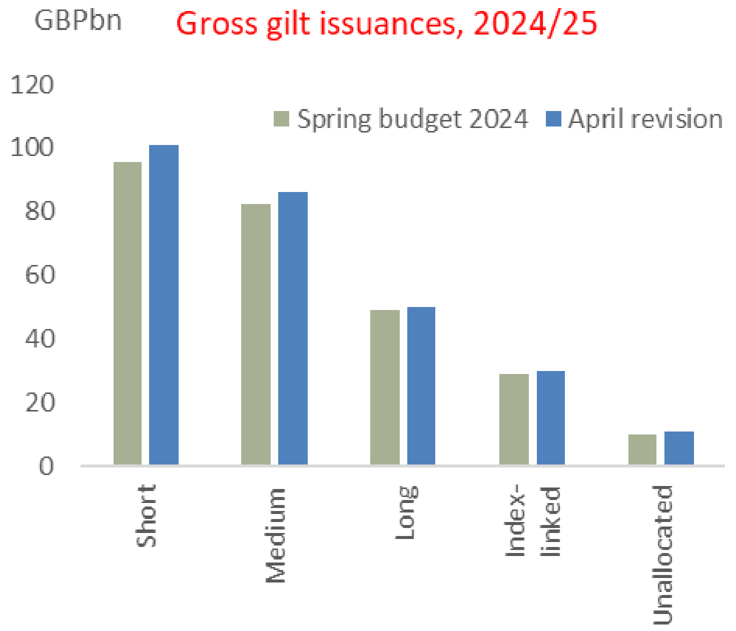


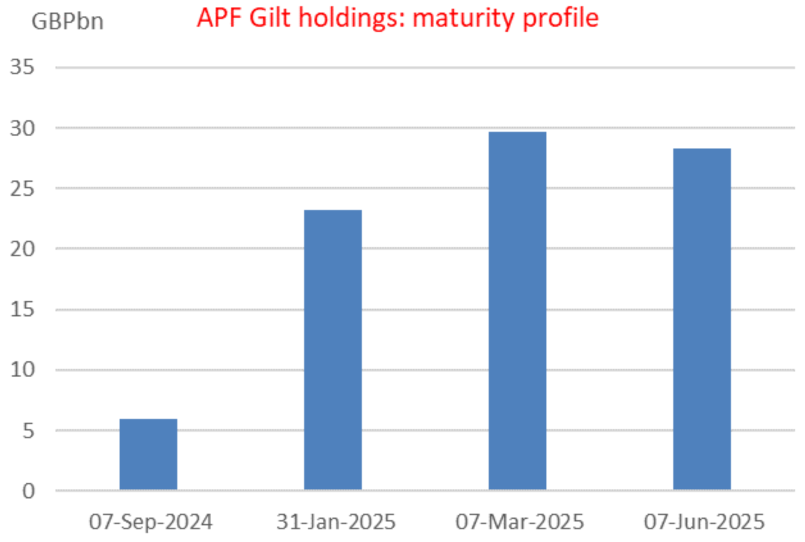


Source: Bloomberg, CEIC, OCBC Research

UK: Bond Supply Outlook

- **The DMO revised upward financing remit at its April update**. The latest estimates of DMO's net financing requirement for 2024-25 has been revised up by GBP12.4bn compared to the Spring Budget, mainly attributable to the outturn in 2023-24 which affected the adjustment carried forward. Most of the increase in financing needs would be managed via higher gilt sales – mainly of short conventional and medium conventional gilts. Four additional gilt auctions will take place in the months of July 2024, August 2024, February 2025 and March 2025. There is still GBP11bn of unallocated portion of gilt issuance.
- QT is currently running at an annual pace of GBP100bn for the period October 2023 to September 2024, when GBP50bn of Gilts held under APF matured/mature. For the next 12-month period, APF gilt maturity is at GBP87bn. Even if BoE maintains this annual GBP100bn pace, **heavier APF gilt maturity will be a buffer to active gilt sales**. There is even a possibility that the BoE may decide to slow QT to be passive only, without active gilt sales.
- Overall, the supply outlook is neutral, to mildly supportive of long-end gilts.





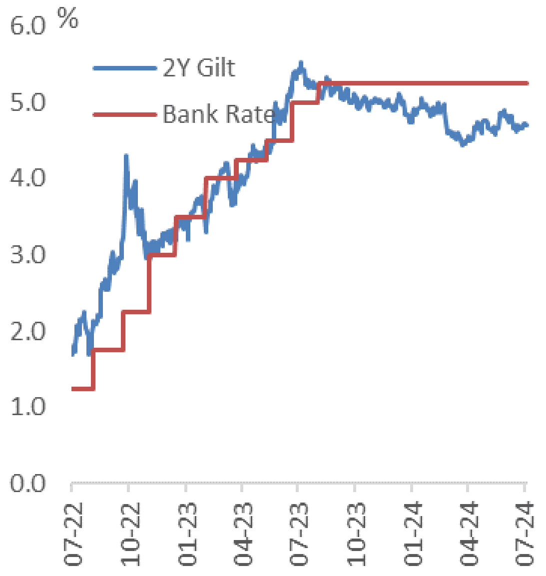
Source: BoE, UK DMO, UK OBR, OCBC Research

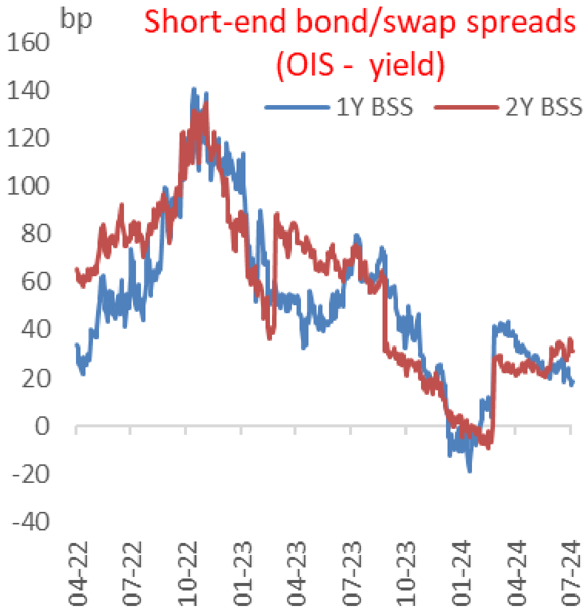
Gilts and GBP Rates

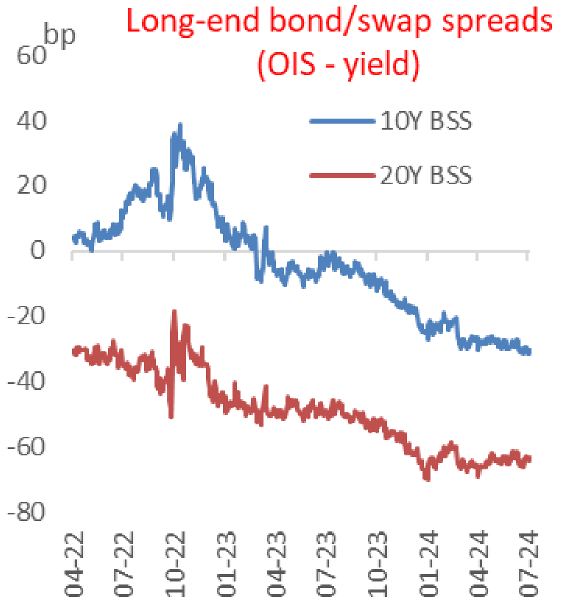
- GBP OIS last priced around 44bps of rate cuts by year-end, which was in line with our base-case of 50bps. Pricings were distributed across the remaining four MPC meetings of the year and we do not see major dislocation in the pricings.
- Despite perceived risk of fiscal slippage due to the recent election outcome, we see limited room for long-end bond/swap spreads to narrow further given a stable supply outlook. We are more inclined to assume policy continuity in terms of both near-term fiscal policy not least because of the small fiscal headroom, and the medium-term fiscal consolidation goal.

OCBC interest rates forecasts

	Q324	Q424	Q125	Q225
BoE Base Rate	5.00	4.75	4.50	4.25
GBP SONIA	4.95	4.70	4.45	4.20
2Y GBP OIS	4.40	4.25	4.10	3.95







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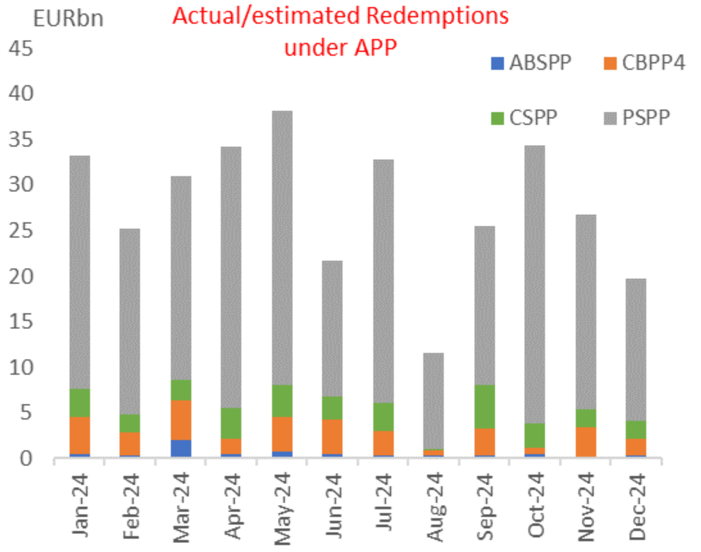
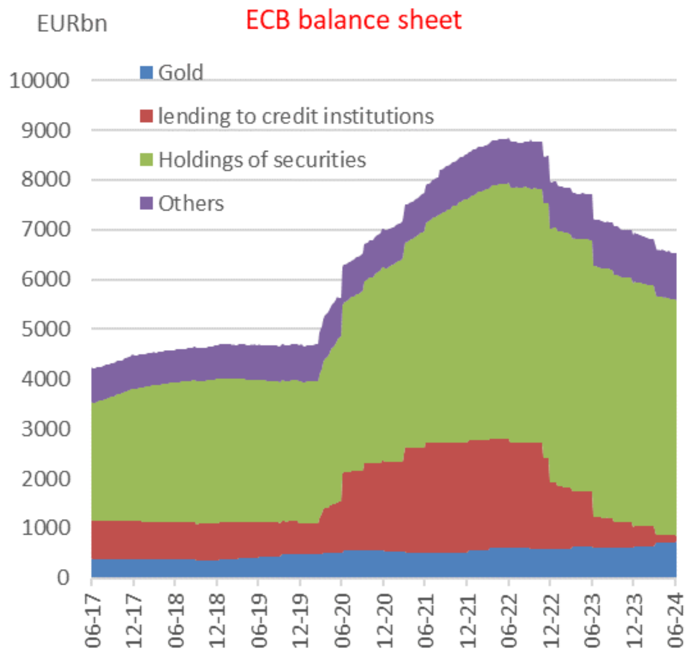
Source: Bloomberg, OCBC Research

ECB – More Easing; Manageable Balance Sheet Run-Off

- Our base-case is a total of 50bps of policy rate cuts in 2H-2024, after the 25bp rate cuts delivered at the June MPC meeting. EUR OIS last priced a total of 47bps of cuts by year-end, which looked fair to us.
- Passive QT has been underway. **Total QT via APP and PEPP is estimated to average EUR32.6bn per month in 2H-2024**, similar to the EUR30.6bn per month in 1H-2024. Estimated redemptions under APP average EUR25.1bn per month in 2H-2024 versus EUR30.6bn per month in 1H-2024; in addition, QT via PEPP has been planned at an average EUR7.5bn per month in 2H-2024.
- On the other hand, **balance sheet run-off via expiring lending has mostly run its course** – which stood at EUR95bn as of 28 June versus EUR410bn at end-2023 on the ECB's balance sheet. In aggregate, the pace of balance-sheet run off shall be manageable.





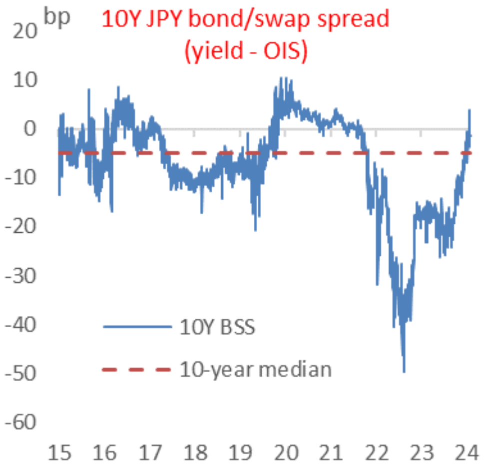
OCBC interest rates forecasts

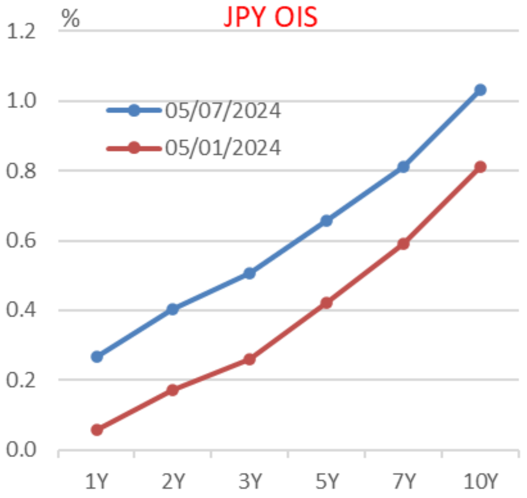
	Q324	Q424	Q125	Q225
ECB Depo	3.50	3.25	3.00	2.75
1M EURIBOR	3.40	3.35	2.90	2.70
3M EURIBOR	3.45	3.20	2.95	2.75

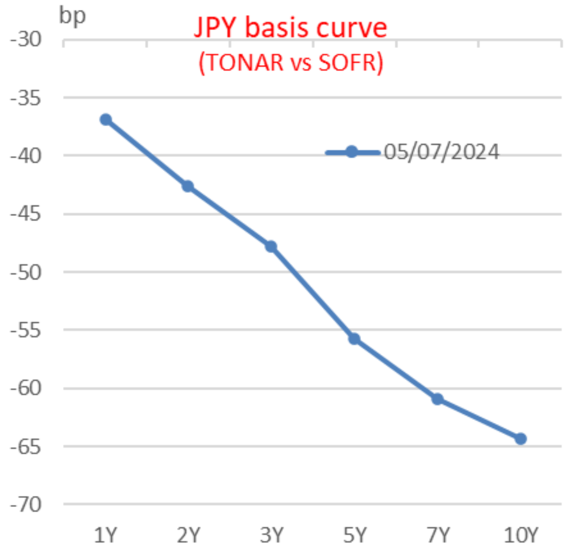
Source: ECB, Bloomberg, OCBC Research

BoJ: Further Tightening

- Prospects for a virtuous cycle being formed between wage growth and inflation, and hence for inflation to stay sustainably around the 2% target, shall allow the Bank of Japan to gradually move away from an ultra-loose monetary setting via both interest rate and balance sheet policies. **We expect the BoJ target rate to be raised to 0.2-0.3% by year-end**. Risk to our expected target rate is to the upside.
- To achieve "a sizeable reduction in the purchase amount" of JGBs, the BoJ **may tweak its monthly purchase guidance from JPY6trn to JPY4.0-4.5trn.** Around JPY18trn of JGBs held by the BoJ mature in Q3 and JPY15trn mature in Q4; a monthly purchase pace of JPY4.0-4.5trn would translate into QT of JPY6-9trn in H2-2024, which still represents a slow pace of balance sheet run-off.
- Referencing the recent peak in the 20Y JGB yield, and assuming the 10s20s spread would move nearer 10-year median levels, then we see the next support for the 10Y JGB at 1.15-1.25% area in terms of yield.
- For JPY-funded investors, asset swaps into USTs have not been appealing; marginal impact of small policy rate hikes shall not be huge.



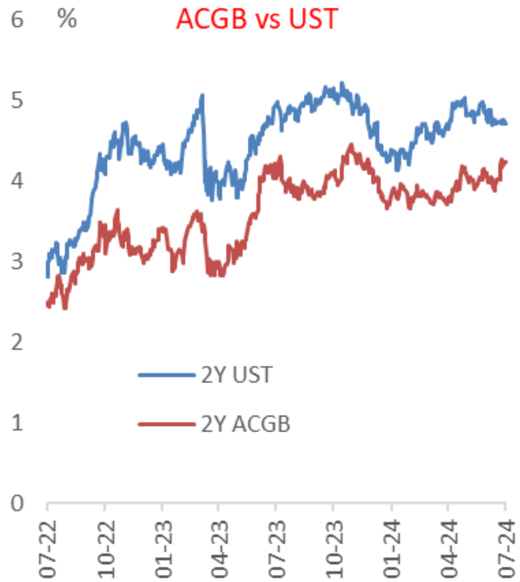




Source: Bloomberg, OCBC Research

AUD Rates: Front-End Pricing Mildly Hawkish

- The increased hawkishness from the RBA stemmed mainly from the higher-than-expected May inflation prints and the upward revision to the consumption time series.
- Still, the recent MPC minutes suggest that the discussions about a potential rate hike appear to be of a risk management nature, in our view. On balance, we continue to see **the next move as more likely to be a rate cut than a rate hike**; while it has been our long-held view that **the RBA will be lagging most DM central banks in an easing cycle**. We have pencil in a 25bp cut in the OCR at the December MPC meeting.
- Cash rate futures last priced a 45% chance of a 25bp hike by year-end, which looks mildly hawkish to us. That said, the misalignment we see is probably too narrow to justify outright receive positions at front-end AUD rates at this juncture, given upside risk to inflation. We expect the benchmark 3M BBSW to stay fairly stable at 4.35-4.45% before December. Front-end AUD rates are likely to underperform USD rates on a multi-month horizon.



Source: Bloomberg, OCBC Research

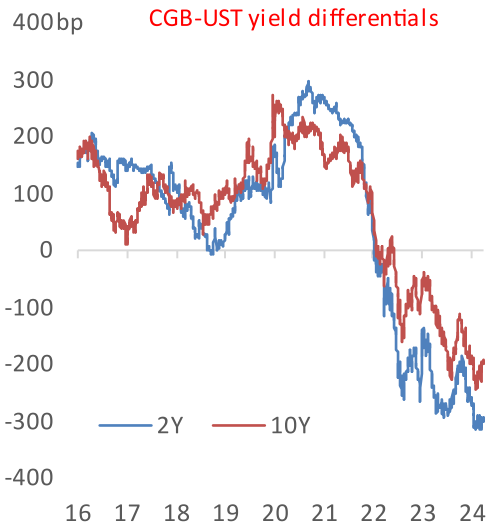
OCBC interest rates forecasts

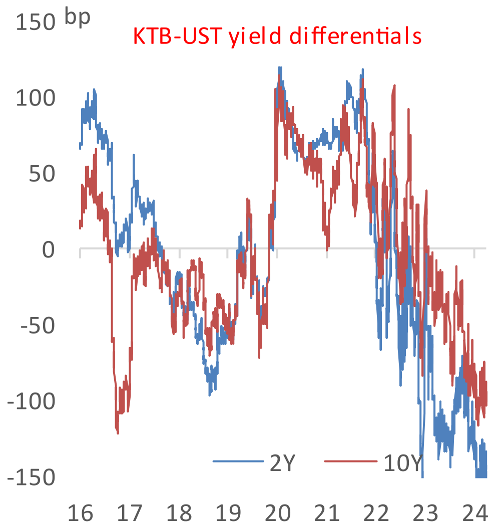
	Q324	Q424	Q125	Q225
RBA OCR	4.35	4.10	4.10	3.85
1M BBSW	4.30	4.10	4.15	3.90
3M BBSW	4.45	4.20	4.20	3.95

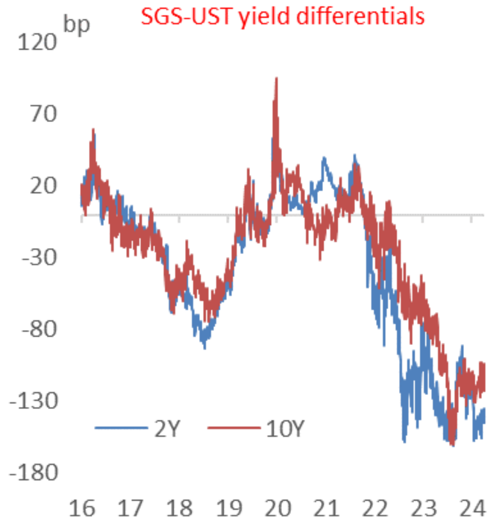
Asian Rates

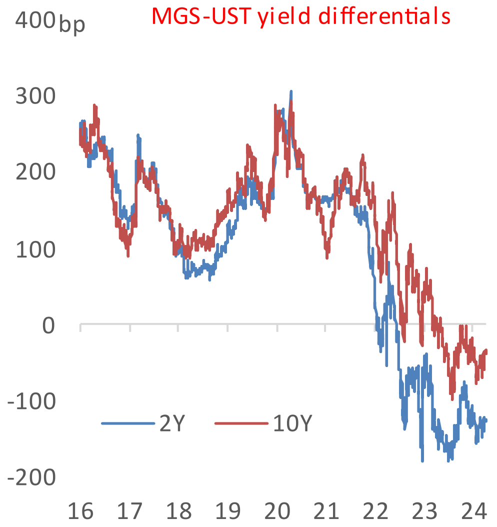
Asia: Nominal Yield Differentials with USTs

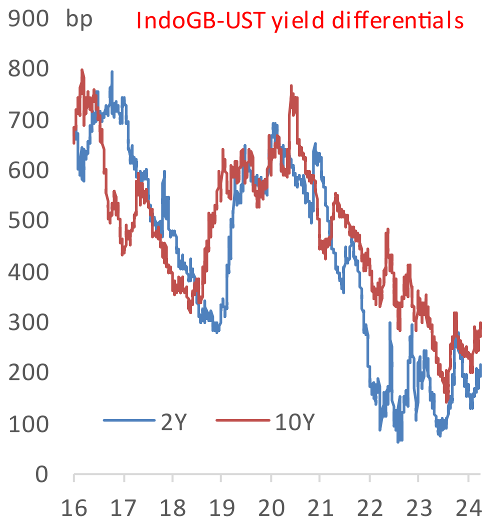
- As US yields refused to go lower, Asia-US nominal yields differentials have remained much compressed. There were some scatters of widening in the spreads in some markets, but the development overall was against our expectations made at the start of the year for a broader widening trend in Asia-UST yield spreads.

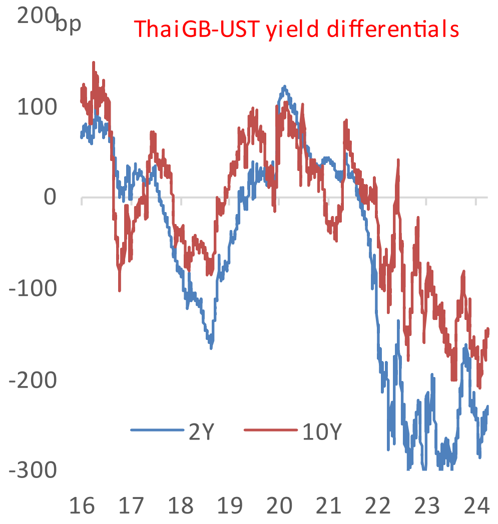








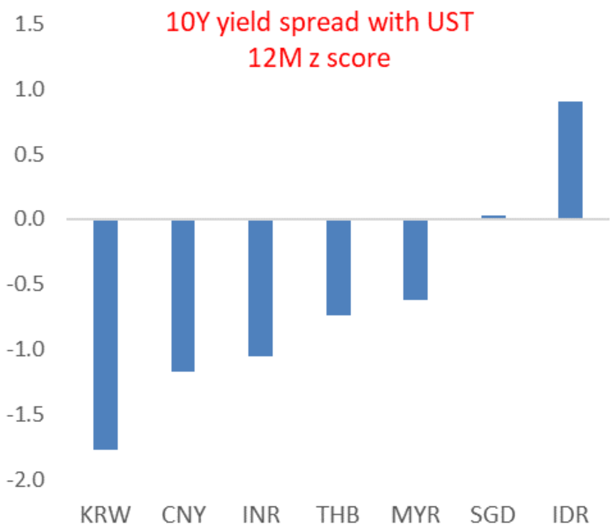


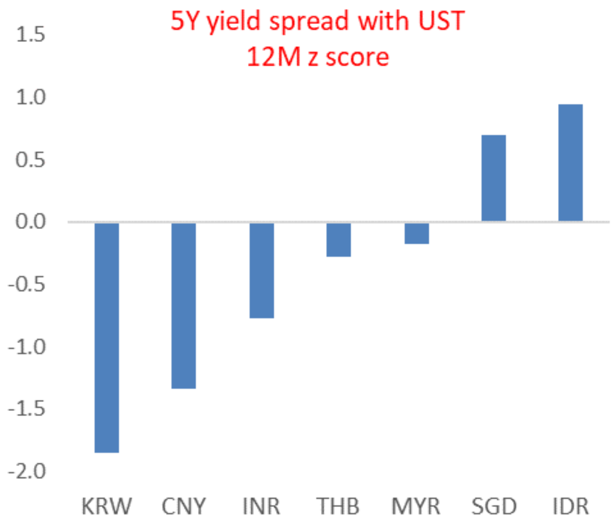


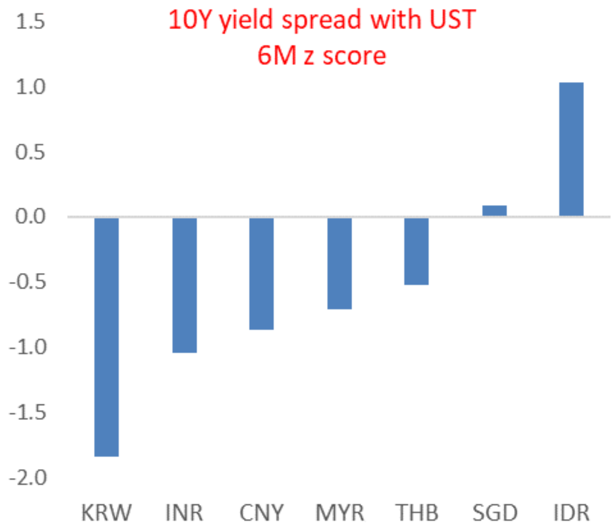
Source: Bloomberg, OCBC Research

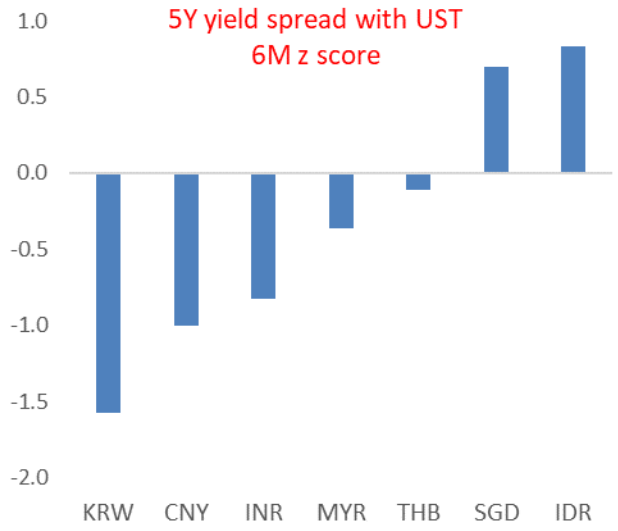
Nominal Yield Differential Performances

- Yield differentials with USTs widened over the past months in the IDR and SGD markets. For IndoGBs, 10Y yield differential was last at around one standard deviation wider than 6-month average and 5Y yield differential was last at around 0.8 standard deviation wider. For SGS, 5Y yield differential was last at 0.7 standard deviation wider than 6-month average.
- For most other Asian LCY markets, yield differentials have been further compressed over past months, notably for KTBs, CGBs and G-Sec (India).
- Overall, compared to a longer time series, yield differentials are narrow. We **expect Asia LCY government bonds to underperform USTs when rates and yields embark on a more established downward path**, as a normalization process while room for rate cuts is more limited in Asia.





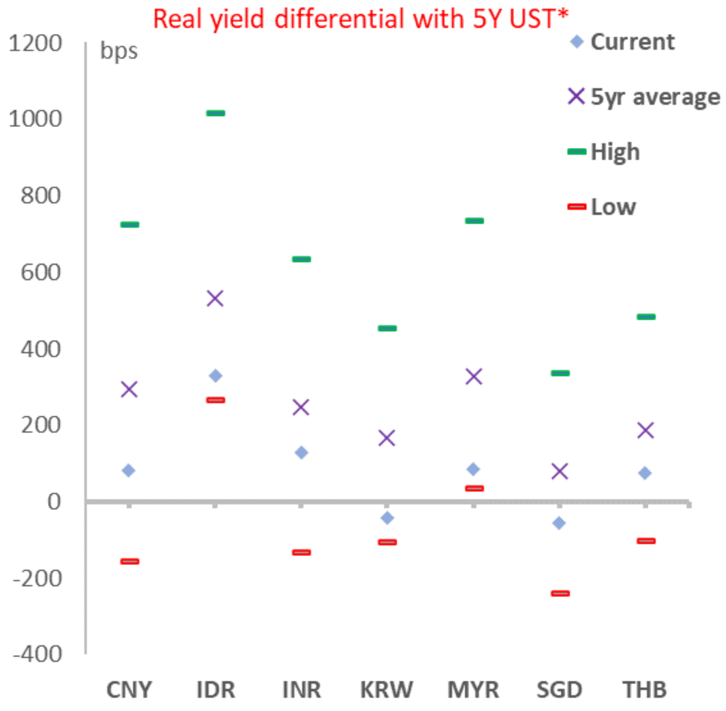


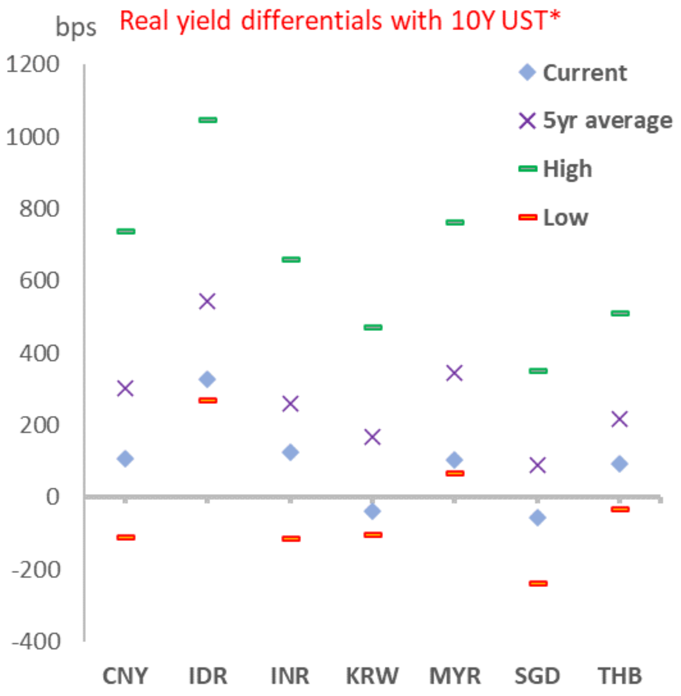


Source: Bloomberg, OCBC Research
*as of 3 July 2024

Real Yield Differentials

- Real yield differentials between Asian LCY government bond yields over USTs are mostly below multi-year averages; differentials are nearer multi-year lows in the IDR, KRW, and MYR markets.
- One of the main limitations of our measurement is that nominal yields are discounted by past averages of CPI instead of inflation expectations, as information on the latter is not readily available in most Asian markets.

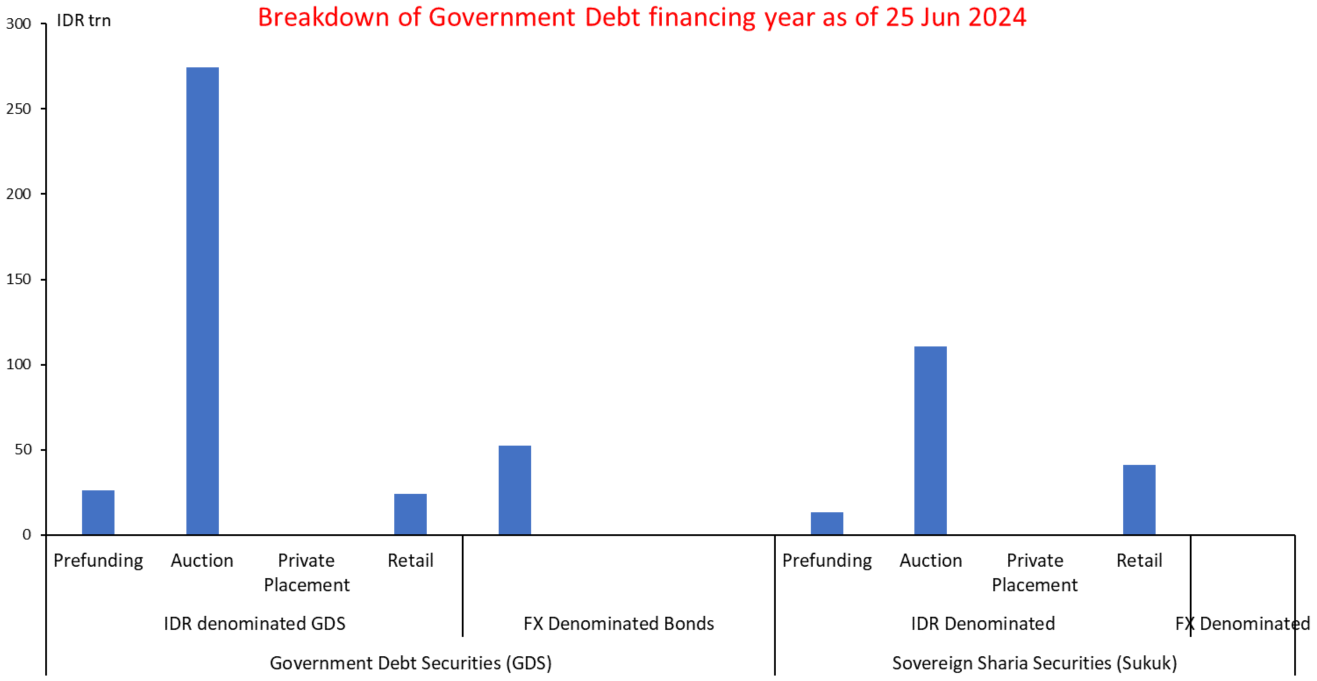




Source: Bloomberg, OCBC Research
*discounted by 3-month average of YoY CPI; as of 4 July

IDR: Debt Financing

- Year-to-date (as of 25 June), gross debt financing amounted to IDR541trn, through IndoGB (conventional and sukuk bonds + bills) auctions, retail tranches, private placement, international bond offering, and prefunding. Adding in the latest IDR sukuk auction and international sukuk auctions, gross debt financing should have risen to IDR586trn. Debt financing is on track with full year target, assuming fiscal deficit stays at 2.3% to GDP.
- **The supply outlook is neutral in H2-2024, with no additional funding pressure at this juncture**. Fiscal surplus was at IDR75.7trn against net financing of IDR71.1trn as of 30 April.
- Budget 2025 will be announced in August. While Prabowo is likely to adopt a more expansionary fiscal policy in the years ahead, we expect a fair bit of fiscal vigilance at the same time. For 2025, the Budget Framework has fiscal deficit to be within 2.45-2.82% to GDP.



Source: DJPPR, OCBC Research

IndoGB Auctions

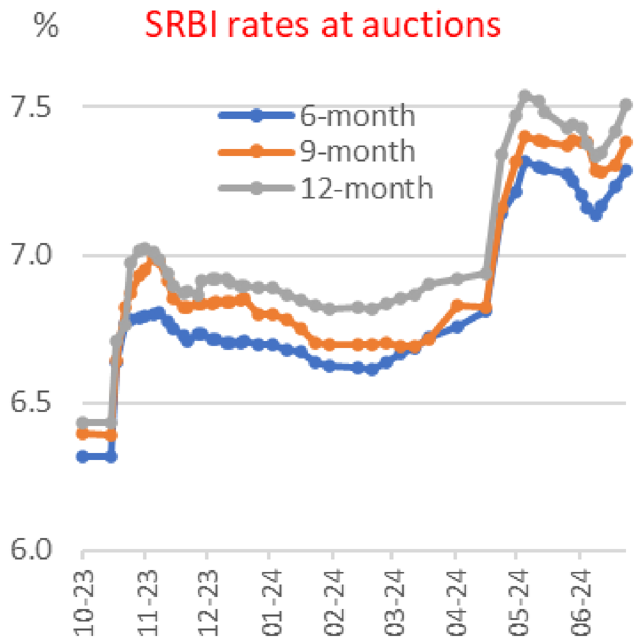
- Demand recovered at recent conventional bond auctions, although that at sukuk auctions was somewhat lukewarm. Nevertheless, with funding pressure on the low side, MoF managed to keep **cut-offs for most of the time nearer lowest incoming bid levels**.
- Issuance target for Q3 has been set at IDR215trn. With 6 conventional bond auctions and 7 sukuk auctions in the quarter, the quarterly target will be **consistent with individual auction size of IDR22trn for conventional bonds and of IDR12trn for sukuk**.
- Given current information on fiscal positions, we expect most of the auctions will not be upsized. Granted, the actual outcomes depend on how the fiscal positions evolve and MoF may also want to pre-fund for next year.

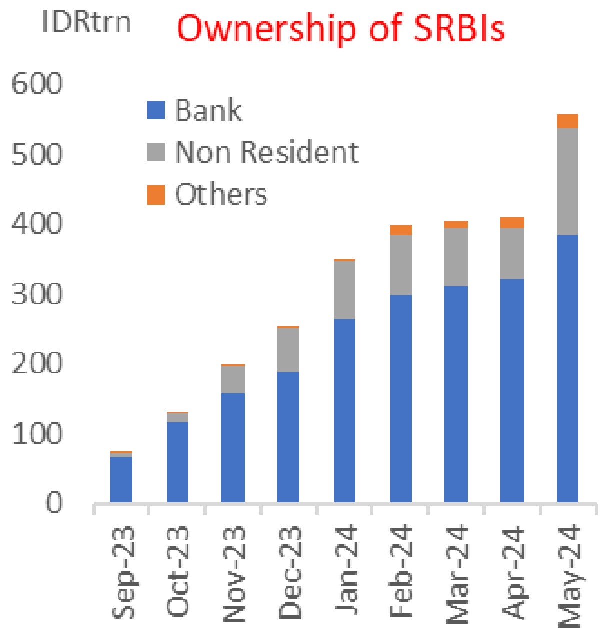
Months	Auction Dates	SPN		ON						SPNS		PBS						Total incoming Bid IDRtrn	Total Awarded Bid IDRtrn	Actual / Quarterly Target IDRtrn
April	23-Apr-24									6M	9M	2Y	4Y		13Y	17Y	25Y	25.4	11.0	
	30-Apr-24	3M	12M	5Y		10Y	15Y	20Y	30Y									50.2	21.5	
Total																		75.6	32.5	
May	06-May-24									6M	9M	2Y	4Y	7Y	13Y		25Y	16.0	7.0	
	14-May-24	3M	12M	5Y		10Y	15Y	20Y	30Y									49.4	21.4	
	20-May-24									6M	9M	2Y	4Y		13Y	17Y	25Y	16.5	8.1	
	28-May-24	3M	12M	5Y	8Y	10Y	15Y	20Y	30Y									47.1	22.0	154
Total																		129.0	58.5	
June	04-Jun-24									6M	9M	2Y	4Y	7Y	13Y		25Y	26.2	10.0	
	11-Jun-24	3M	12M	5Y		10Y	15Y	20Y	30Y									43.0	22.0	
	19-Jun-24									6M	9M	2Y	4Y		13Y	17Y	25Y	16.3	8.0	
	25-Jun-24	3M	12M	5Y		10Y	15Y	20Y	30Y									56.4	23.0	
Total																		141.9	63.0	
Q2 Total																		346.5	154.0	
July	02-Jul-24									6M	9M	2Y	4Y	7Y	13Y		25Y	18.0	7.2	
	09-Jul-24	3M	12M	5Y		10Y	15Y	20Y	30Y											
	16-Jul-24									6M	9M	2Y	4Y		13Y	17Y	25Y			
	23-Jul-24	3M	12M	5Y		10Y	15Y	20Y	30Y											
	30-Jul-24									6M	9M	2Y	4Y	7Y	13Y		25Y			
Total																				
August	06-Aug-24	3M	12M	5Y	8Y	10Y	15Y	20Y	30Y											
	13-Aug-24									6M	9M	2Y	4Y		13Y	17Y	25Y			215
	20-Aug-24	3M	12M	5Y		10Y	15Y	20Y	30Y											
	27-Aug-24									6M	9M	2Y	4Y	7Y	13Y		25Y			
Total																				
September	03-Sep-24	3M	12M	5Y		10Y	15Y	20Y	30Y											
	10-Sep-24									6M	9M	2Y	4Y		13Y	17Y	25Y			
	17-Sep-24	3M	12M	5Y		10Y	15Y	20Y	30Y											
	24-Sep-24									6M	9M	2Y	4Y	7Y	13Y		25Y			
Total																				

Source: DJPPR, OCBC Research

IDR: Short-End Rates

- Our house view is for Bank Indonesia to cut its policy rate by a total of 50bps in 4Q24, with the expected start of the Fed easing cycle providing some headroom for BI to shift its focus to supporting growth.
- Meanwhile, Bank Indonesia has various tools to curb FX volatility, including SRBIs, FX term deposits, SVBI/SUVBI and DNDF. SRBI rates have stayed higher than short-end IndoGB yields, which have attracted foreign inflows. Foreign ownership of SRBIs rose by IDR90trn from end-2023 to end-May 2024.
- The spillover from the higher SRBI rates onto short-end IndoGBs has not been bigger probably due to a lack of bond supply. But then **the consequence could be a diversion of flows, instead of additional flows**. During the first five months, foreign outflows from IndoGBs of tenor 1-year or below is estimated at IDR76trn, mostly matching the inflows into SRBIs.
- As short-end bond yields are not particularly attractive compared to available alternatives**, we see less room for short-end IndoGB yields to fall compared to our expected BI rate cuts**.

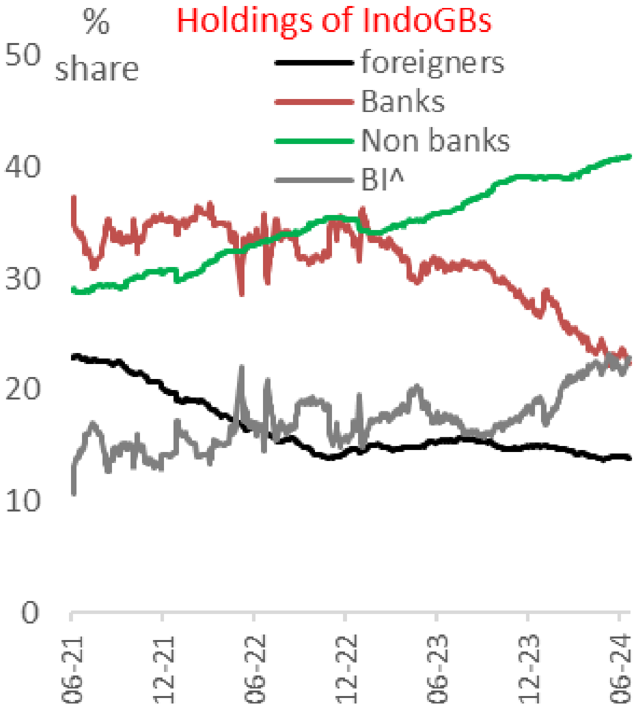




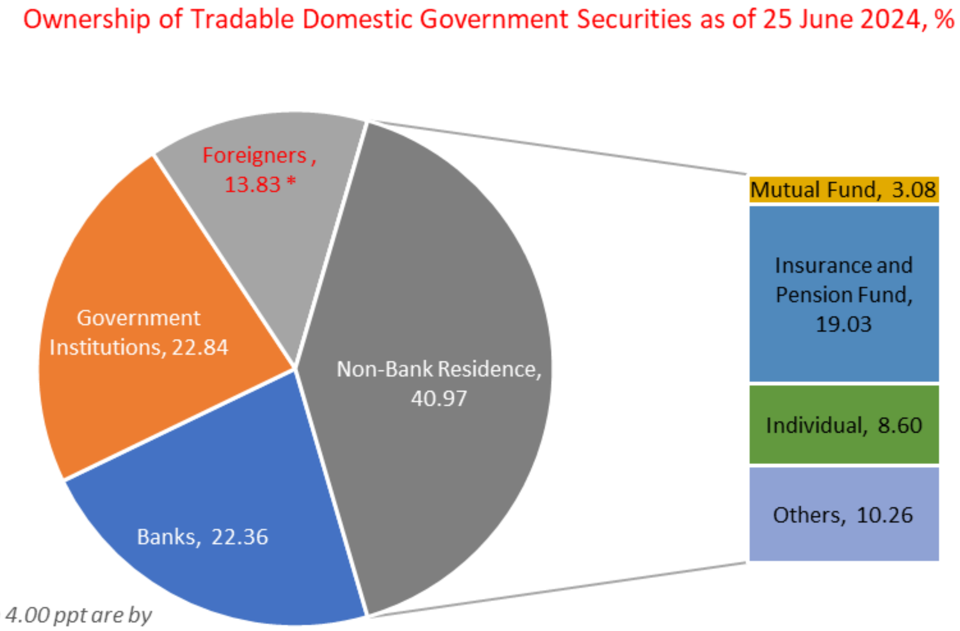
Source: Bank Indonesia, OCBC Research

IndoGBs: Bond Demand

- Banks have reduced holdings of IndoGBs year-to-date (as of 24 June), while there were some foreign outflows. Other domestic investors, namely, non-bank investors and Bank Indonesia, more than made up for the shortfalls.
- The reduction of holdings by bank might be partly attributable to the pick-up in loan growth which averaged 11.8% in 1Q24 versus 9.7% in 4Q23. Looking ahead, there may be some recovery in bank demand if loan growth stabilises.
- Yield spreads with USTs have improved somewhat over the past month. But **the dilemma here is that domestic demand may keep IndoGB yields at levels which are not decisively appealing to foreign investors**; a lower US yields environment is needed, after all, for inflows to make a strong comeback.



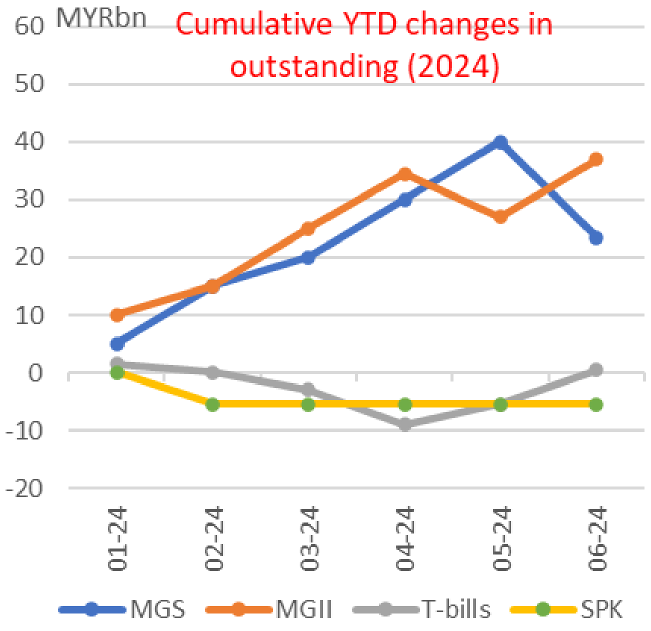
Source: Bloomberg, DJPPR, OCBC Research
^excluding holdings for monetary operations



*Of which 4.00 ppt are by Foreign Government(s) & Central Bank

MGS: Neutral Supply Outlook

- Net impact of fiscal measures including diesel/electricity subsidy rationalization, tax measures and increase in civil servant salaries are estimated by OCBC economists at a reduction of fiscal deficits of 0.5% to GDP. Fiscal deficit target of 4.3% to GDP is on track.
- We keep our expectation of gross MGS+MGII supply at MYR178-180bn for 2024. This supply outlook is neutral. Key swing factors are outstanding bills, and the fiscal outcome itself. Net bills issuance was virtually flat year-to-date, versus a reduction of MYR11.5bn in 2023. Next to watch is Budget 2025, which is likely to be tabled in October 2024.

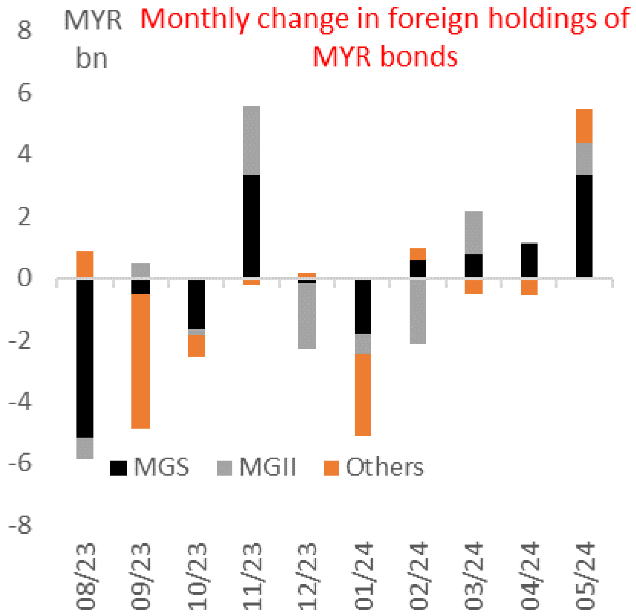


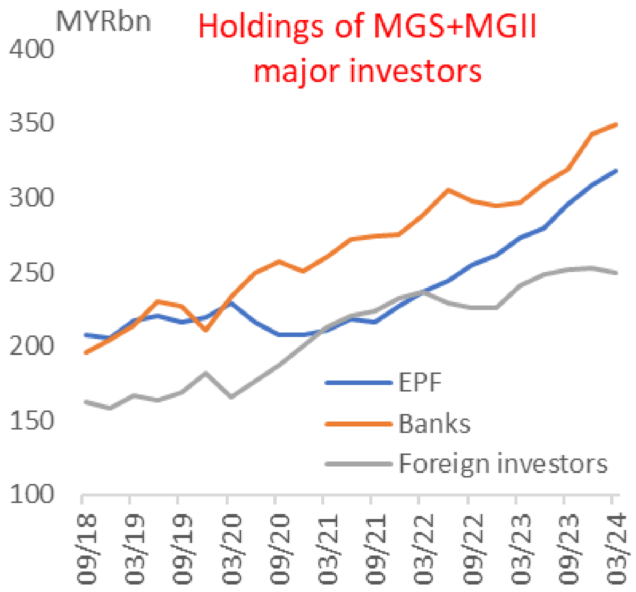
Source: BNM, CEIC, OCBC Research
*including those via private placement

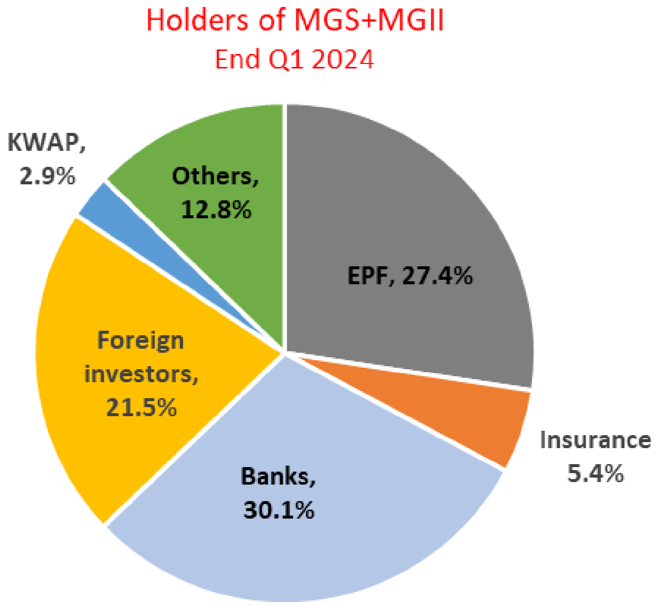
Months	Auction Date	Tenor	New / Reopen	MGS Type	Amount Issued* (mil)
January	05-Jan-24	10Y	Reopen	MGII	5000
	12-Jan-24	30Y	Reopen	MGS	5000
	19-Jan-24	5Y	Reopen	MGII	5000
	31-Jan-24	7Y	Reopen	MGS	5000
February	14-Feb-24	20Y	Reopen	MGS	5000
	21-Feb-24	3Y	Reopen	MGS	5000
	29-Feb-24	15Y	Reopen	MGII	5000
March	14-Mar-24	10Y	Reopen	MGS	5000
	21-Mar-24	30Y	New	MGII	5000
	29-Mar-24	5Y	Reopen	MGS	5000
April	5/4/2024	5Y	New	MGII	4500
	17-Apr-24	15Y	New	MGS	5000
	25-Apr-24	2Y	Reopen	MGII	5000
May	14-May-24	20Y	New	MGS	5000
	23-May-24	15Y	Reopen	MGII	5000
	30-May-24	7Y	Reopen	MGS	5000
June	06-Jun-24	20Y	Reopen	MGII	5000
	13-Jun-24	3Y	Reopen	MGS	5000
	21-Jun-24	30Y	Reopen	MGII	5000
July	01-Jul-24	5Y	Reopen	MGS	5000
		10Y	Reopen	MGII	
		15Y	Reopen	MGS	
August		7Y	Reopen	MGII	
		30Y	Reopen	MGS	
		5Y	Reopen	MGII	
		10Y	Reopen	MGS	
September		20Y	Reopen	MGII	
		7Y	Reopen	MGS	
		30Y	Reopen	MGII	
October		3Y	Reopen	MGS	
		10Y	Reopen	MGII	
		20Y	Reopen	MGS	
		7Y	Reopen	MGII	
November		15Y	Reopen	MGS	
		5Y	Reopen	MGII	
		10Y	Reopen	MGS	
December		3Y	Reopen	MGII	
Total					**99500**

MGS: Bond Demand

- Most MGS+MGII supply has been absorbed by Banks and EPF in the Q4-2023 to Q1-2024 period on organic growth in contributions/deposits. Foreign flows have recovered from earlier outflows in the first two months of the year. MGS and MGII together registered small foreign inflows of MYR3.6bn in the first five months of the year.
- **We expect EPF demand to stay steady**. Any estimate of withdrawal from EPF flexible account would need an assumption on the withdrawal rate which is uncertain. Withdrawals from incoming contributions shall be manageable but adding in potential front-loading then withdrawal could be bigger. In any case, impact on MGS+MGII holdings can be buffered with the option to reduce % allocation to foreign assets and/or money market instruments. At end Q1-2024, EPF portfolio had 5% of assets at money market instruments.



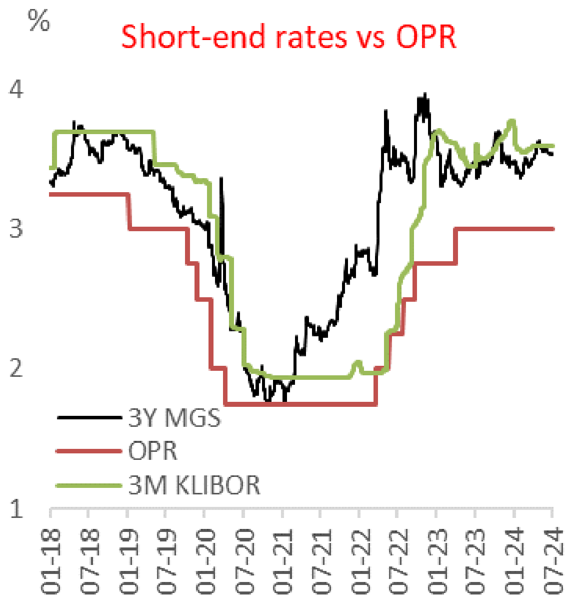


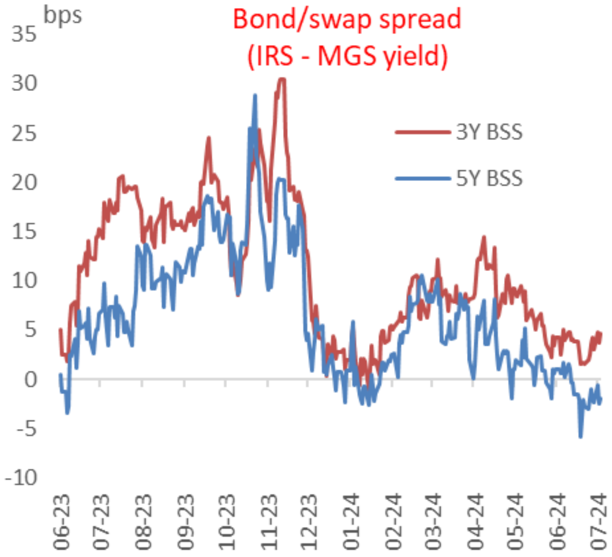


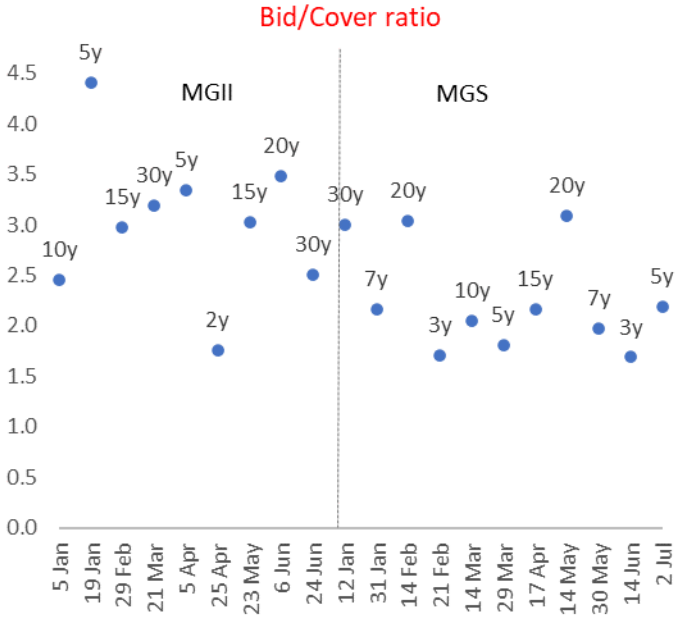
Source: Bloomberg, CEIC, OCBC Research

MYR Rates: Stable to Mildly Lower Rates in H2-2024

- There is a small room for the spread between 3Y MGS yield and OPR to narrow if it were to revert to multi-year median levels; this, together with our base-case for BNM to keep OPR unchanged throughout 2H-2024, shall lead to **a mild downside to 3Y MGS yield over the coming months**, towards the 3.4% level.
- Any rally in MGS, as and when US yields extend its downward trend in the coming months, may however be timid because MGS-UST yield differentials are very compressed. **Steepening momentum may not be strong** given the stable OPR outlook, while demand for long-end MGS/MGII at auctions has been decent, reflecting investor preference for duration.
- Swap rates appear low compared to bond yields; **bias is for bond swap spreads (IRS – bond yields) to widen mildly**.



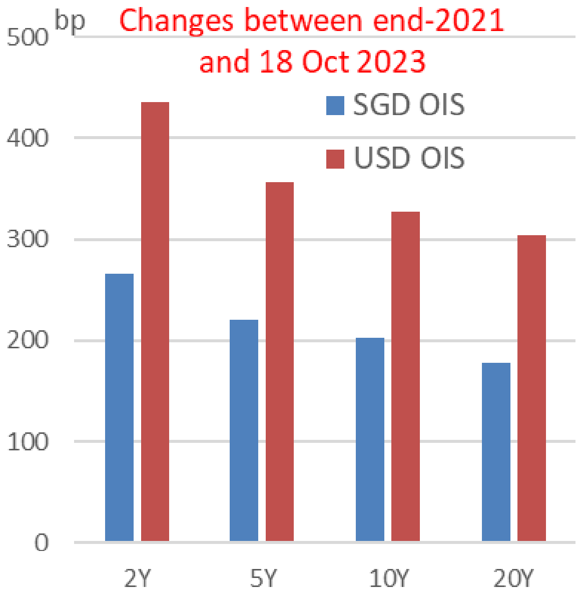


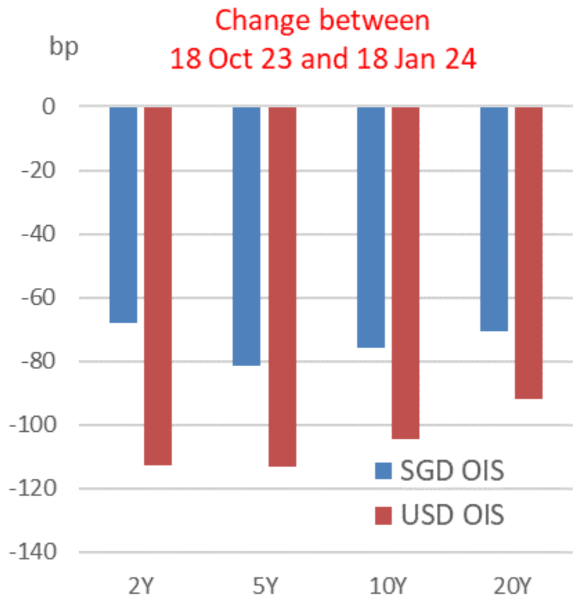


Source: Bloomberg, OCBC Research

Passthrough from USD Rates onto SGD Rates

- In either a rising or a falling rates environment, SGD rates are likely to stay relatively more stable than USD rates. The pass-through from changes in USD rates onto SGD rates have mostly been less than 100%.
- For example, during the upward move in rates in 2022 and through most of 2023 (up till mid-October when the 2Y USD OIS peaked), the pass-through from higher USD SOFR OIS onto SGD SORA OIS ranged 58%-62%, meaning SGD OIS did not rise as much as USD OIS did.
- This outperformance in SGD rates was attributable to a combination of factors: 1/ SGS supply outlook is always neutral to supportive, as there is minimum reliance on the proceeds to fund fiscal spending or projects. 2/ the different dynamics through which the Fed's interest rate policy and MAS' S$NEER policy impact their respective interest rates.
- Similarly, in the downward move in rates during mid-Oct 2023 to mid-Jan 2024, SGD rates lagged the move in USD rates, i.e. SGD rates underperformed USD rates, primarily reflecting the more stable nature of SGD rates and also as a partial normalization of SGD-USD rates spreads.



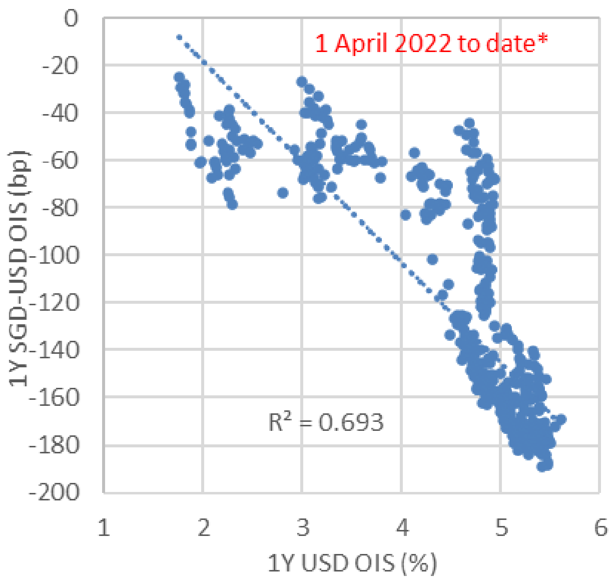


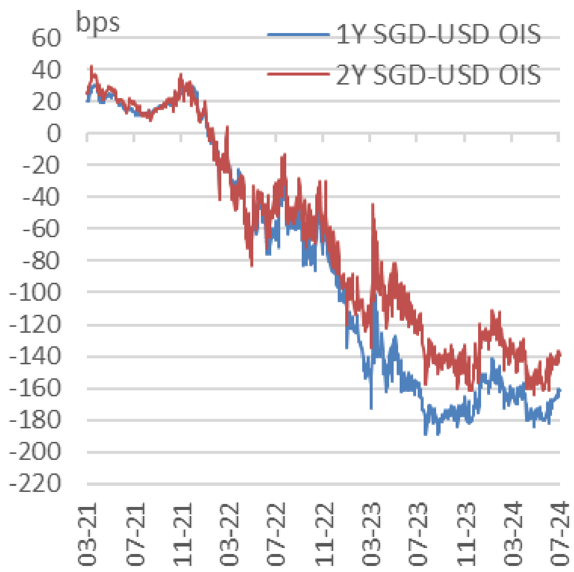
Source: Bloomberg, OCBC Research

OCBC

SGD Rates

- Looking ahead, before USD rates embark on a more sustained downtrend, and with the S$NEER slope staying positive, SGD-USD OIS spreads are likely to stay deeply negative – i.e. SGD rates to stay meaningfully below USD rates.
- Our medium-term view remains for short-end SGD rates to underperform USD rates in a falling rates environment, thereby partially normalising rates differentials – but this move may only gain momentum in the latter part of Q3 when the Fed starts its easing cycle, and **SGD rates underperformance may still be mild especially if MAS maintains current policy settings**. A positive S$NEER slope *per se* will tend to exert a downward pressure on front-end SGD rates through the FX swap dynamics.
- On balance, we expect SGD rates to grind lower in a gradual manner over the remainder of the year.





OCBC interest rates forecasts*

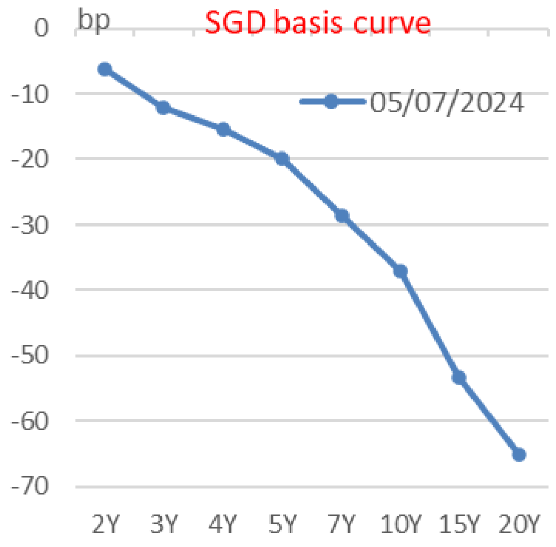
	Q324	Q424	Q125	Q225
SORA	3.40	3.25	3.10	2.95
3M Compounded SORA	3.52	3.34	3.18	3.03
1Y SGD OIS	3.30	3.15	3.05	3.05
2Y SGS	3.15	3.00	2.85	2.80
10Y SGS	3.10	3.05	3.00	2.90

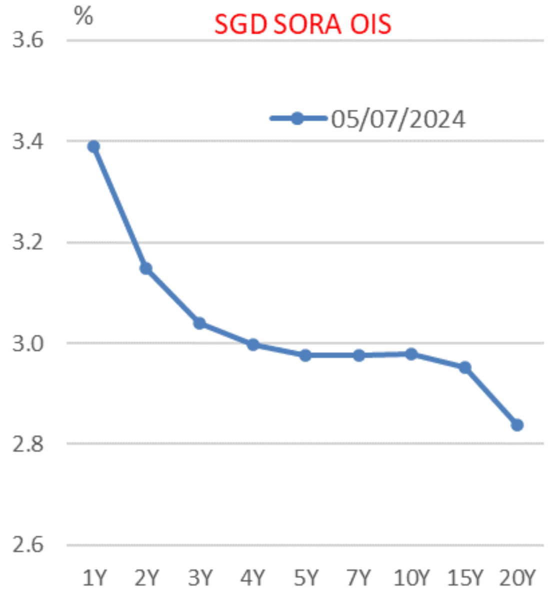
*for a full set of SGD rates and SGS yields forecasts, please refer to *OCBC Monthly Research Monitor.*

Source: Bloomberg, OCBC Research
*as of 3 July 2024

SGS Curve View

- Gross issuances amount thus far is on track with our full year estimates of SGD28-30bn, which correspond to an annual growth rate in outstanding SGS at 4-5%. The supply outlook is supportive of SGS as usual, as MAS has the flexibility to calibrate supply to market demand over the course of the year depending on prevailing market conditions.
- **Asset swap pick-up has remained favourable at long-end SGS**, as the SGD basis curve is deeply inverted while the SGD OIS curve is also mildly inverted. Pick-up was last around SOFR+80bps (before bid/offer spreads) at 15Y SGS and around SOFR+90 at 20Y SGS. In comparison, **5Y SGS may be less favoured** as the 2s5s part of the curve is fairly inverted while asset-swap pick-up was not as appealing.



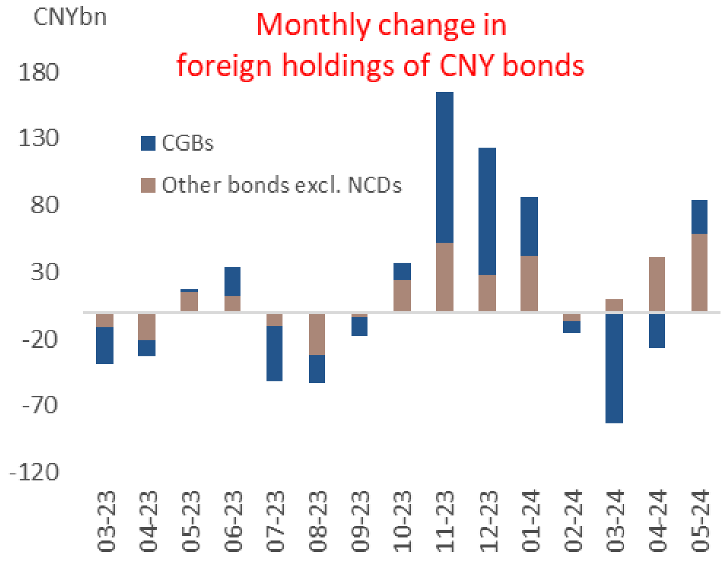


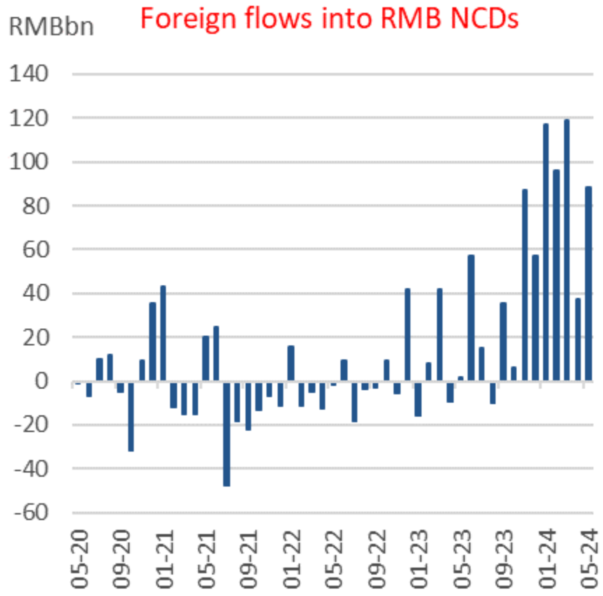
Auction/pricing date	Tenor	New/Reopen	SGS type	Amount Allotted (SGD mn)
29/01/2024	2-year	Reopen	MD	3000
27/02/2024	20-year	Reopen	MD	2100
26/03/2024	5-year	New	MD	2800
26/04/2024	10-year	New	MD	2900
21/05/2024	30-year	New via Syndication	Green Infra	2500
29/05/2024	2-year	Reopen	MD	2900
26/06/2024	5-year	Reopen	MD	2600
29/07/2024	15-year	Reopen	MD	
28/08/2024	5-year	Reopen	MD	
26/09/2024	50-year	Reopen	Green Infra	
Mini auctions (optional)				
27/02/2024	5-year	Reopen	MD	1500
28/08/2024	TBA			

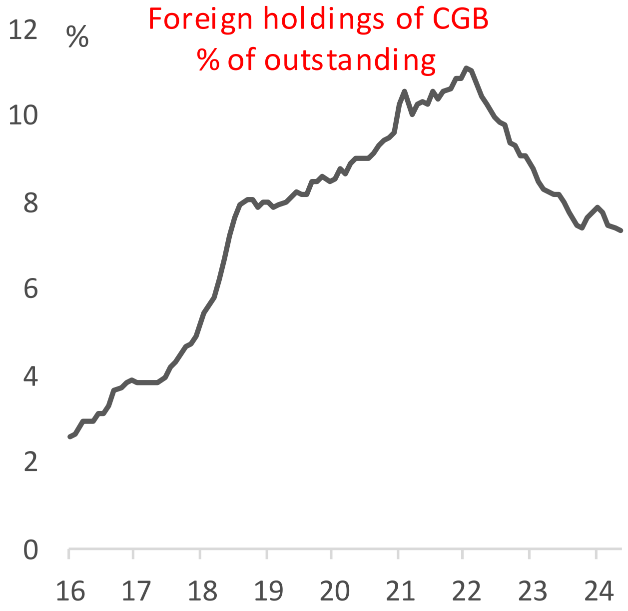
Source: MAS, Bloomberg, OCBC Research

CGBs: No Strong Comeback of Inflows Yet

- Onshore CNY bonds receive foreign inflows of CNY95bn during the first five months of the year; most of the flows went to PFB (policy financial bonds); CGBs saw cumulative outflows of CNY50bn as yield differentials have not improved against our hope for a comeback of inflows. Meanwhile, foreign inflows into NCDs were strong at CNY457bn during the same period, as we had expected due to asset-swap pick-up.
- **The flow prospect for CGBs is unlikely to turn materially better before CNY rates and yields bottom out and rebound**. CGB-UST yields differentials are much compressed, which would require some meaningful widening before foreign investors stage a strong comeback. On a more positive note, positioning is likely on the light side, and we do look for a bottoming in CNY rates.



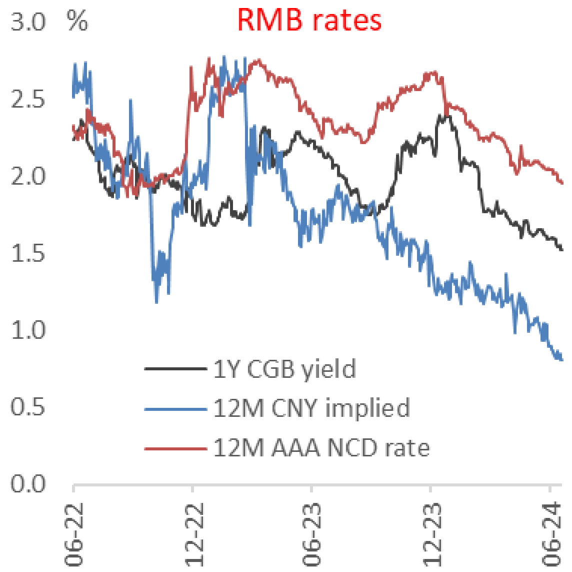


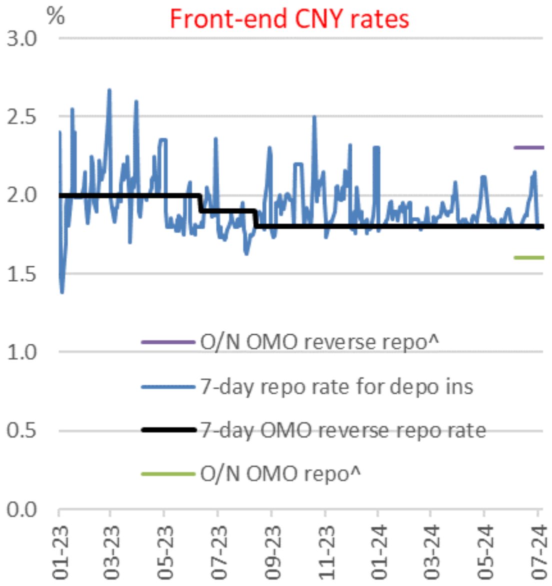


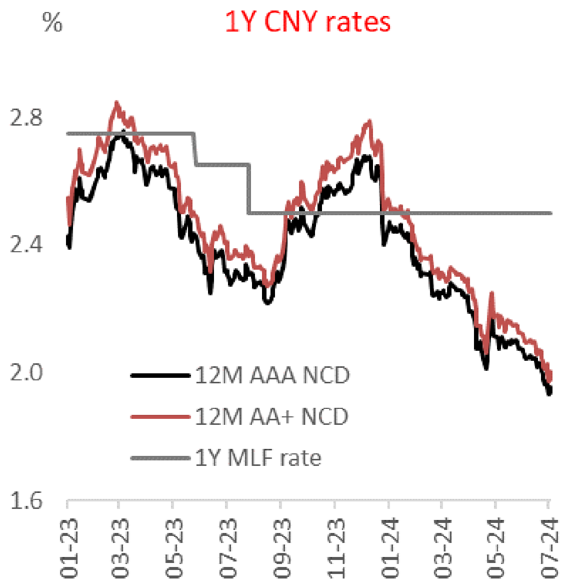
Source: CEIC, OCBC Research

CNY Rates

- As implied CNY rates have fallen to low levels, **asset swapping into certain short-end CNY instruments provide decent pick-up**. For example, asset swap pick-up at AAA-rated 12M NCDs was last at SOFR+100bps or more. If investors are not constrained by positioning, there may be further inflows on this front.
- PBoC intends to re-start OMO repo operations; this represents an effort to establish a narrower **interest rate corridor**, in our view. Overnight OMO repos will be conducted at a fixed rate which is the 7-day OMO reverse repo rate minus 20bps, while the overnight OMO reverse repos will be conducted at the 7-day OMO reverse repo rate plus 50bps, effectively pointing to a width of 70bps. The corridor would be 1.6%-2.3% according to last 7-day OMO reverse repo rate.
- At current levels, the overnight OMO repo rate appears to be setting a floor to short-end CGB yields as well.



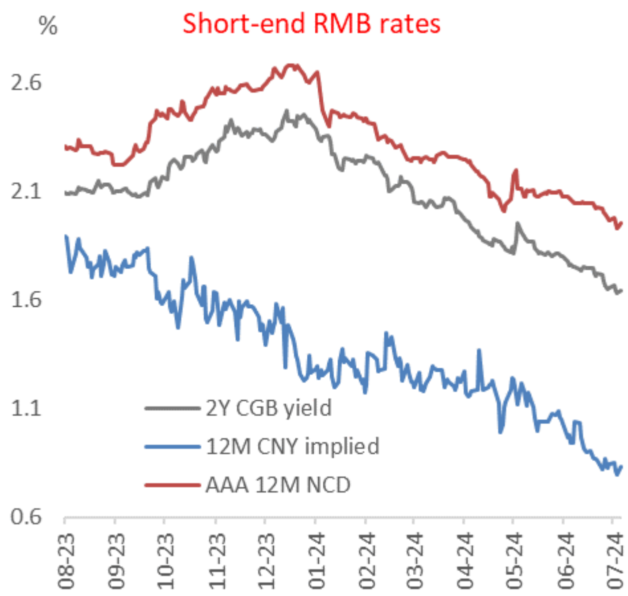


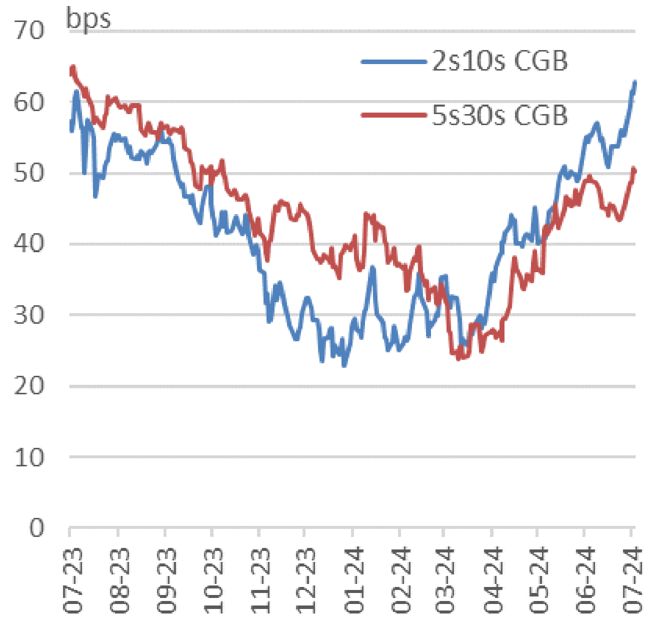


Source: Bloomberg, OCBC Research
*implied CNY rate minus CNY IRS
^to be conducted

CGBs: Mind the Duration Risk

- CGBs have been mostly buoyant this year benefiting from safe-haven flows amid a subdued risk environment, with investors probably not seeing better investment alternative and still holding expectation for some form of monetary easing. **We have cautioned against chasing long-end CGB yields lower**. 10Y yield at 2.2% and 30Y yield at 2.4% appear overly low compared to potential GDP growth.
- Our base-case remains for 20bps of rate cuts. But a bullish bond market can be counterproductive in that easing may be delayed given policymakers' concerns about investors taking on too much duration risk.
- **We maintain a steepening bias to the CGB curve** because of the supply outlook, long-end yields being overly low, and authorities' reflation effort. Recent PBoC's intention to start bond buying and selling of bonds under monetary operations may further underpin our steepening view, as it is likely to start with bond selling against the current bullish bond environment. Although monetary operations may not have a significant, long-lasting impact on the bond market, signal is also important at this point of time.
- Near-term momentum may however not be strong across the 2s10s part of the curve since it has steepened by a fair bit; more potential may be across the 5s30s segment.





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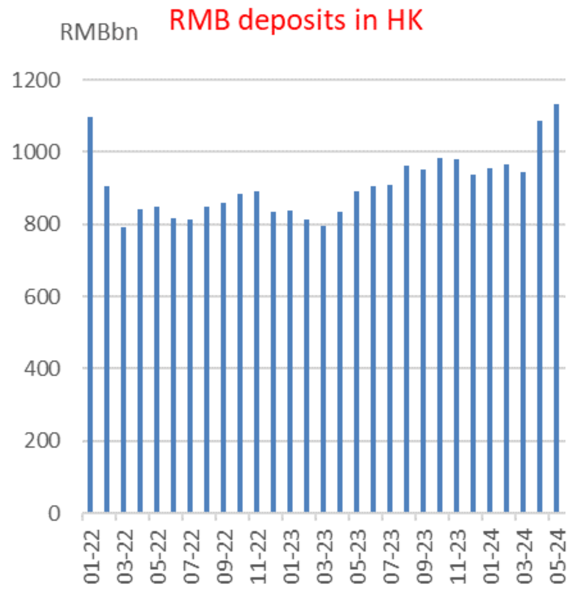
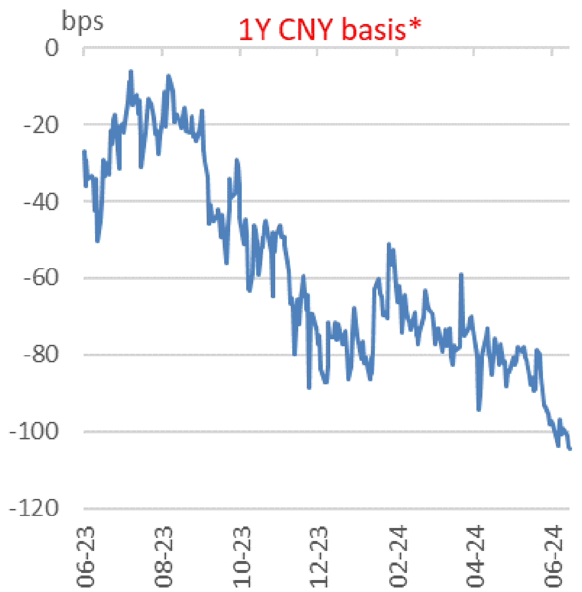
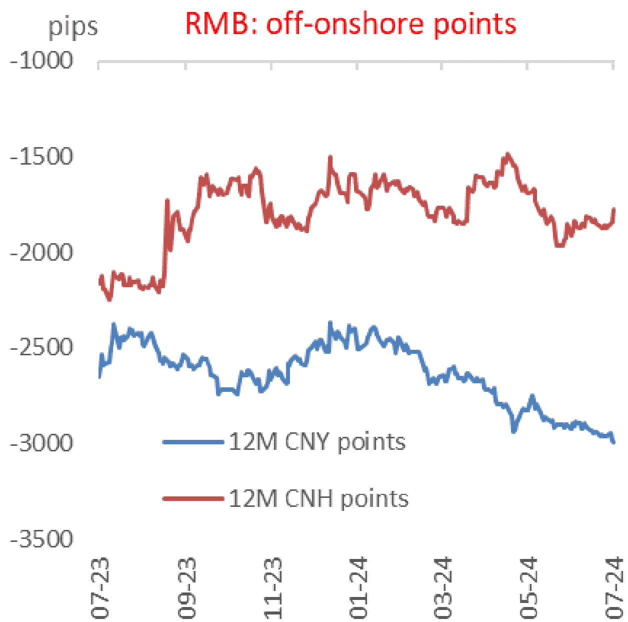
Source: Bloomberg, OCBC Research

CNH Rates

- In the offshore CNH market, **investors may want to stay cautious against sporadic jumps at front-end CNH points**, as CNH liquidity remains as one of the tools to smooth spot movement. This is despite the continued build-up of offshore CNH liquidity pool.
- CNH deposits at banks in Hong Kong has risen by CNH195bn YTD to CNH1.134trn as at end-May, on corporate flows and stock connect flows, among others. This liquidity pool may help mitigate upward pressure on back-end CNH points.
- At the back end, offshore-onshore spreads in the forward points have widened, to levels that are wider than the full impact of the 20% FX risk reserve requirement would imply. While there may be some spillover of RHS pressure at the front-end, the onshore CNY DF curve may start to act as a pulling factor to the offshore curve at current levels.





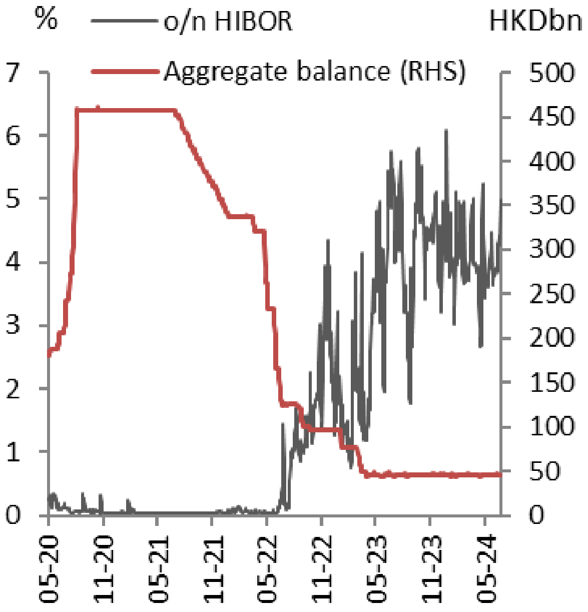


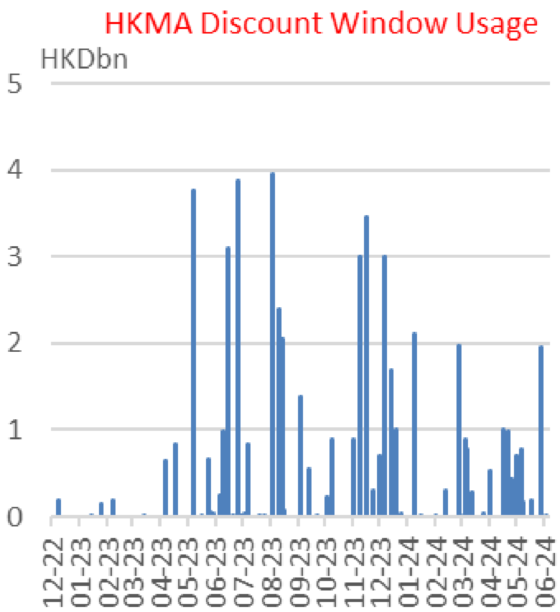
Source: Bloomberg, OCBC Research
*implied CNY rate minus CNY IRS

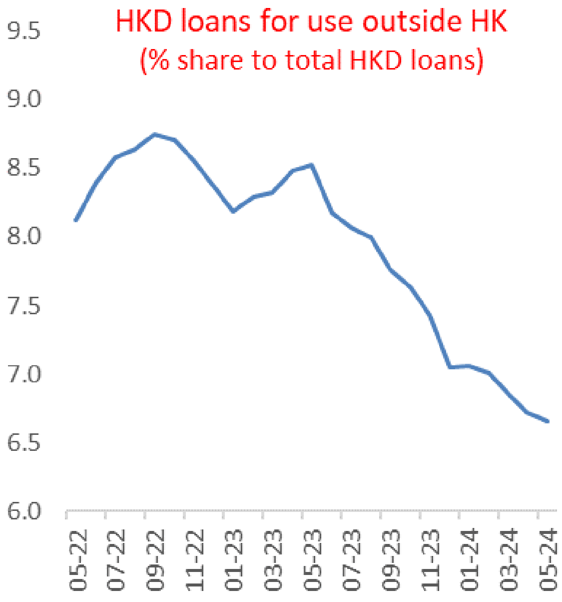
OCBC

HKD Liquidity

- HKMA's discount window has been tapped more often since mid-2023 compared to previous years. This is not surprising to us, as we have written, with Aggregate Balance (inter-bank HKD liquidity) at a low level, front-end HKD rates shall remain sensitive to changing liquidity demand with sporadic jumps, unless HKMA moves liquidity from the bills market to the interbank market.
- Moving slightly out the curve, subdued HKD loans demand has mitigated the tightness in HKD liquidity and kept HKD rates better anchored than otherwise. HKD loan-to-deposit ratio edged further lower to 81.4% at end-May, matching the low in February 2018.
- Before HKD loans demand recovers, we expect a somewhat neutral HKD liquidity situation.



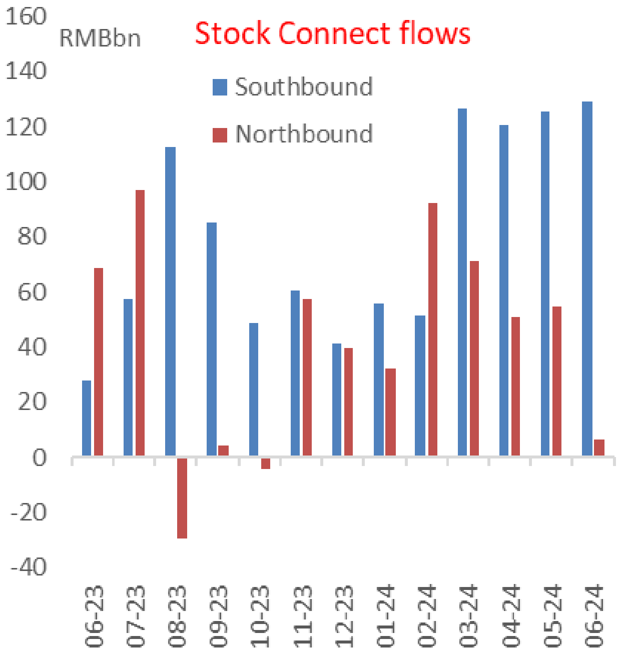


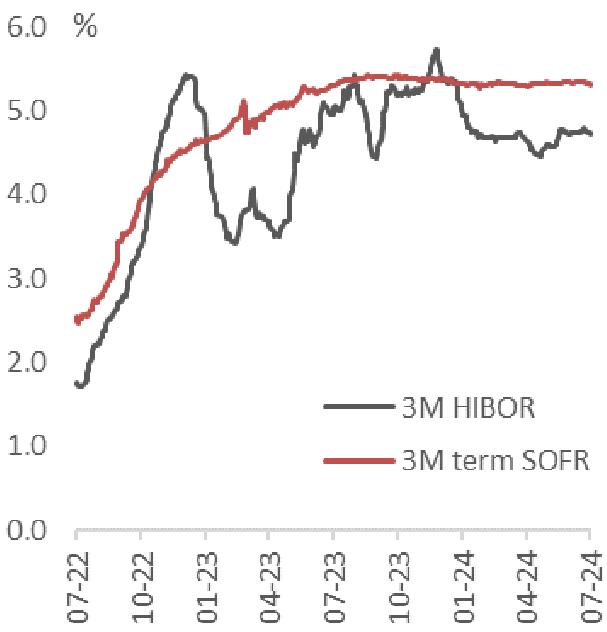


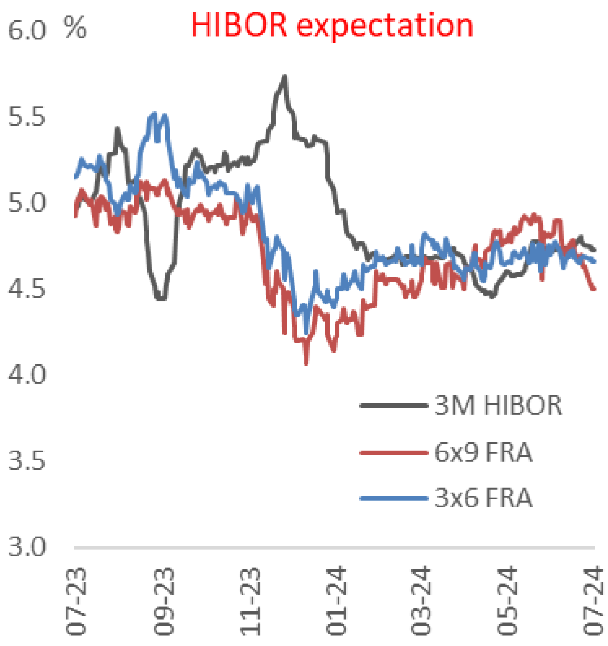
Source: CEIC, OCBC Research

HKD Rates

- Our medium-term view remain that **potential inflows into HKD assets when the risk sentiment turns for the better may prevent HKD rates from falling rapidly** when USD rates embark on a more sustained downtrend. For one, Southbound Stock Connect flows have been persistent, amounting to RMB120bn+ per month for four months in a row to June.
- On balance, we expect HKD rates to move gradually lower through the remainder of the year, eying the benchmark 3M HIBOR at around 4.50% by year end.







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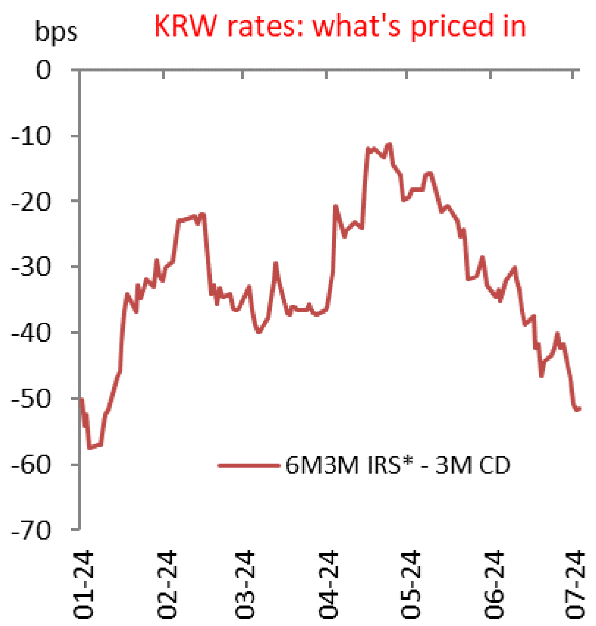
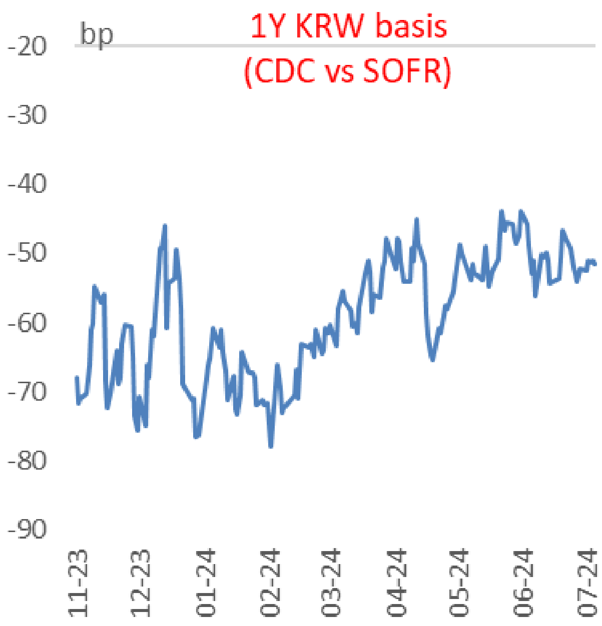
Source: Bloomberg, OCBC Research

KRW Rates

- The KRW rates market has turned more dovish recently, following the less hawkish MPC and recent easing in CPI inflation. Market has increased pricing of rate cuts, now in line with our base-case of 50bps of cuts by year-end. Room for further downward adjustment in front-end KRW rates appear limited at current levels.
- KTBs may continue to trade on the firm side, given hope remains for bond index inclusion. Passive inflows are estimated at USD35bn to USD50bn upon index inclusion.
- Short-end KRW basis have been trending higher over the past months, narrowing asset swap pick-up, which may affect inflows into short-end bonds to a small extent. Pick-up was last at around SOFR+60bps at 3Y KTBs, compared to around SOFR+80bps in late 2023.





Source: Bloomberg, OCBC Research
*implied rate

OCBC

2H 2024 FX Outlook – Getting Closer

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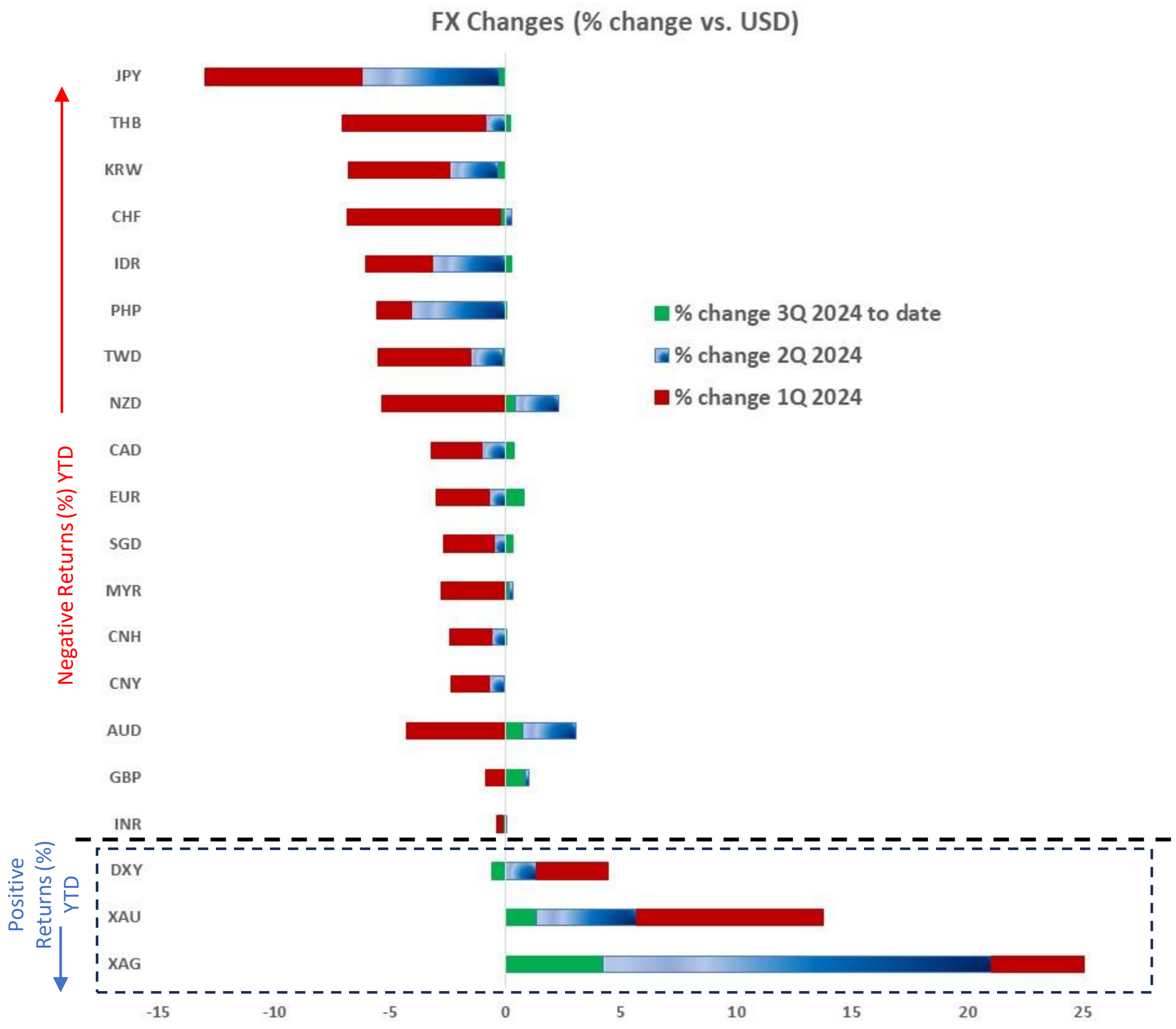
Winner FX Markets Asia Awards 2024
Best bank for research
OCBC Bank

A Recap: Precious Metals, USD Outperformed YTD



Notes: FX sorted in order of cumulative gains YTD
Source Bloomberg (YTD as of 4 Jul 2024), OCBC Research

JPY remains the **top underperforming FX** as BoJ is perceived to be in no hurry to normalise policies.

High for longer (US rates) undermined lower yielders such as THB, KRW.

IDR weakness due to concerns of fiscal plan, unwinding of carry, dividend outflow.

PHP softness due to dovish BSP guidance/ policy divergence with other central banks.

RMB weakness seen picking up pace slightly. Further weakness may drag AXJ complex lower.

SGD, MYR, INR largely resilient amongst AXJs.

CHF weakness in 1Q was due to SNB surprise cut but strength in 2Q due to safe haven proxy trade (to French elections).

Relative strength seen in NZD, AUD, GBP as they are **perceived to be last few DM central banks to cut rates.**

USD gains were more prevalent in 1Q, but gains were more subdued in 2Q as **US exceptionalism moderates.**

Precious metals were the outperformers for safe haven characteristics.

Key FX Thematic

- US exceptionalism, high for longer (US rates) have been dominant themes underpinning broad USD strength for 1H 2024.

- **But US exceptionalism theme shows signs of softening** in recent weeks. In particular, financial strains on US consumer continue to grow while tightness in labor market is easing. Additionally, Fed officials have acknowledged progress with disinflation and increasingly are more concerned about the softening labor market. These put a Fed pivot within reach for 2H 2024.

- **USD strength is likely to ease and trend lower**. Extent of USD's decline hinges on 1/ how quick the Fed cuts and 2/ how global growth pans out. Risk of escalation in US-China tensions is a known unknown, dependent on outcome of US elections (Nov-2024). Potential shifts in foreign, trade and fiscal policies have implications on FX.

- **Room for AXJs to recover against a backdrop of DM central banks largely on an easing bias and a moderate growth momentum in the region**
  - Procyclical, tech-linked proxy FX including KRW, TWD should play catch-up to its positive correlation with semiconductor/ tech rally
  - MYR recovery can find traction from rising tech exports and foreign inflows
  - SGD could still retain relative resilience due to policy stance but there is room for strength to fade towards end-year
  - IDR weakness may be overdone and should correct if fiscal discipline is adhered to, Fed cuts rates

- **However, there are "impediments" that may potentially hinder AXJ's recovery process.**
  - Weakness in JPY and RMB, if prolonged and unchecked, may restraint the extent of AXJ recovery
  - Another delay to Fed's pivot is another factor that would undermine AXJs
  - Blow-up in US-China trade tensions (risk) may undermine RMB, and weigh on broader AXJ complex

- Amongst DM FX, **we are optimistic on AUD,** riding on rise in commodity prices. RBA is also likely to be the last DM central bank to lower rate.

- **Favor gold on geopolitical hedge** characteristic and as Fed embarks on rate cut cycle.

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Summary of Key FX Views - DM

- **USD – Still expect USD to trend lower** as Fed should be getting closer to embark on rate cut cycle. A replay of US-China tensions may materialize depending on outcome of US elections and that should inject some uncertainty to cross-asset markets. Thereby implying that the downward path of USD may be bumpy and even face intermittent upward pressure if tensions do escalate.

- **EUR – Neutral outlook**. A better growth story can be supportive of EUR’s mild upward trajectory. ECB is not on a preset cycle and policy making will remain data dependent. Most elections risks in Europe are also out of the way.

- **GBP – Mild constructive outlook**. Supported by a combination of mild positives, including 1/ UK demand growth proving resilient, alongside improvement in consumer sentiment, retail sales; 2/ labour market remains fairly tight, Not expecting an aggressive rate cut cycle.

- **USDJPY – Medium term downside bias** on the back of a moderate USD profile (as Fed tightening has likely concluded and that USD can fall when rate cut comes into play in 2H 2024) as well as on expectation that the BoJ has room to further pursue policy normalisation amid higher services inflation and wage pressures in Japan.

- **AUD – Broadly constructive** as 1) RBA-Fed policy divergence as Fed gets closer to embark on rate cuts in 2H 2024 while RBA could remain on hold for longer; 2) uptick in commodity prices. RMB swings, China economy is one risk that can affect AUD to some extent.

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Summary of Key FX Views - AXJ

- **RMB – Measured pace of depreciation.** Pattern of higher USDCNY fix suggests policymakers are letting out some pressure via FX channel but conscious not to pursue big bang approach for fear of vicious cycle of un-nerving broader risk sentiments. Eventual recovery in RMB (at some point) would require confidence to be "repaired", economic recovery to gain better momentum and for USD to turn lower.

- **SGD – Relative resilience** as MAS's policy stance is still on an appreciation stance. However, should core inflation ease further in, then there is room for MAS to pursue a less tight policy, possibly in later part of the year/early-2025. This would imply some S$NEER strength to fade vs some of its key trading partners in the region.

- **MYR – Should recover some loss grounds** if foreign portfolio inflows can be sustained. Improvement in yield differential dynamics when Fed lowers rate and sustained recovery in tech and semiconductor cycle can also benefit Malaysia exports, MYR.

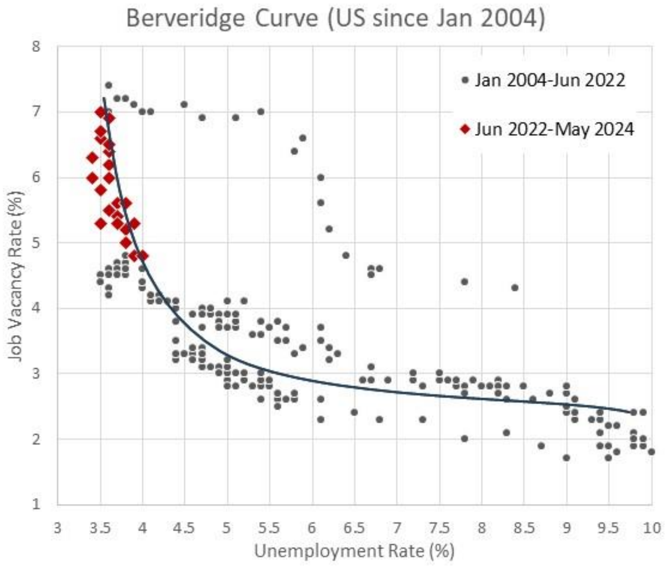
- **IDR – Temporarily under pressure.** But weakness should correct when Fed cuts rate and when it is demonstrated that the incoming Prabowo government continues to pursue fiscal prudence.

DM FX Outlook

US Exceptionalism in Moderation

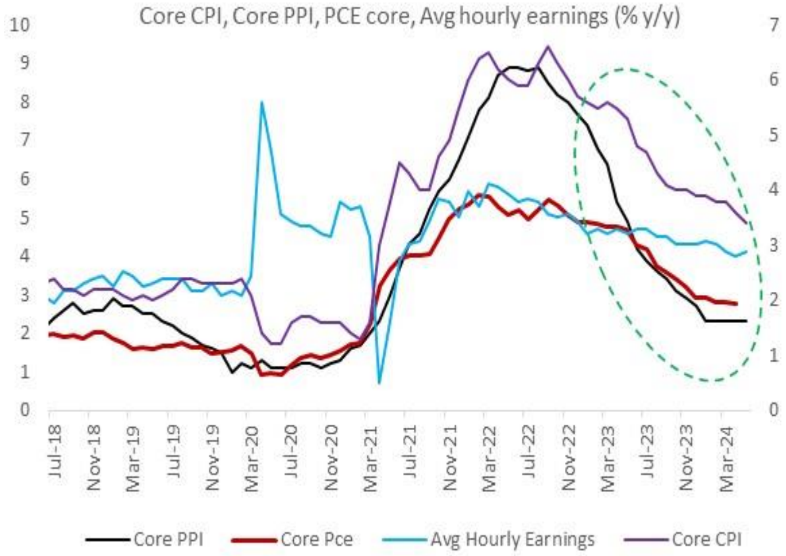
- US exceptionalism has somewhat softened (vs. last few months when most data was still printing red hot).
- Tightness in labour market continues to show signs of easing.
- In particular, recent CPI, PPI report was encouraging- points to disinflation and should still support our house view for 2 cuts.
- For the year, we do not expect a significant decline in USD but still expect USD to trend just slightly lower as the Fed is done tightening and should embark on rate cut cycle in due course.
- That said, we are mindful of US elections in mid-Nov. The scenario for a play-up of US-China trade tensions is not ruled out and this may inject some uncertainty to markets, thereby implying that the downward path of USD/Asia FX may be bumpy and may even face intermittent USD upward pressure if geopolitical tensions rise.

Tightness in US Labor Market Easing



Mfg Sector Still in Contraction

Price Pressures Easing though Progress Maybe Slow in 1Q



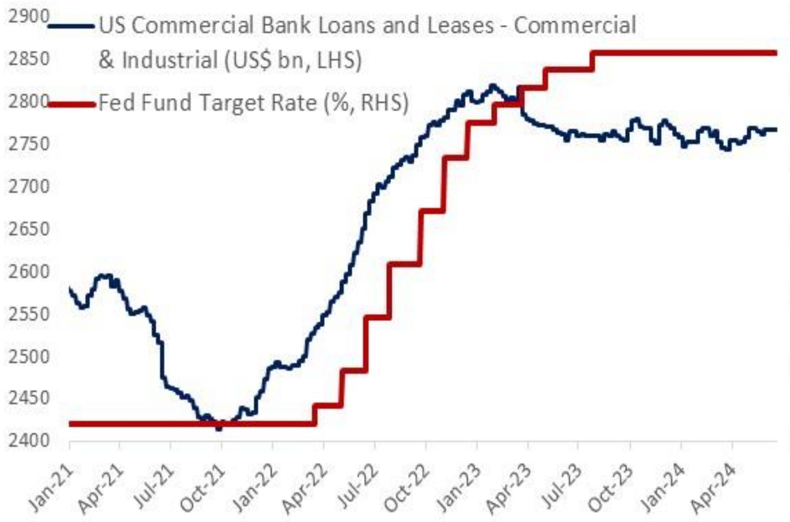
Source Bloomberg, OCBC Research

Tighter Financial Conditions Hurt Loans Growth, Consumers

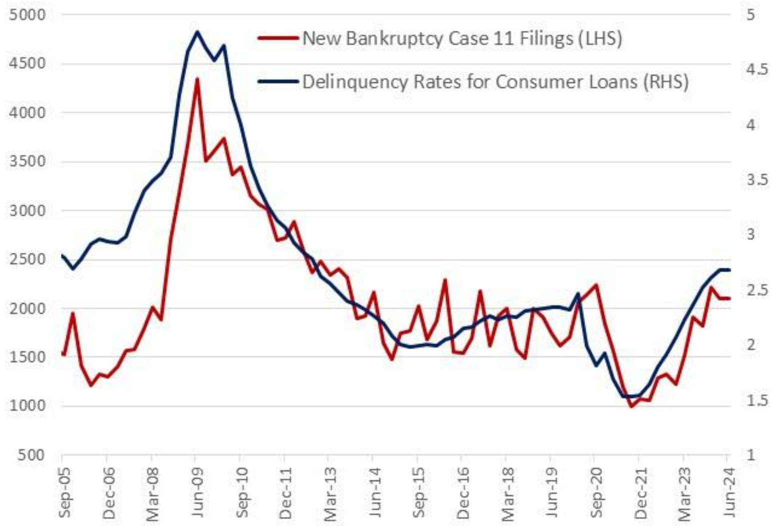
Softer Data Can Bolster Hopes of Fed Cuts in Due Course

- Corporate borrowing has slowed as high for longer persists.
- Total chapter 11 filings posted its largest increase in 1Q (up 43% from 1Q 2023). Higher cost of funds and interest rates, a reduction in consumer discretionary spending, higher housing costs, and a continued drawdown of excess savings. Elsewhere, delinquency rates have also been on the rise.
- Recent retail sales report and sluggish consumer confidence point to increasing strains on US consumer.

US Loans Growth Plateaued as Financial Conditions Tightened



Chapter 11 Filing, Delinquency On the Rise



Consumer Confidence Near Recent Lows while Retail Sales Trends Lower

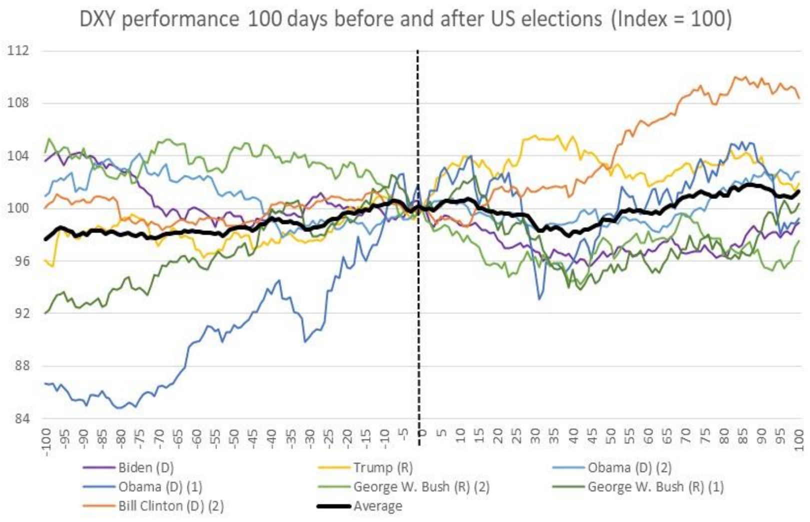
Source Bloomberg, OCBC Research

US Elections 2024: A Tendency for USD to Rise into Elections

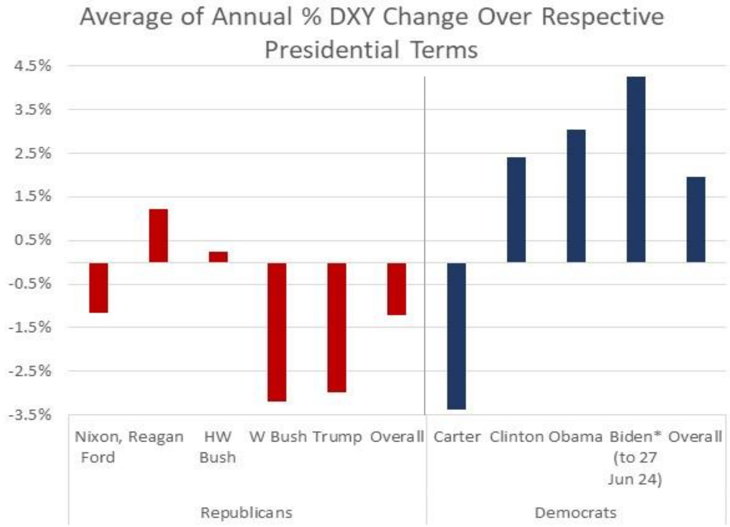
But Historical Election Pattern May Not Be a Good Predictor of Future Price Action

- For the past 50+ years, the US election periods have been net positive for the USD. The DXY index appreciated an average of 2% in the 100 days after the elections, possibly buoyed by the promise of growth-positive policies.
- Out of the past 13 elections, the greenback rose in 7 instances 100 days after the event and 8 instances 100 days before the event. Taking into account the full 200 days observed, the DXY index clocked an average of 4.09% gains during elections for the past 50 years.
- Democrats have on average been better for the dollar as well. Democrat years have seen the USD (proxied by the DXY index) strengthen by around 1.5% on average, while Republican years have seen a -1.2% decline.

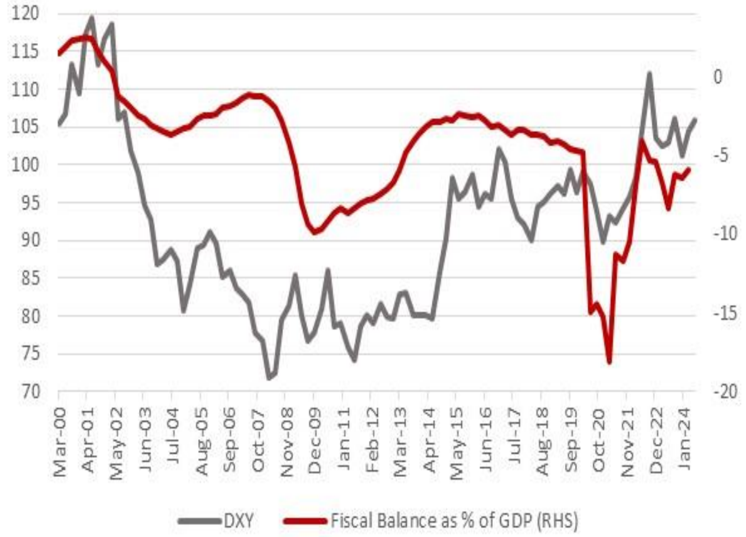
On Average, DXY Typically Rose Into Election Day and Continue to Rise After Elections



On average, Democrat Regime Has Been Positive for USD vs. Republican Regime



USD Strength Can be Associated with Better Management of Budget Balances



Source Bloomberg, OCBC Research

DXY: Bullish Momentum Faded; Watching for Signs of Breakout

DXY Curncy (DOLLAR INDEX SPOT) Candle Chart Weekly 10JUL2019-08JUL2024

08-Jul-2024 11:05:38

OCBC

Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index

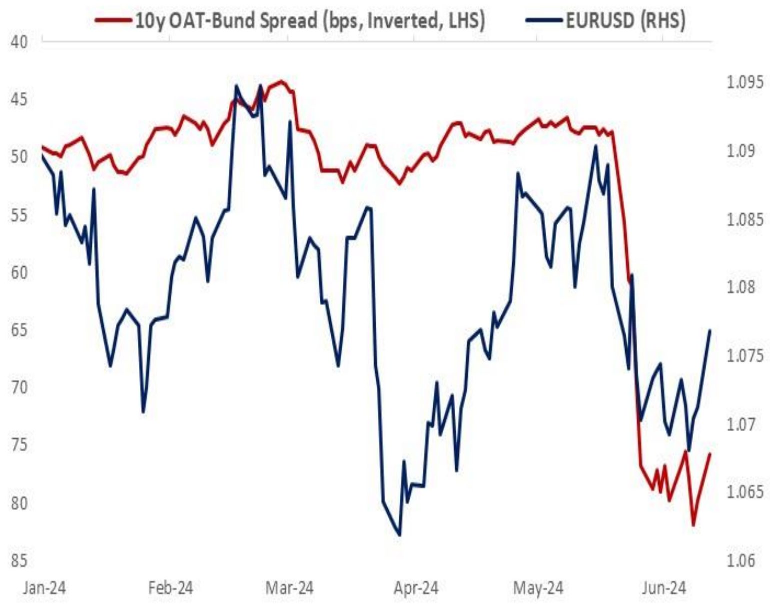
Source: Bloomberg (weekly chart), OCBC Research

EUR: Neutral Outlook

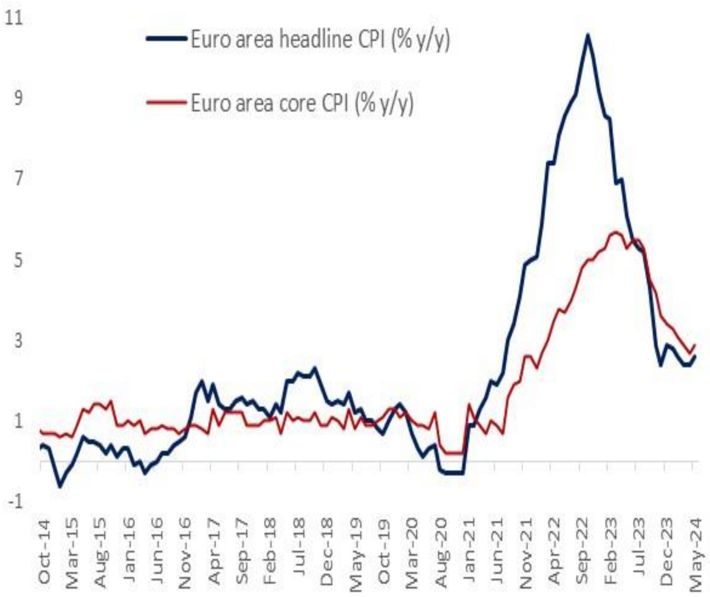
A better growth story in Euro-area can be supportive of EUR's mild upward trajectory

- We see near term downside risks for EUR due to lingering political concerns **but expect this to come to past once political dust in France settles.**
- For the year, we still maintain a neutral outlook for the EUR.
- ECB has lowered rate in June and may still continue to ease policies. Our house view looks for 50bps cut for the year remaining. However, the ECB is not on a preset cycle and policy making will remain data dependent. Inflation remains key and recent progress suggests disinflation progress is slowing.
- Economic stability is important and there are signs to suggest that economy may be stabilising (though French politics/fiscal discipline can pose a risk).

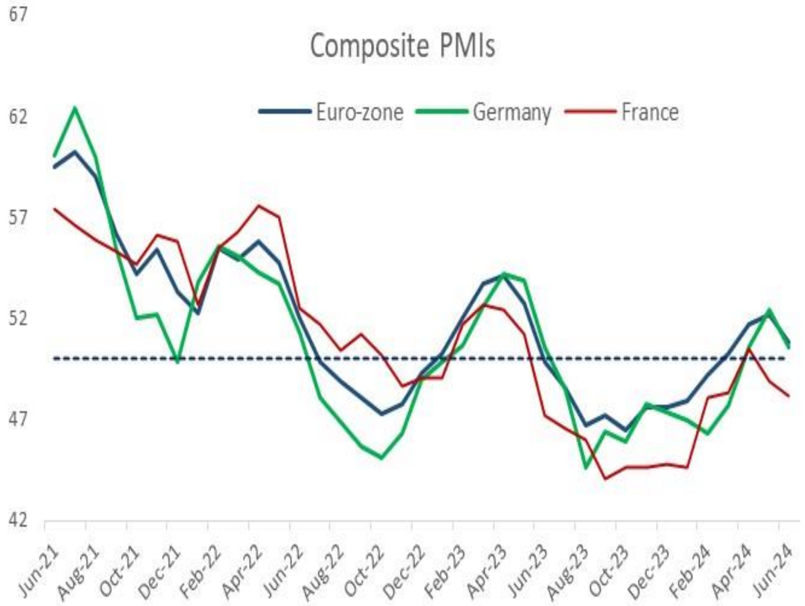
Widening of 10y OAT-Bund Spread Reflects Concerns of Fiscal Discipline However Eventual Narrowing of Spreads Can Support EUR



Disinflation Underway But Recent Progress Shows Signs of Slowing



Signs that Euro-area Economy May Be Stabilising; But French Politics May End Up Dragging Activity, Confidence Down



Source: Bloomberg, OCBC Research

EUR: Neutral Outlook

OCBC

Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index

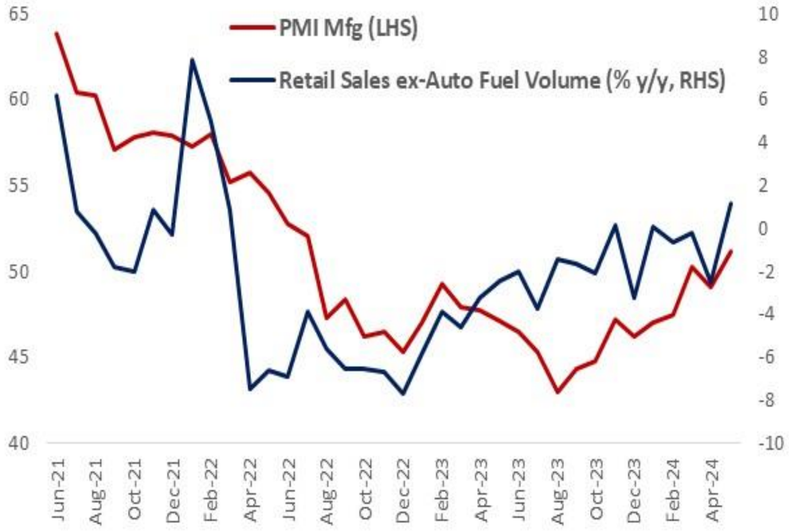
Source: Bloomberg (weekly chart), OCBC Research

GBP: Mild Upward Trajectory

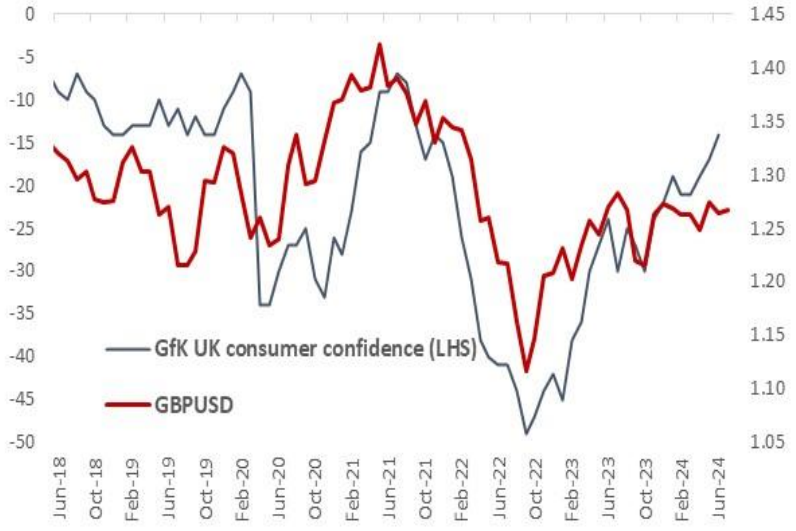
Not Expecting an Aggressive BoE Rate Cut Cycle

- Though BoE may soon cut rates in Aug, we do not expect an aggressive rate cut cycle and still expect BoE to keep monetary policy restrictive overall as inflationary pressures remain (services inflation at ~5.7%, real wages picking up pace).
- A combination of mild positives, including 1/ UK demand growth proving resilient, alongside improvement in consumer sentiment, retail sales; 2/ labour market remains fairly tight should still keep GBP supported on dips.
- Key Risks to our Outlook: An aggressive rate cut cycle; faster growth slowdown in UK, actual public finances turns out to be worse than expected and/or surge in energy prices.

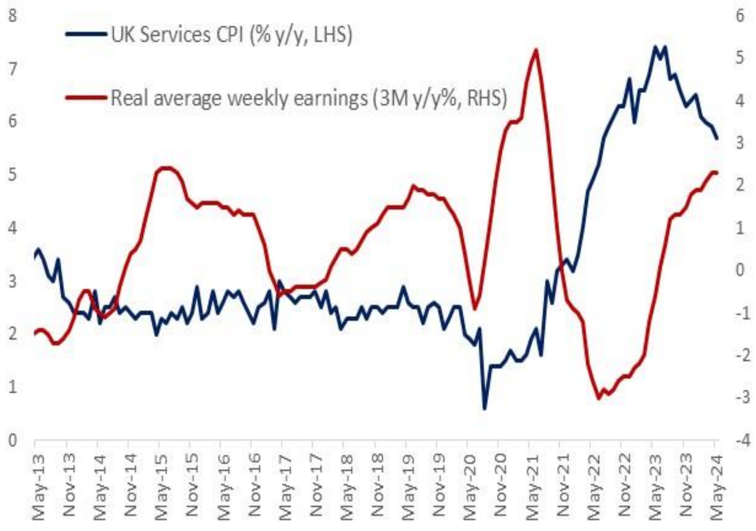
Domestic Demand Resilient:
Retail Sales, Manufacturing PMI on Uptrend



Improvement in UK Consumer confidence
Supportive of GBP's Recovery



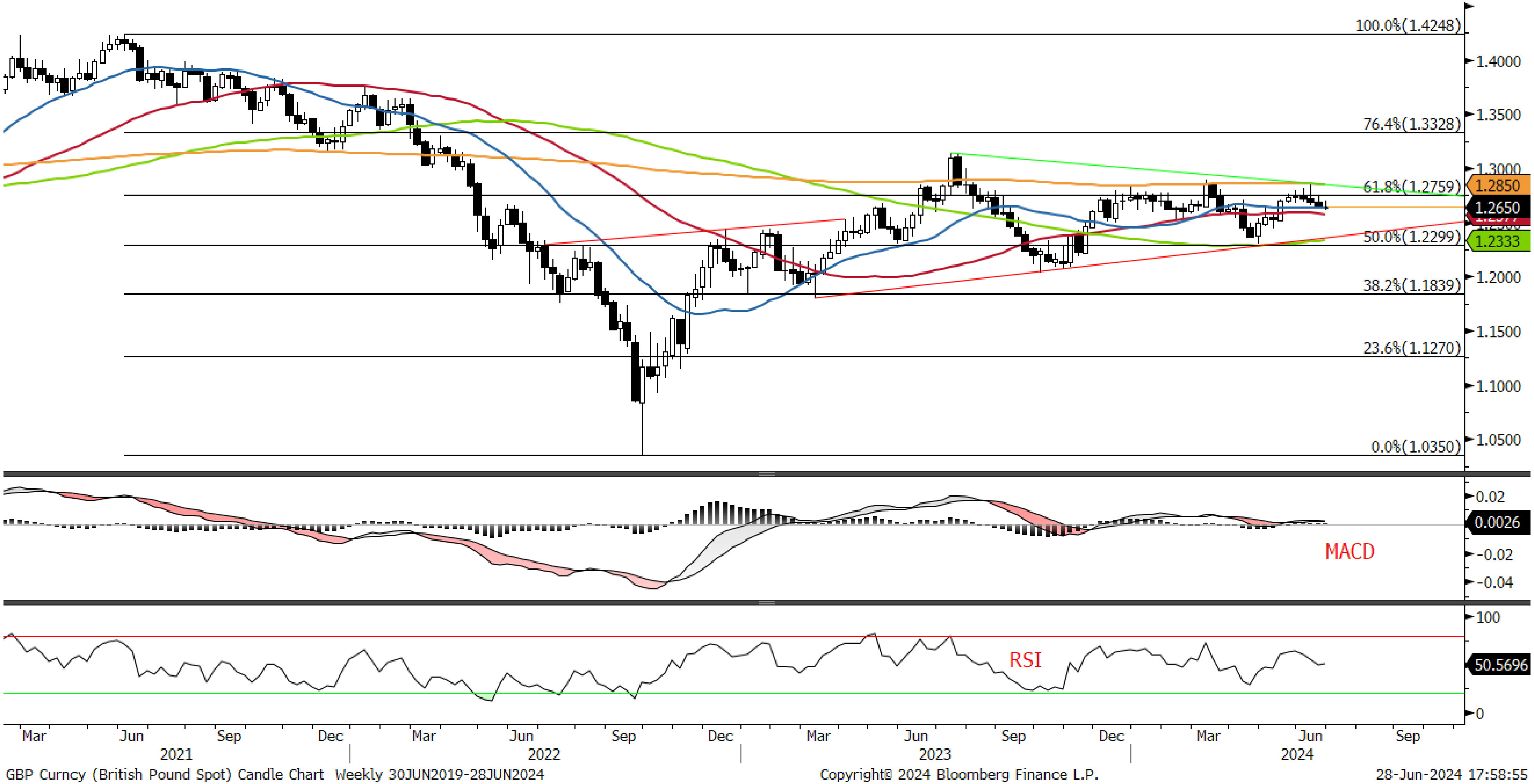
Sticky Services Inflation, Higher Real Wages
May Point to Less Aggressive BoE Cut Cycle



OCBC

Source: Bloomberg, OCBC Research

GBP: Still In the Range



Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index

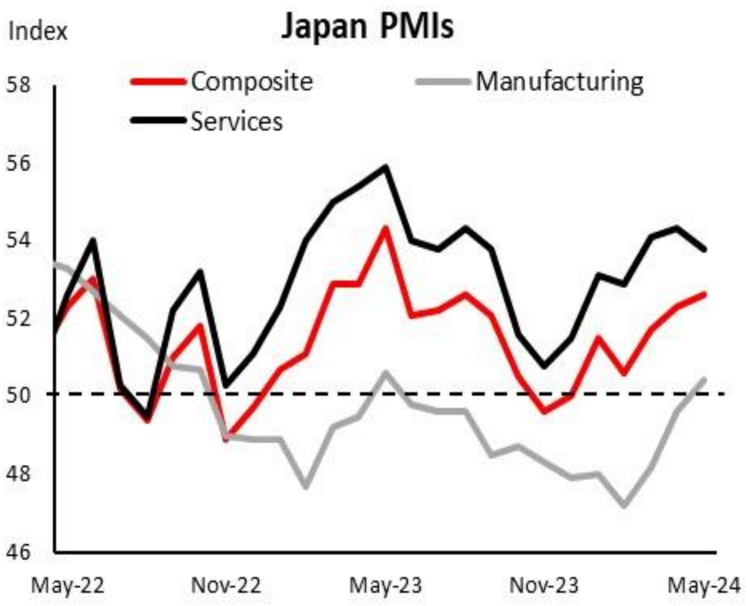
Source: Bloomberg (weekly chart), OCBC Research

JPY: Under Pressure

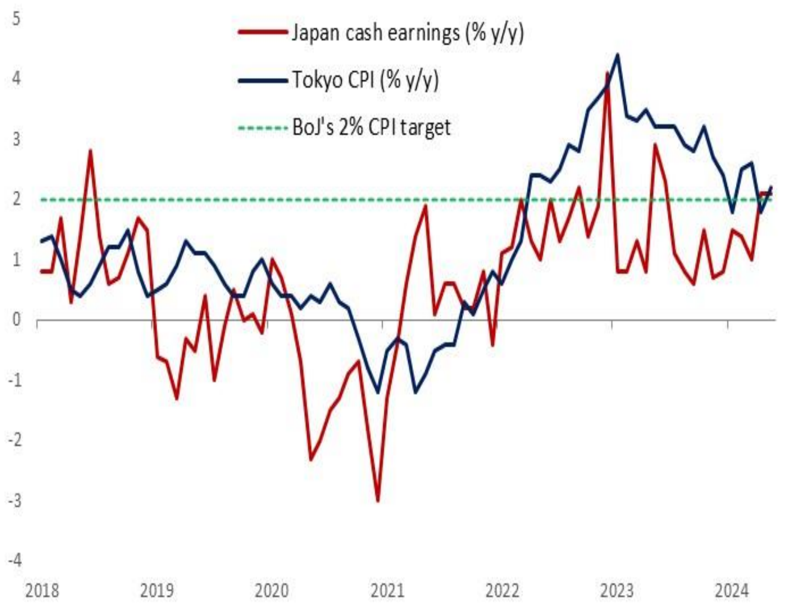
Intervention Risks On the Rise but At Best An Option to Slow Pace of Depreciation Not Reverse Trend

- Near term, USDJPY faces upside risks. Fed doesn't seem to be in a hurry to cut while the BoJ is still perceived to be in no hurry to normalise, even as wages are growing, and inflation is on target.
- Intervention risks likely but is at best an option to slow pace of depreciation not to reverse trend.
- For USDJPY to turn lower would require USD to turn/ Fed to cut or for BoJ to signal an intent to normalise urgently.
- Over a medium term, we expect USDJPY to trend gradually lower on expectations that the next move for Fed is a cut and that the BoJ has room to further pursue policy normalisation amid higher services inflation and wage pressures in Japan.

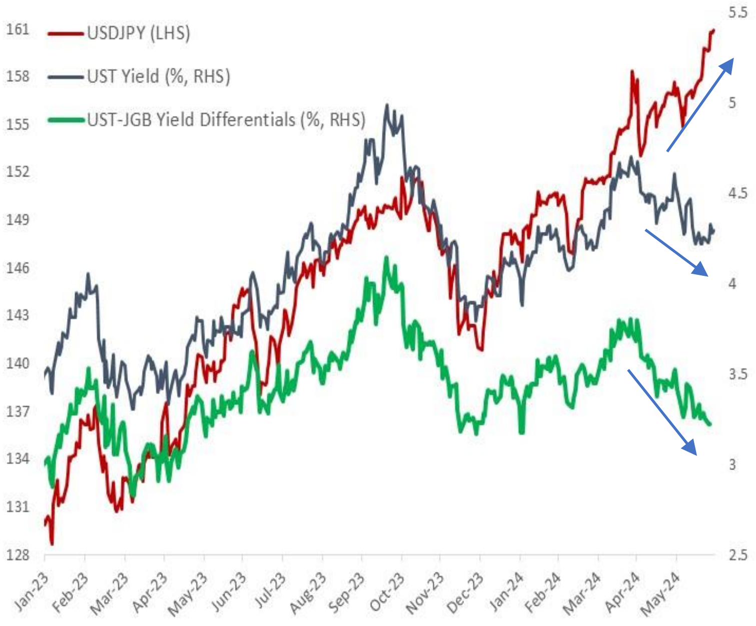
Manufacturing, Services Sector Remain in Expansionary Territory



Inflation, Wage Growth Showing Up

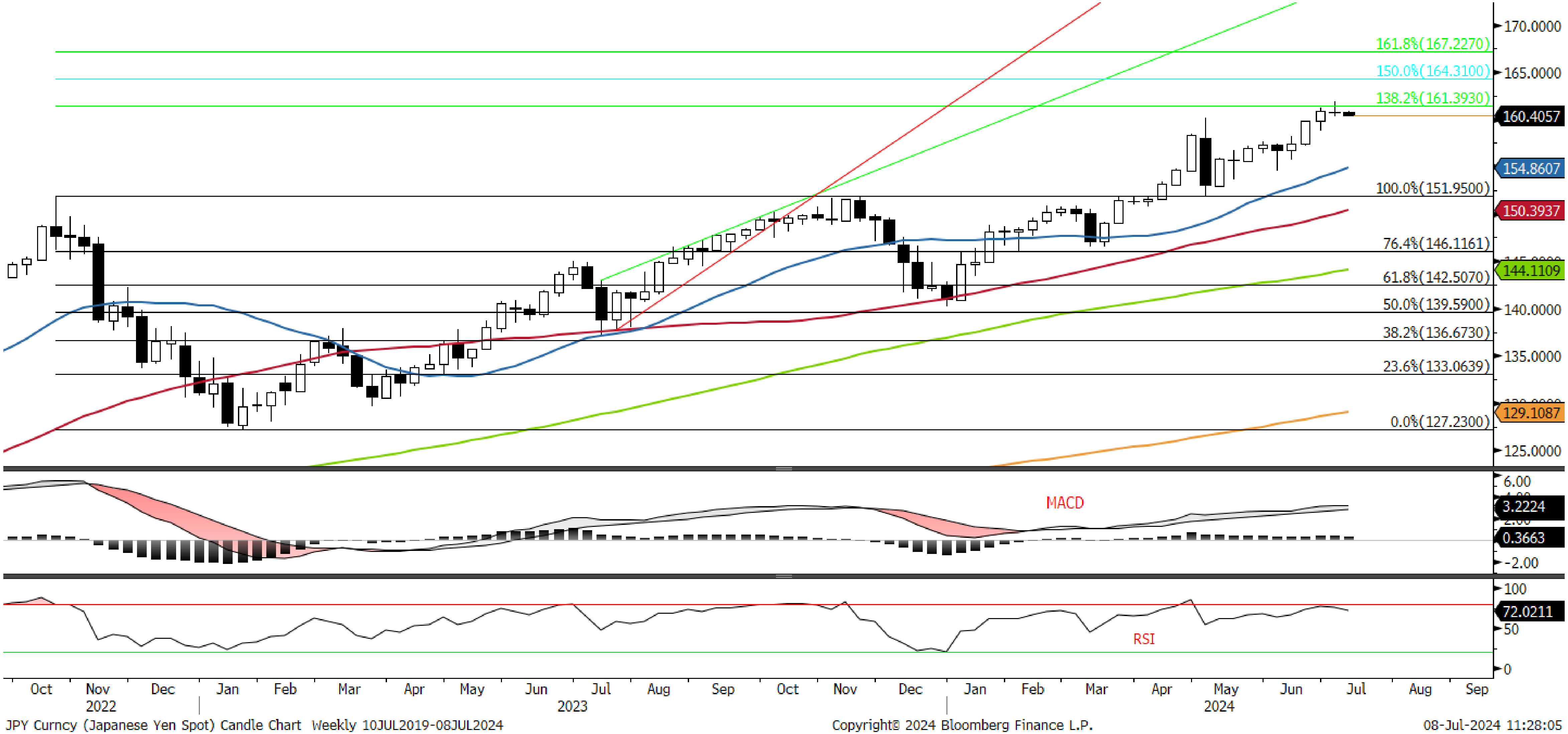


USDJPY Diverged from Moves in UST Yields -> Intervention Risks on the Rise



Source Bloomberg, OCBC Research

USDJPY: Uptrend May Be Looking Lethargic



Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index
Source: Bloomberg (weekly chart), OCBC Research

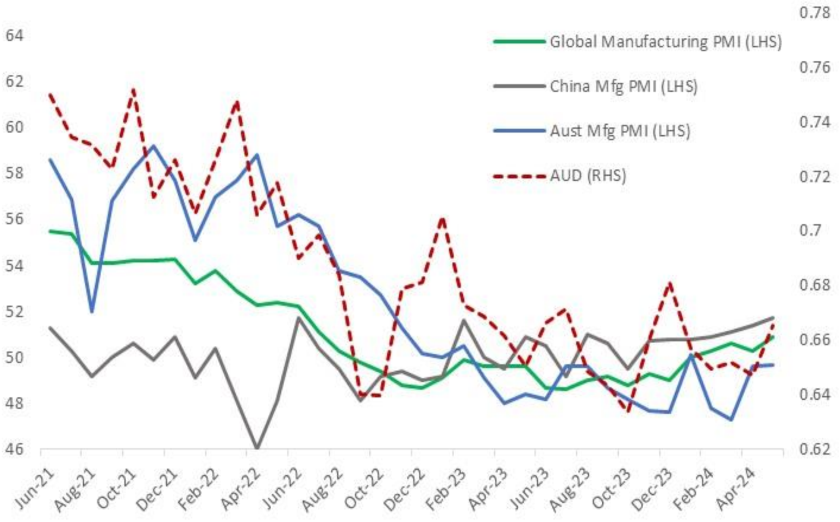
AUD: Broadly Constructive

RBA Likely to be One of Last DM Central Banks to Cut Rates

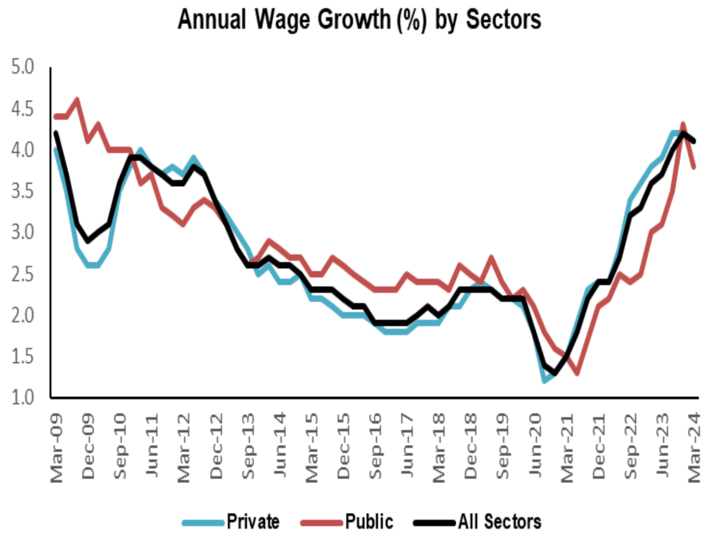
- AUD is a highly sensitive currency to global growth cycles, Fed tightening, commodity demand, risk sentiments and RMB.
- Domestically, growth is likely to stay subdued and pick up slightly, but AUD take cues from external drivers.
- RBA Likely to remain one of the last few DM central banks to cut rates as inflation still sticky and labor market remains tight.
- AUD can also play catch up to commodity prices when Fed and China no longer become big risks.

Downside Risks: 1/ extent of CNH swings; 2/ if USD strength or Fed tightening cycle unexpectedly extends; 3/ global growth outlook – if slowdown deteriorates; 4/ any market risk-off event.

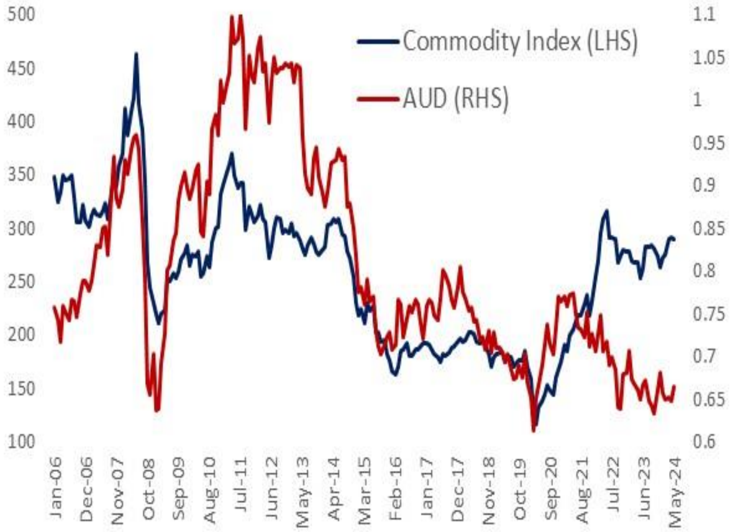
A$ - Procyclical Currency: Rebound has Legs if manufacturing PMIs Turns Higher



Sticky Price Pressures -> RBA Likely to Remain on Hold for longer



AUD Can Play Catch Up to Its Positive Correlation with Commodity Prices when RMB Stabilises and Fed Cuts



OCBC

Source Bloomberg, OCBC Research

AUD: Looking for Break-out

OCBC

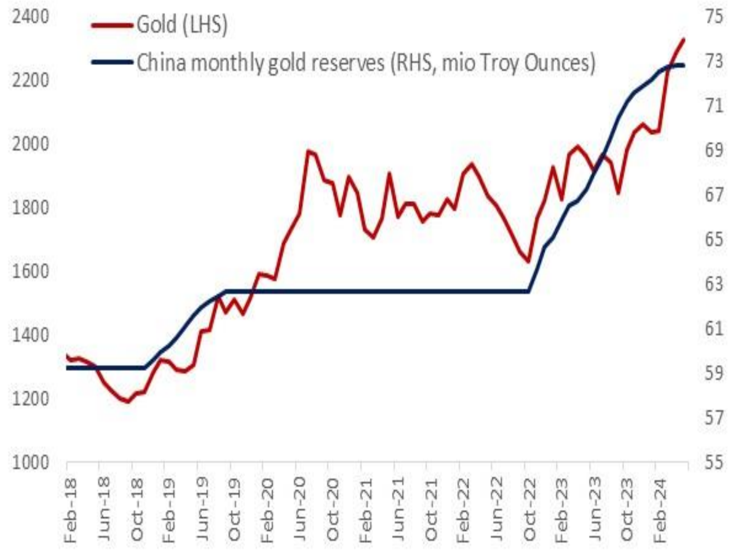
Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index
Source: Bloomberg (weekly chart), OCBC Research

Gold: Positive Outlook

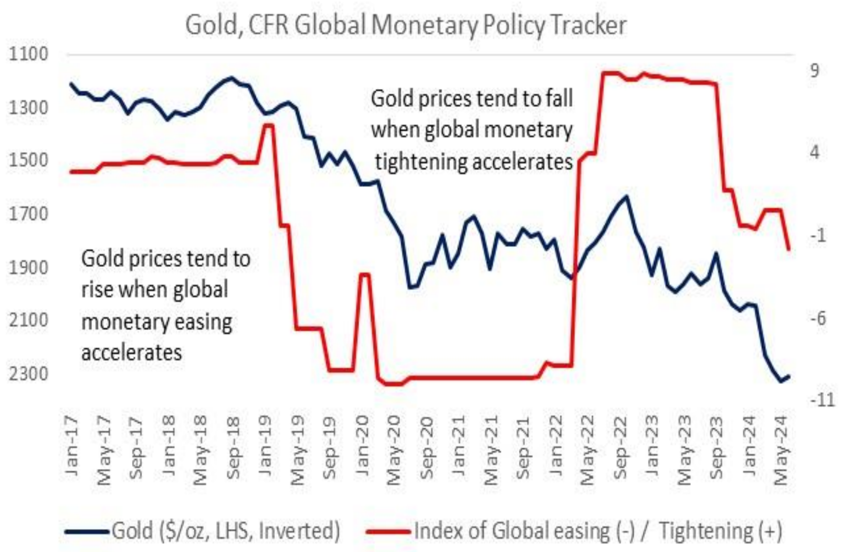
Geopolitical Hedge, Central Bank Easing Monetary Policies

- Near term pullback due to Fed's guidance for 1 cut and China halting gold purchases in May (1st time in 18 months).
- Medium term positive outlook driven by several factors, including the anticipation of central banks globally easing monetary policy, expectations that key central banks will resume gold purchases, geopolitical concerns, and gold's role as a safe haven and portfolio diversifier.
- Global order is seeing some shifts as geopolitical environment faces more frequent confrontations, conflicts and rivalry. Potential play-up of US-China trade tensions post US elections is one immediate risk to watch. The geoeconomic landscape is also seeing some structural changes amid shifting global supply chains while national security concerns are shaping economic policies and re-defining rules. This big shifts or transition to a new world order will see heightened uncertainties. Gold may well be that safe harbour in times of uncertainty.

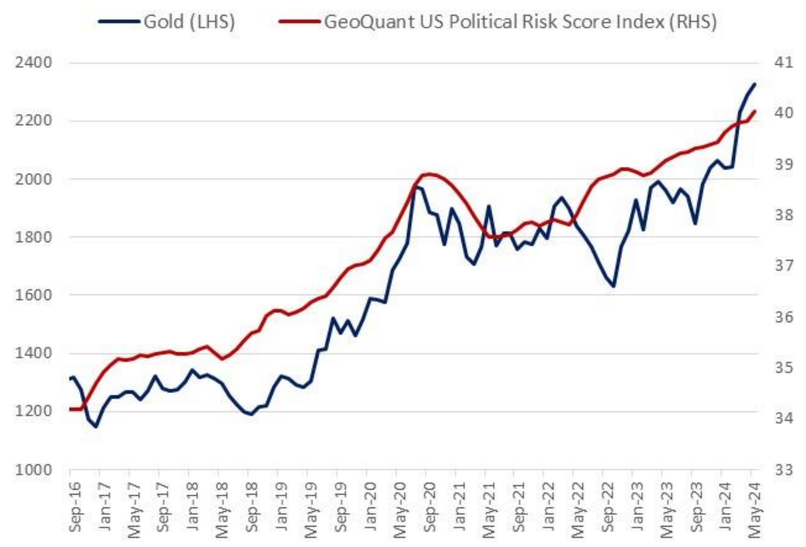
China halts gold purchases for first time in 18months



Easing of monetary policies Can Support Gold Prices



Rise in geopolitical tensions can be supportive of gold prices



OCBC

Source Bloomberg, OCBC Research

Gold: Near Term Retracement Risk; Medium Term Bullish Setup

Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index
Source: Bloomberg (weekly chart), OCBC Research

Silver: Constructive Outlook

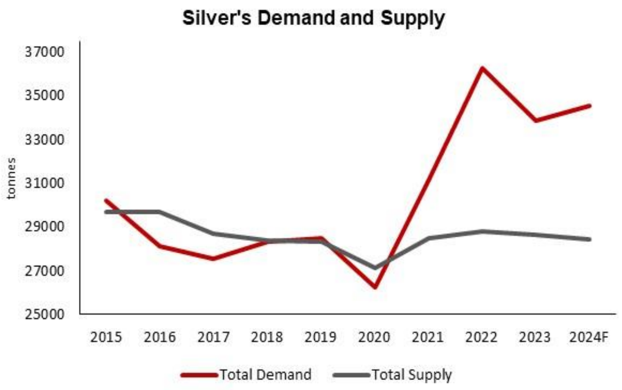
Green Transition Demand; But Price Action Can be Volatile

- Medium term outlook is constructive due to industrial demand prospects and ongoing supply deficits. Demand prospects are promising, given the green transition and how silver has its place for industrial use. Global silver demand is projected to reach 1.2 billion ounces in 2024 from continued growth in industrial end-uses, especially for solar panels, EVs and 5G technology.

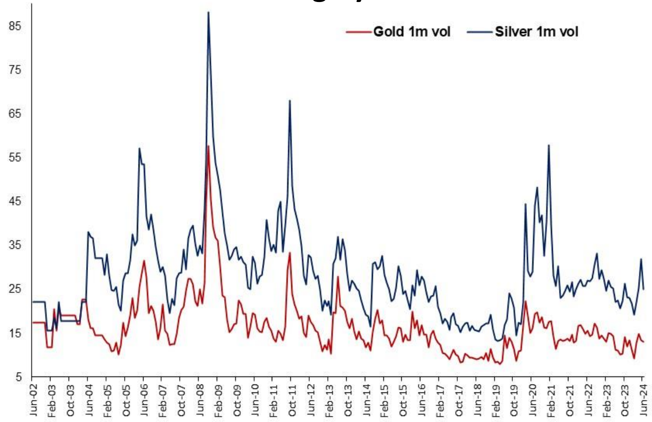
- One risk to monitor is supply trends and technology advancement. While silver is well known for its superior conductivity, making it amongst the best for both heat and electricity and hence widely used in applications that require efficient wiring, circuitry, thermal conduction, one cannot ignore that ongoing research and potential advancement in technology may avail alternative metal or material that may well challenge silver's status and its value.

- Near-term outlook can vary somewhat due to its volatile nature and that it is also driven by market and macro dynamics, including interest rate cycles, global growth outlook and geopolitics. In the interim, prices of Silver may consolidate, taking cues from moves in gold prices. Long position in silver looks stretched at current levels. Unwinding of stretched longs can add downward pressure to prices of silver. We look await corrective pullback to play out before buying on dips.

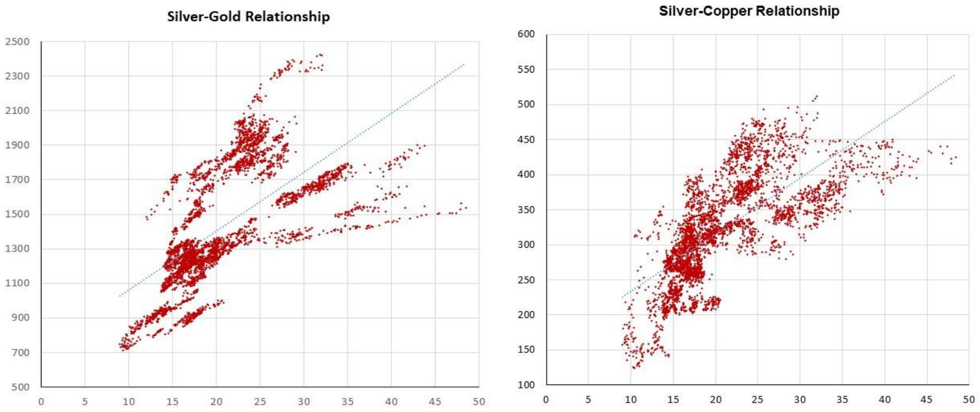
Silver Supply Facing Structural Shortage



Silver Is Highly Volatile



Silver Exhibits Characteristics of Precious and Industrial Metal



Source Bloomberg, OCBC Research

Silver: Bullish Break-Out but Mind the Pullback

Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index

Source: Bloomberg (weekly chart), OCBC Research

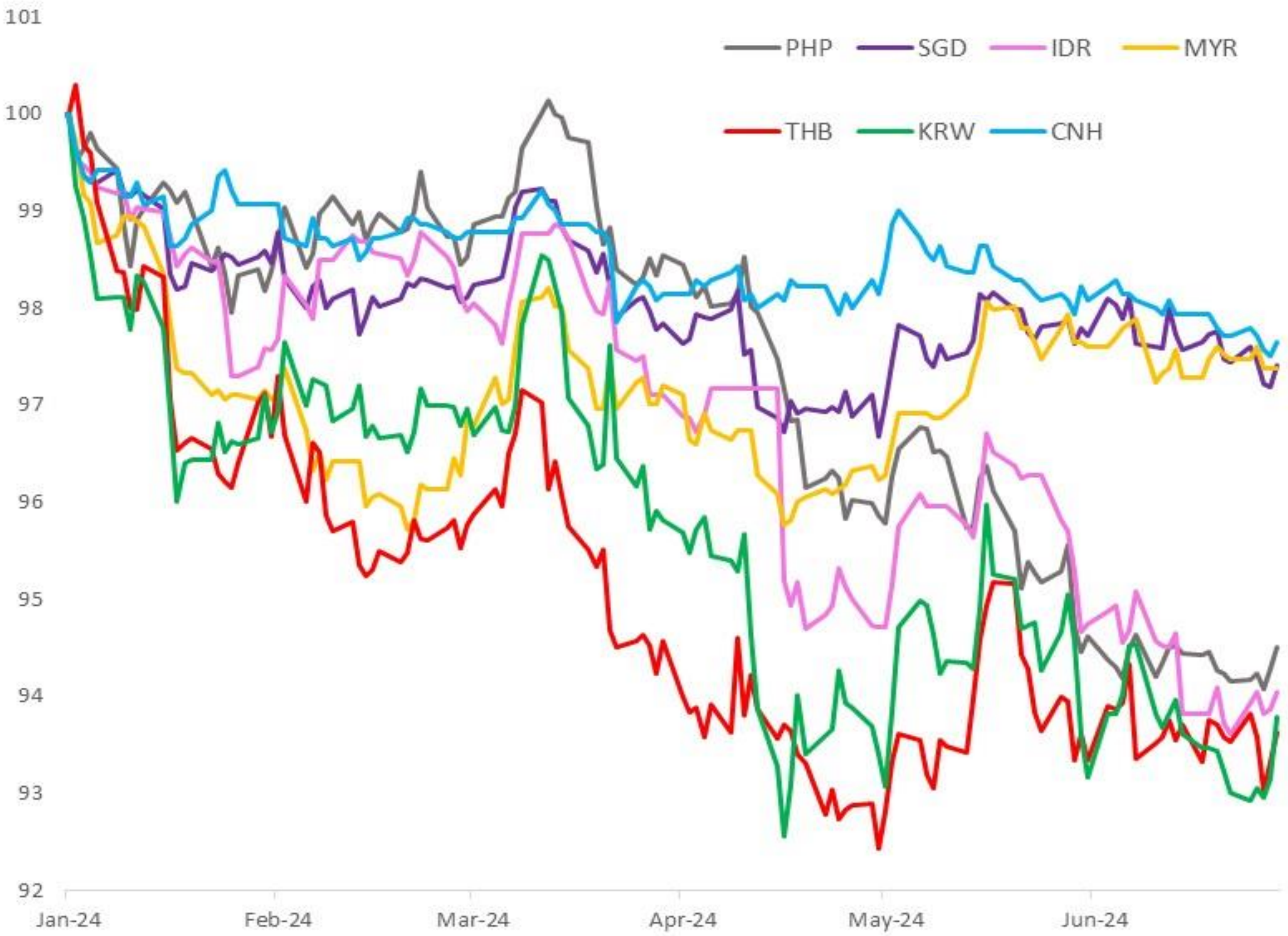
AXJ FX Outlook

OCBC Bank

Most Asian FX Depreciated.. By Varying Degrees

SGD, MYR and RMB Held Up Better Than Other AXJs

1H AXJ FX % Change vs. USD (Indexed to 100 on 1 Jan 2024)

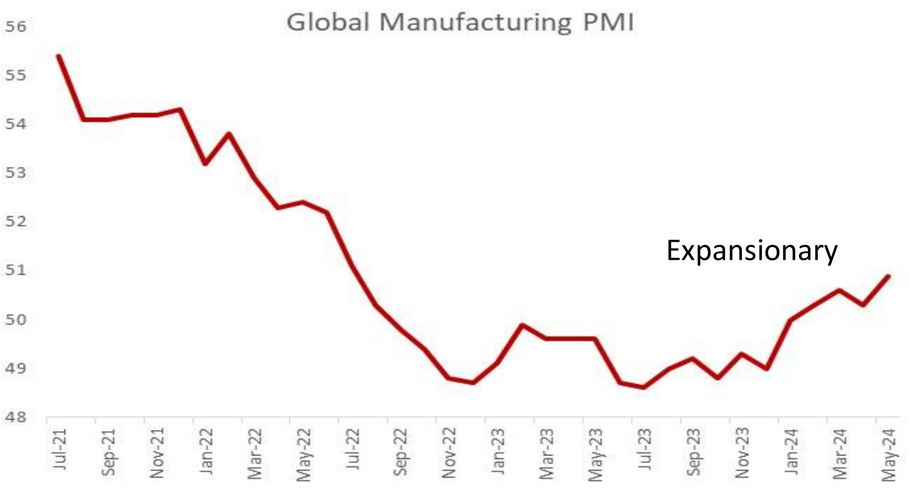


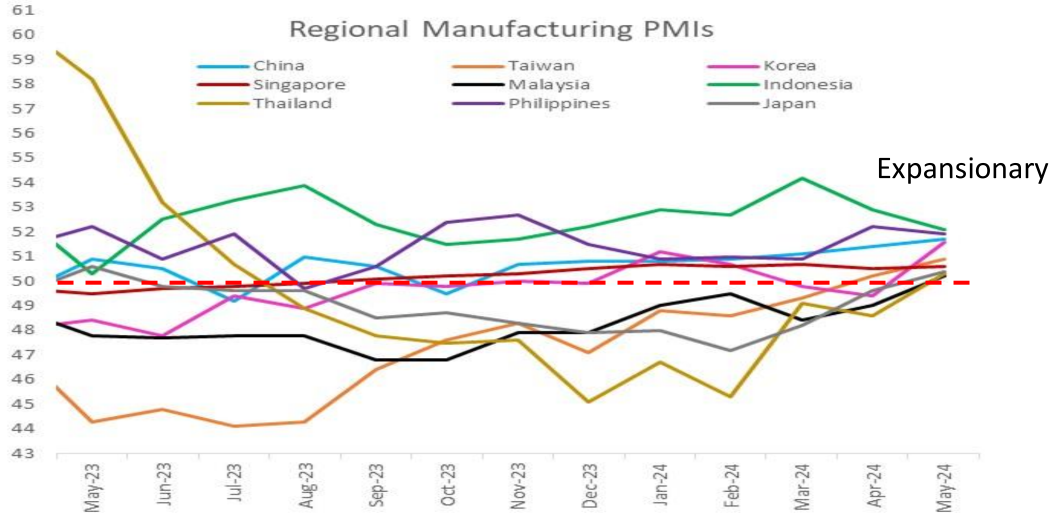
- PHP – Dovish BSP guidance and divergence with US and some of the monetary policies in the region makes PHP vulnerable of the pack.
- IDR – Weighed by higher US rates and compounded by fiscal concerns/ borrowing needs.
- KRW – Driven by sentiments (high beta nature), higher US rates, weaker RMB (sentiment channel).
- RMB – "Outperformer" due to authorities managing expectations via the daily fix, offshore CNH funding squeeze (at times) to deter short speculators, restrain depreciation pressures.
- SGD – relative resilience due to MAS monetary policy - appreciation stance.
- MYR – Held up due to increase in foreign inflows to domestic equities, lesser sensitive to negative market developments, BNM's communication with market participants.

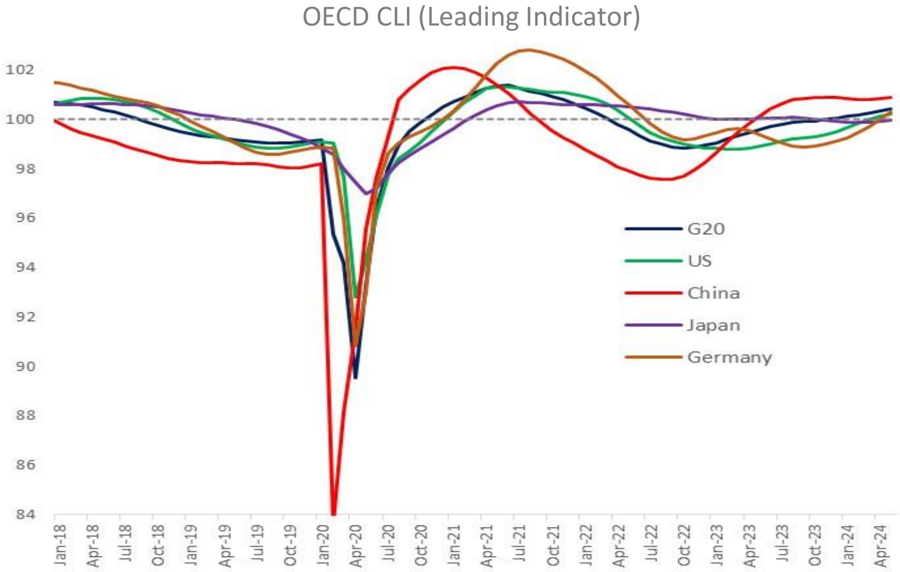
OCBC

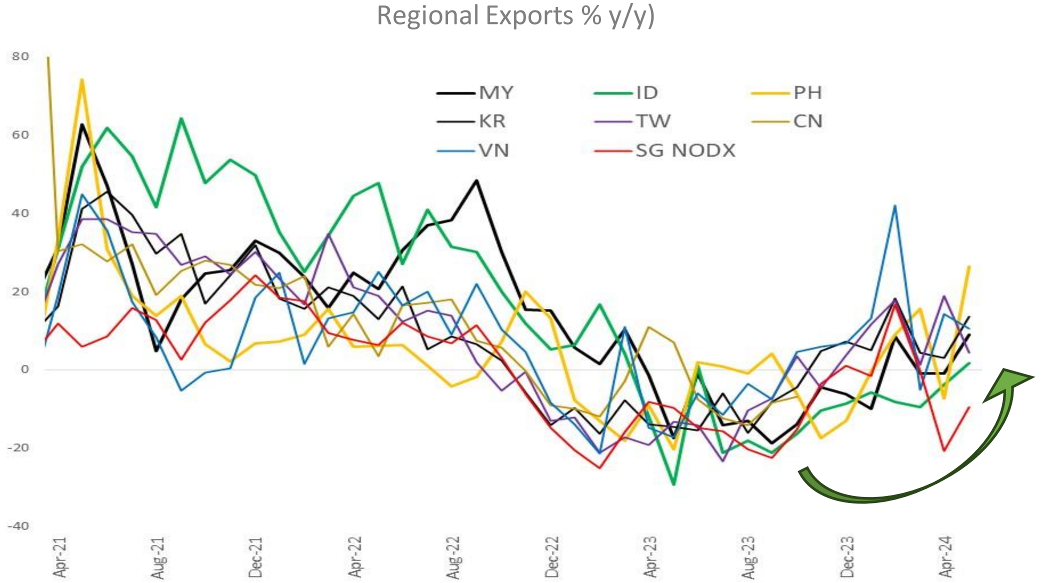
Source Bloomberg, OCBC Research

Global Macro Backdrop Appears Optimistic





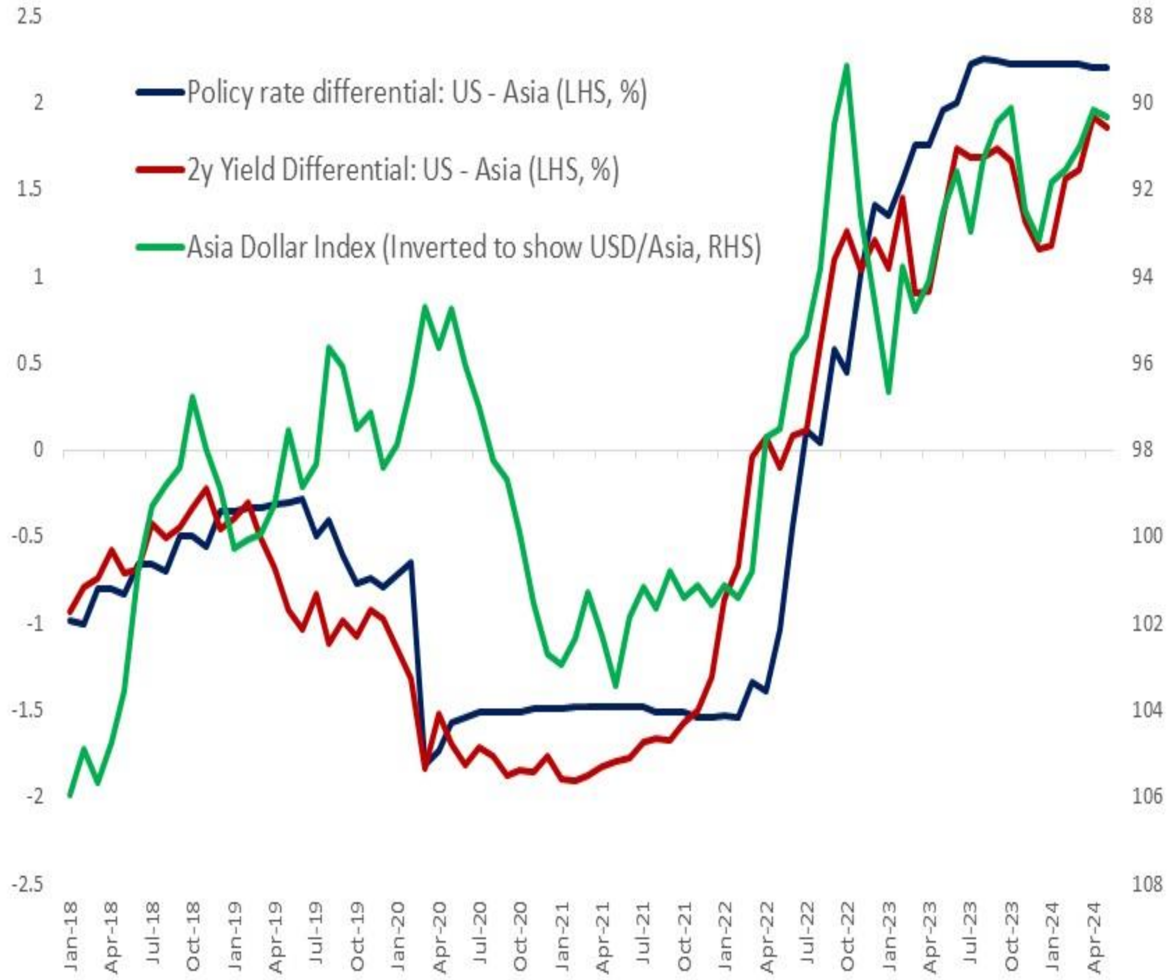




Note: China PMI here refers to Caixin PMI
Source Bloomberg, OCBC Research

Wide Yield Differentials, Policy Gap Undermine AXJ FX

AXJ FX Can Recover when Yield Differentials Start to Narrow… Need Fed to Cut Rates



- **Widening yield, policy rate differentials between US and Asia remains a key driver of AXJ FX volatility and weakness**
- Softness in AXJs can persist if high for longer narrative lingers
- But as Fed embarks on rate cut cycle in 3Q 2024, US-Asia yield differentials can narrow, and this should be supportive of AXJ FX recovery
- In the interim, Asian central banks will have to rely on different measures to smooth respective FX volatility
- Risks to AXJs: US-China trade tensions dependent on outcome of US elections (may affect RMB stability), JPY pace of depreciation (if it persists).

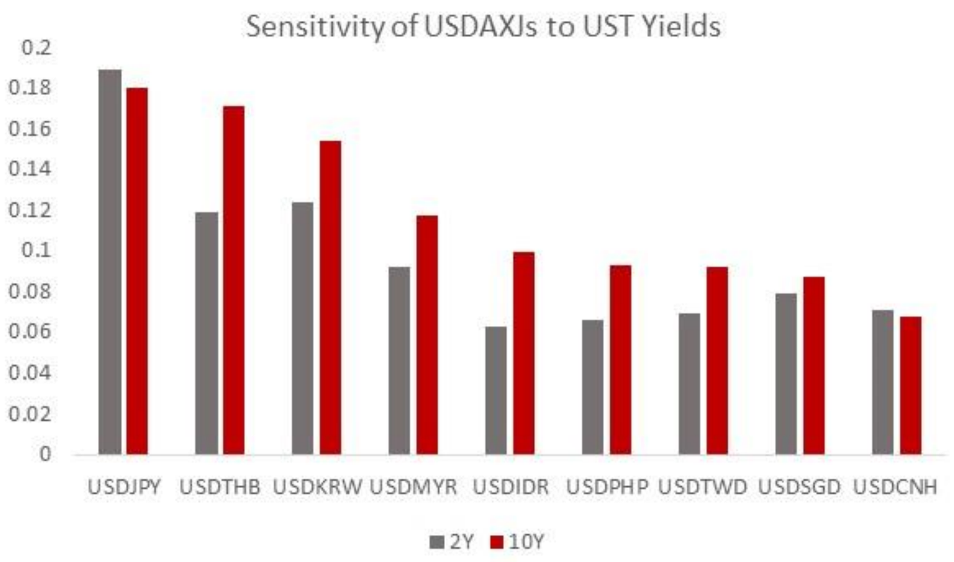
OCBC

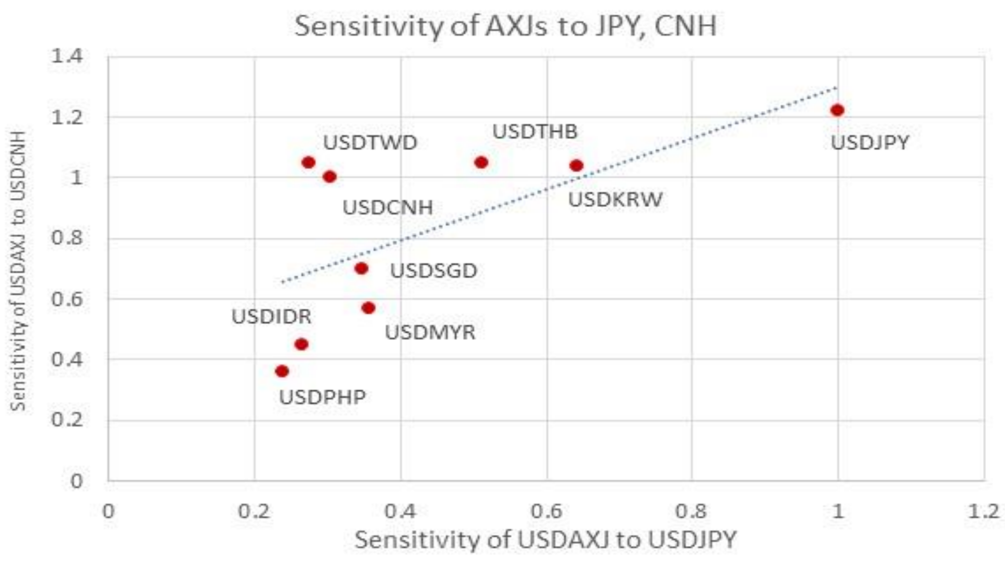
Source Bloomberg, OCBC Research

AXJs Can Be Sensitive to Moves in UST Yields, RMB and JPY

KRW, THB Amongst AXJs Most Sensitive This Episode

- JPY, THB, KRW amongst Asian FX most sensitive to moves in UST yields.
- TWD, THB and KRW amongst AXJs most sensitive to moves in RMB.
- KRW, THB, SGD and MYR amongst AXJs more sensitive to moves in JPY.





Note: OLS regression on weekly change over 2-year period from 6 Jul 2022 to 5 Jul 2024.

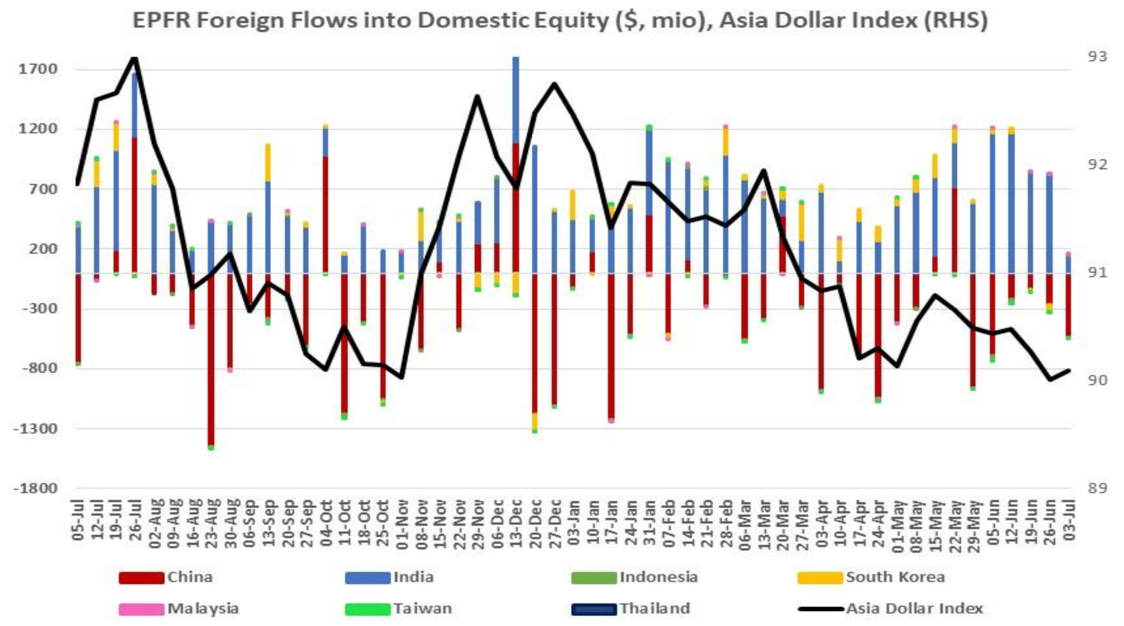
Source Bloomberg, OCBC Research

An Overview: Shorts in PHP, IDR Highest; Mixed Flows in Regional Equities

AXJ Positioning Bias (Reuters Poll) – Market short position in AXJs has been on a rising trend. Shorts are highest in IDR, PHP, CNY and KRW. Shorts in SGD and INR are least amongst AXJs.

	22-Feb-24	07-Mar-24	21-Mar-24	04-Apr-24	18-Apr-24	02-May-24	16-May-24	30-May-24	13-Jun-24	27-Jun-24
USD/CNY	0.7	0.84	0.92	1.18	1.25	1.25	1.05	1.05	0.95	1.34
USD/KRW	0.4	0.54	0.82	1.09	1.59	1.61	0.96	0.72	0.87	1.28
USD/SGD	0.2	0.25	0.33	0.42	0.8	0.89	0.35	0.33	0.62	0.8
USD/IDR	0.2	0.53	0.6	1.13	1.32	1.39	0.96	0.94	1.22	1.49
USD/TWD	0.7	0.64	0.92	1.17	1.24	1.4	1.02	0.53	0.64	0.88
USD/INR	-0.4	-0.59	-0.54	0	0.43	0.49	0.39	0	0.37	0.46
USD/MYR	1.3	1.14	1.12	1.15	1.42	1.46	1.23	0.81	1	1
USD/PHP	0.3	0.52	0.47	0.62	1.19	1.44	1.29	1.19	1.23	1.37
USD/THB	1.1	1.05	1.13	1.35	1.28	1.39	1	1	0.92	0.91

Chinese equities saw foreign outflows accelerate. Foreign inflows to Malaysia equities continued to hold up last week. Decline in Asian FX somewhat found respite last week.



Note: Asian FX poll is conducted by Reuters, on bi-weekly basis on what analysts and fund managers believe the current market positioning are. Poll uses estimates of net short or long on a scale of -3 to +3. A score of +3 indicates significant long USD against the AXJ FX. Arrow direction indicates change in positioning from last date.
Source: Reuters [latest avail: 27 Jun 2024], CFTC (as of 3rd July 2024), Bloomberg, OCBC Research

Seasonality Trends Suggest AXJ FX May Face Another Tough Quarter

July May See Some Respite for AXJ FX

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
15 Yr Avg	.17	-.26	.30	.33	-.80	-.21	.16	-.69	-.36	.18	-.26	.71
2023	2.22	-3.01	1.10	-.72	-1.70	-1.00	1.52	-1.81	-.94	-.33	2.61	.72
2022	-.44	.29	-.61	-3.05	-.21	-1.75	-.46	-1.64	-3.55	-1.45	3.83	2.15
2021	.23	-.57	-1.04	.98	1.12	-1.54	-.66	.49	-.86	.61	-.28	.45
2020	-.53	-1.38	-1.89	.98	-.93	1.36	1.00	1.26	.48	1.24	1.62	1.13
2019	1.39	-.19	-.11	-.71	-1.71	1.31	-.51	-2.73	.48	1.48	-.40	1.32
2018	2.29	-1.02	.74	-.88	-1.12	-2.67	-1.46	-.52	-.40	-1.65	1.28	.89
2017	1.52	.91	.46	-.11	.98	-.11	1.04	.91	-.86	.45	1.04	1.32
2016	-1.08	-.19	3.46	-.16	-2.20	.60	.64	-.32	.28	-1.64	-2.12	-.88
2015	-.55	-.18	-.06	1.04	-.98	-.30	-1.43	-2.90	-.26	1.50	-1.07	-.90
2014	-1.06	.17	.01	.11	.58	.34	.01	.50	-1.54	-.03	-1.30	-.91
2013	-.23	-.14	-.54	.84	-1.68	-1.07	-.17	-1.09	1.45	.98	-.69	.15
2012	2.27	.55	-1.04	.16	-3.21	1.09	.53	.00	1.90	.57	.17	.06
2011	-.21	.23	1.17	1.74	-.59	.36	1.06	-.48	-4.66	2.39	-2.21	-.12
2010	.08	.05	1.34	1.14	-2.76	-.01	1.27	-.39	3.06	.95	-1.37	2.16
2009	-2.03	-3.60	2.95	2.83	1.91	-.57	.82	-.61	2.22	.31	.79	-.07
2008	.98	1.10	-.32	.01	-1.23	-.20	.77	-2.90	-3.18	-3.02	-3.24	3.92

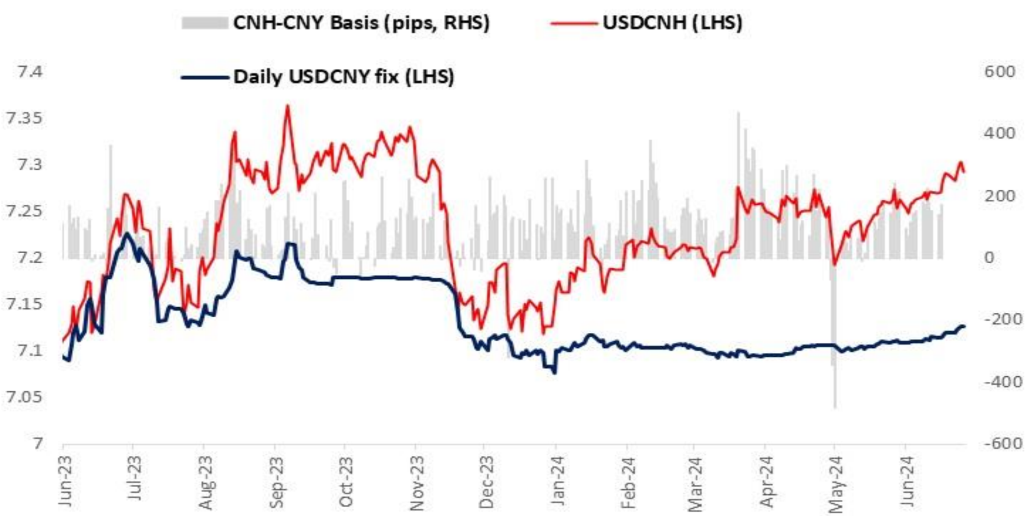
OCBC

Source Bloomberg, OCBC Research

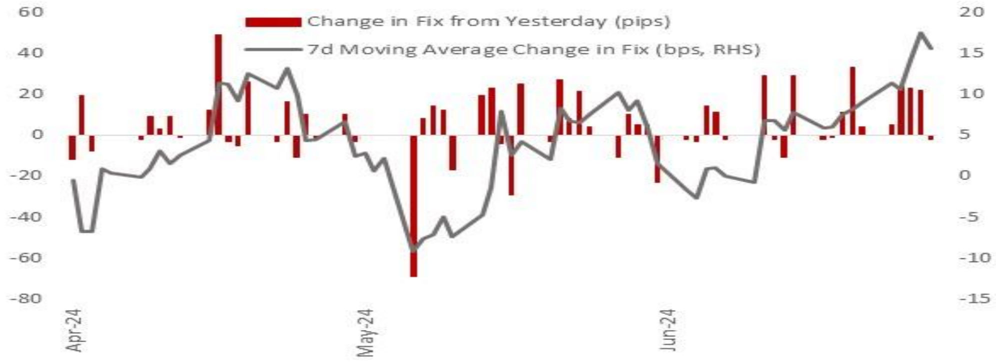
RMB: Risks Skewed for Weakening Bias

PBoC Likely to Pursue a Measured Pace of Depreciation

Higher USDCNY fix and wider CNH-CNY spread gives the impression there could be further weakening in RMB ahead



Daily Fix Set Higher More Frequently

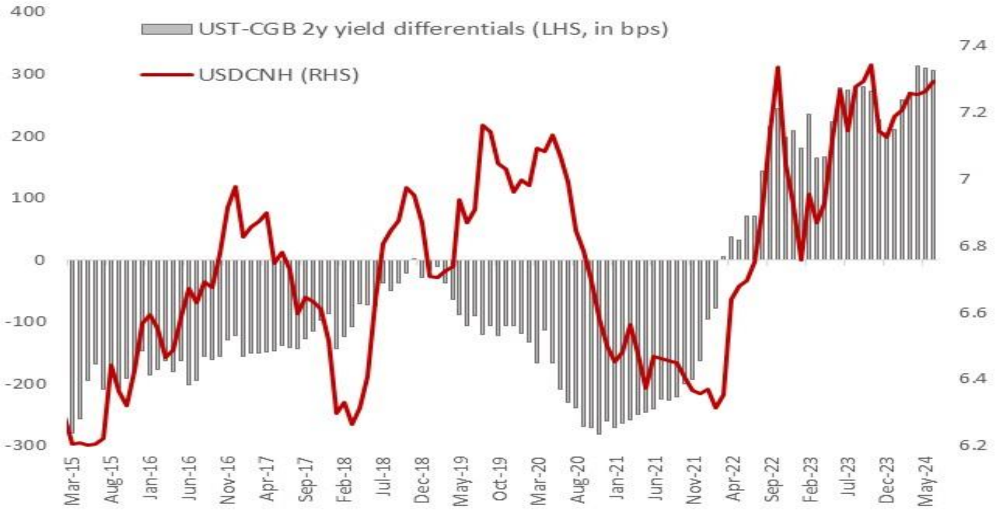


Source Bloomberg, OCBC Research

- RMB held ground vs. regional FX peers YTD but this was due to PBoC setting a largely steady fix
- Recent fixing pattern suggests that this may change going forward as PBoC experiments with a slightly faster pace of measured depreciation by adjusting its daily fix by around +15pips/day (average). This attempts to emphasize on RMB stability but yet allow for some pressure to be released on a measured basis. Intent is not to pursue a big bang approach so as not to undermine sentiments
- Economic recovery remains bumpy while industrial profits unexpectedly slowed. Property market has yet to recover/ stabilise despite measures. Wide UST-CGB yield differentials is also another factor that continue to weigh on RMB. Not forgetting falling rates also make RMB an attractive funding currency for carry trade elsewhere
- Looking out, US-China trade tensions may rise, dependent on outcome of US elections in Nov-2024. Trump has threatened to impose 60% tariff on imports from China. Past history of US-China trade tensions suggests this can be a negative for RMB. A blow-up in RMB may undermine AXJ FX
- An eventual recovery in RMB would require confidence to be "repaired", economic recovery to gain better momentum and for USD to turn lower. Greater clarity on US-China trade tensions would be a plus

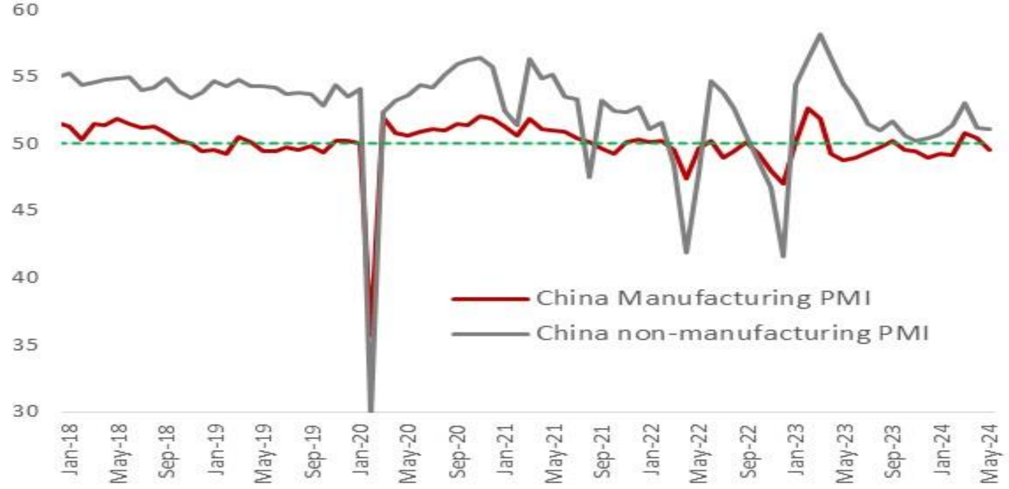
RMB: Weighed by Weak Dynamics

UST-CGB Yield Differentials Still Wide -> Undermine RMB

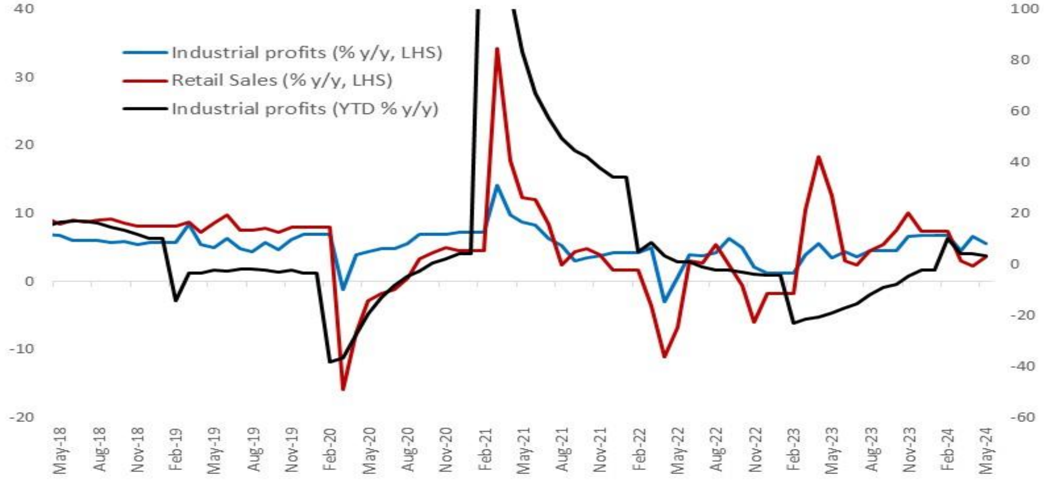


Housing Market in China Yet to Stabilize Despite Measures

PMI Readings Show Mixed Signals between Mfg and Services Sectors



Activity, Industrial profits Suggest Uneven Recovery



OCBC

Source Bloomberg, OCBC Research

Risk: Flare-up of US-China Trade Tensions May Undermine RMB

OCBC

Source Bloomberg, OCBC Research

USDCNH: Upside Risks

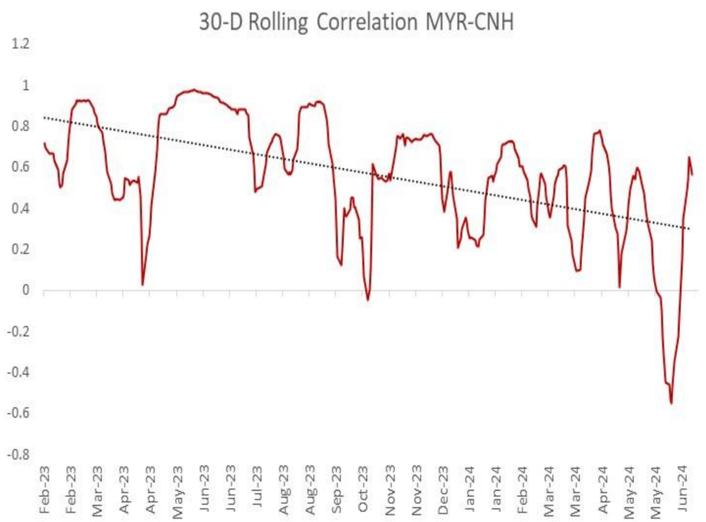
Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index

Source: Bloomberg (weekly chart), OCBC Research

MYR: Less Sensitive to RMB Moves or Negative Market Developments

MYR's recent stability can be attributed to various factors – both exogenous and domestics including:
- foreign inflows into domestic equity (not forgetting KLCI was an outperformer in the region +11% YTD)
- inflows (albeit small) into domestic bond markets
- improved growth prospects (driven by broad based expansion, domestic demand)
- widening of current acct surplus
- improved UST-MGS yield differentials in favor of MYR (10 yield differentials narrowed to +43bps from above +70bps)
- **relatively lower MYR sensitivity to negative market developments, RMB** compared to previous episodes
- increase in communication gives markets the **reassurance that regulators are closely watching MYR** FX markets

MYR Correlation with RMB Gradually Loosens Over Time



Increased Usage in Forwards To Support MYR

KLCI an Outperformer Amongst Regional Equities, YTD

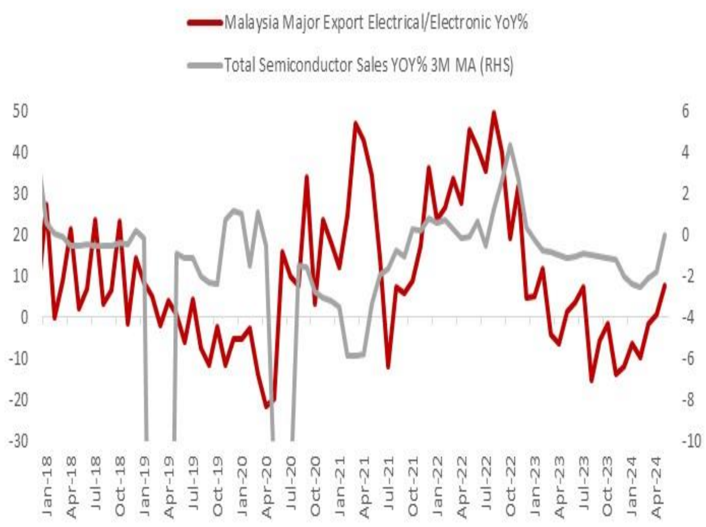
Source Bloomberg, OCBC Research

MYR: Likely to Recover Some Lost Ground

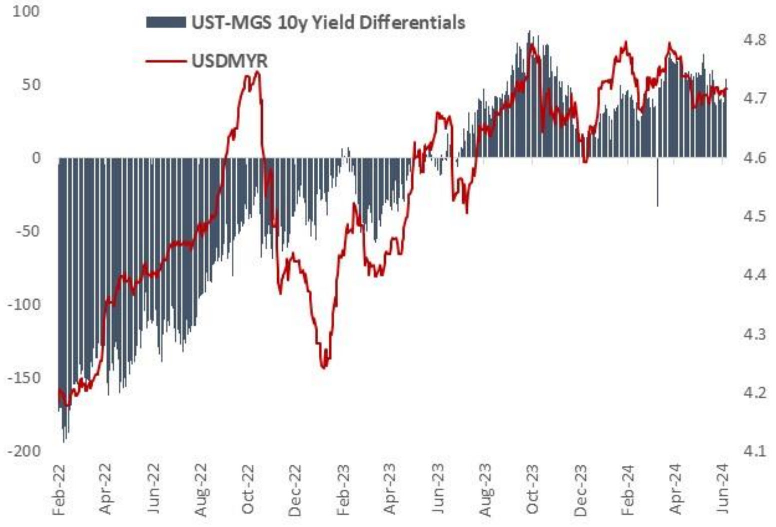
- We look for MYR to recover some lost ground when yield differential dynamics improve as Fed gets closer to embarking on rate cut. Sustained recovery in tech and semiconductor cycle can also benefit Malaysia exports while eventual stabilisation in Chinese economy should further boost Malaysia's inbound tourism, trade, investments and broad sentiment. Sustained return of foreign inflows into local equities will be another factor supporting MYR.

- Risks to our view is a longer delay to first Fed cut and/or an unexpected slowdown in global growth. The one other risk we are mindful of is US elections in mid-Nov. The scenario for a play-up of US-China trade tensions is not ruled out and this may inject some uncertainty to markets, thereby implying that the downward path of USD may be bumpy and may even face intermittent USD upward pressure if geopolitical tensions rise.

Malaysia's Tech Exports Recovery Gather Traction



Narrowing UST-MGS Yield Differentials Can Support MYR



Sustained Inflow, Higher KLCI Can Be Supportive of MYR

Source Bloomberg, OCBC Research

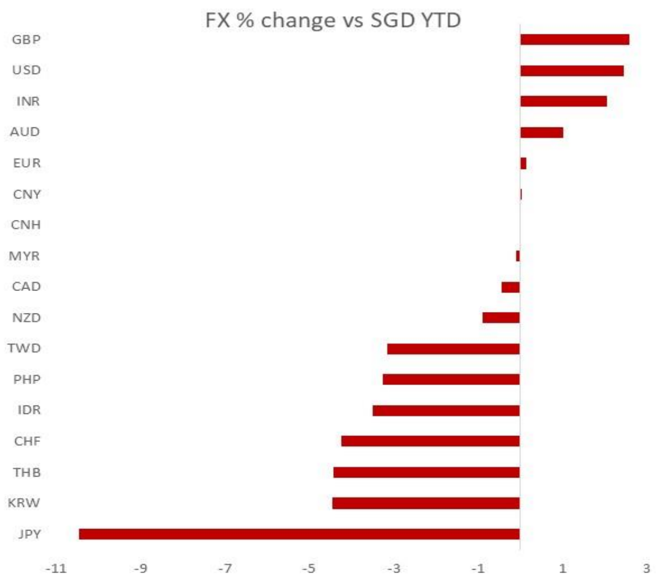
USDMYR: Potential For Move Lower if Triple Top Is Respected

Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index
Source: Bloomberg (weekly chart), OCBC Research

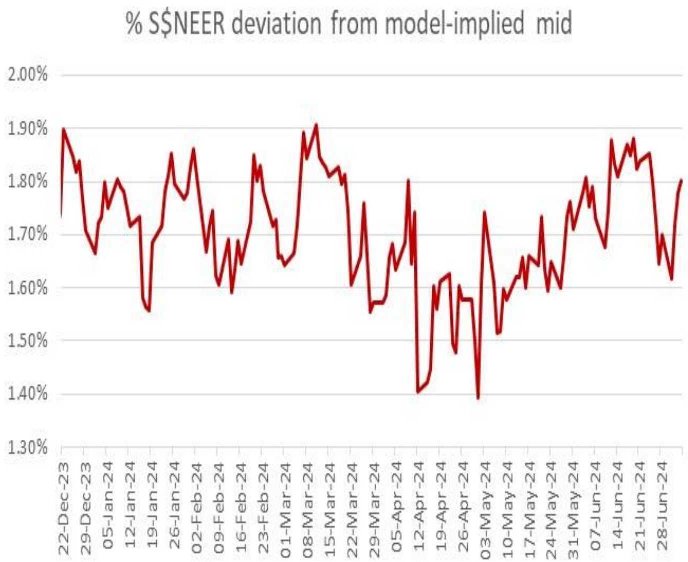
SGD: Relative Resilience vs Trade Partners; Room to Ease Into 2025

- MAS core CPI remains sticky at 3.1% and we expect current policy stance to be maintained, at least for upcoming Jul MPC.
- As such, S$NEER may continue to trade in the upper half of its band.
- Historically there is a positive correlation between the change in S$NEER and MAS core inflation. i.e. to say if core inflation does ease materially, then there is no need for the S$NEER policy to be so tight.
- Going forward, there is room for S$NEER strength to ease when core inflation starts to ease from 4Q 2024 and projected to ease more for 2025.

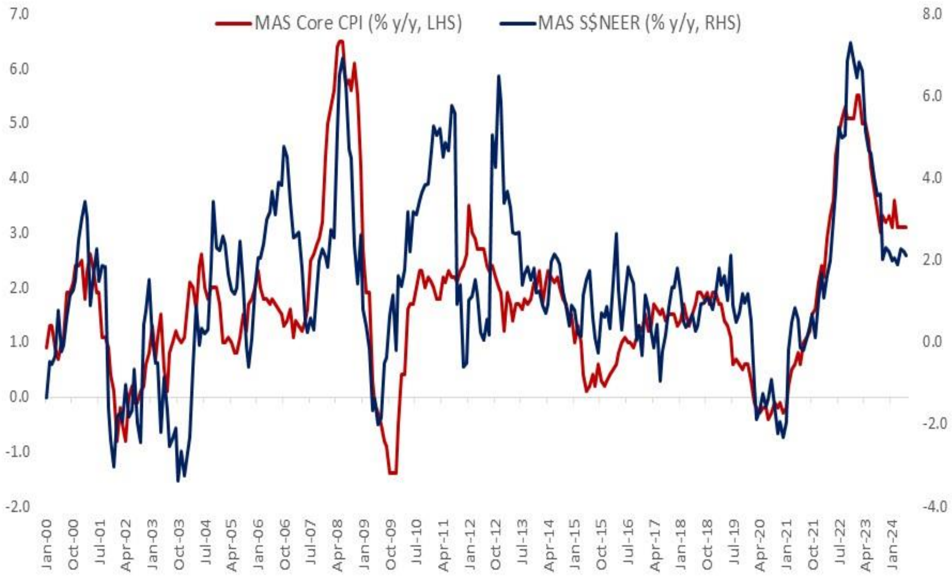
Most AXJ FX depreciated vs SGD; SGD Weaker vs. USD, GBP



Model Shows S$NEER Continued to Fluctuate in 1.4% - 1.9% Range Above Model-Implied Mid

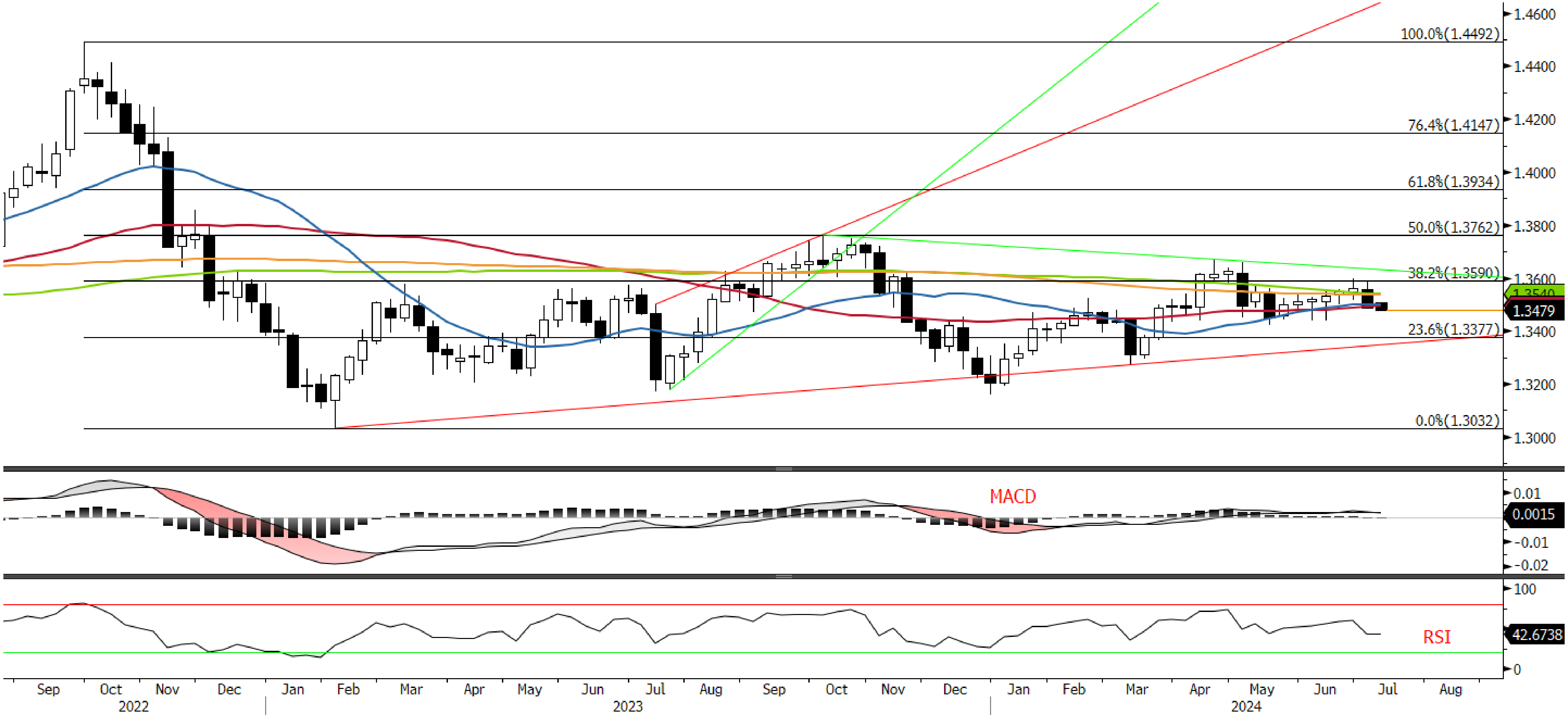


Slowing Core CPI Can See S$NEER Strength Ease; But for now, Sticky Core CPI Suggests S$NEER Strength May Persist



Source Bloomberg (YTD as of 4 Jul) , OCBC Research

USDSGD: Sideways but Compression of Range May Precede Break Out Trade

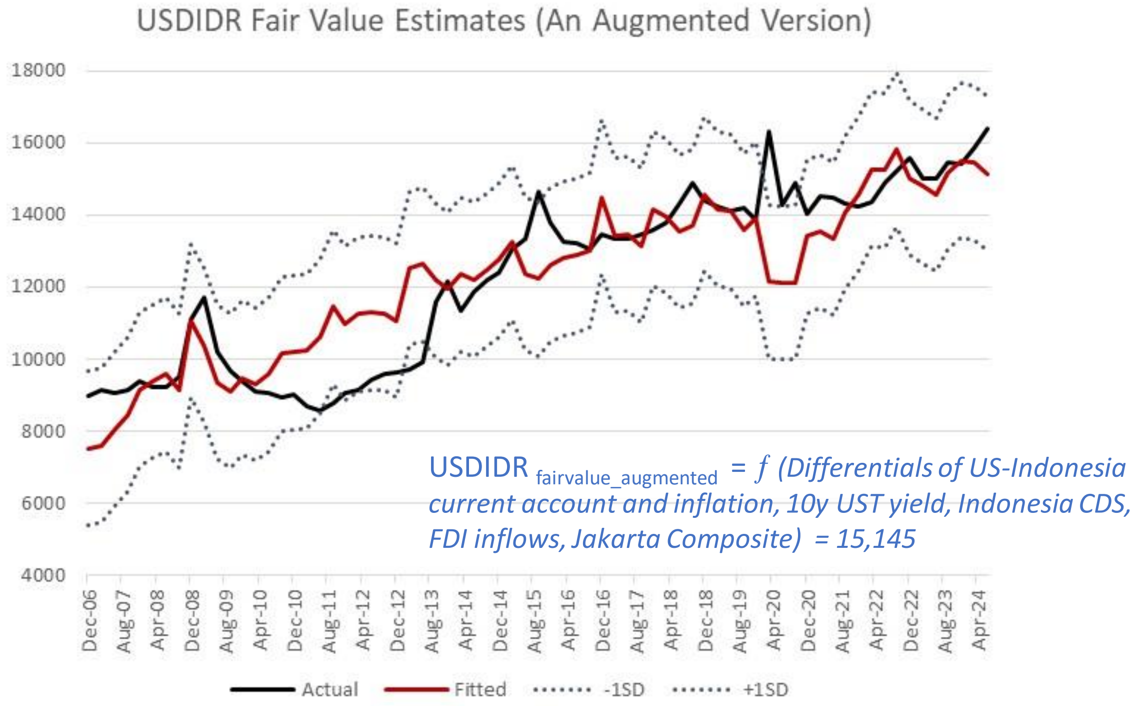


OCBC

Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index
Source: Bloomberg (weekly chart), OCBC Research

IDR: Hurt by Higher for Longer (US Rates)

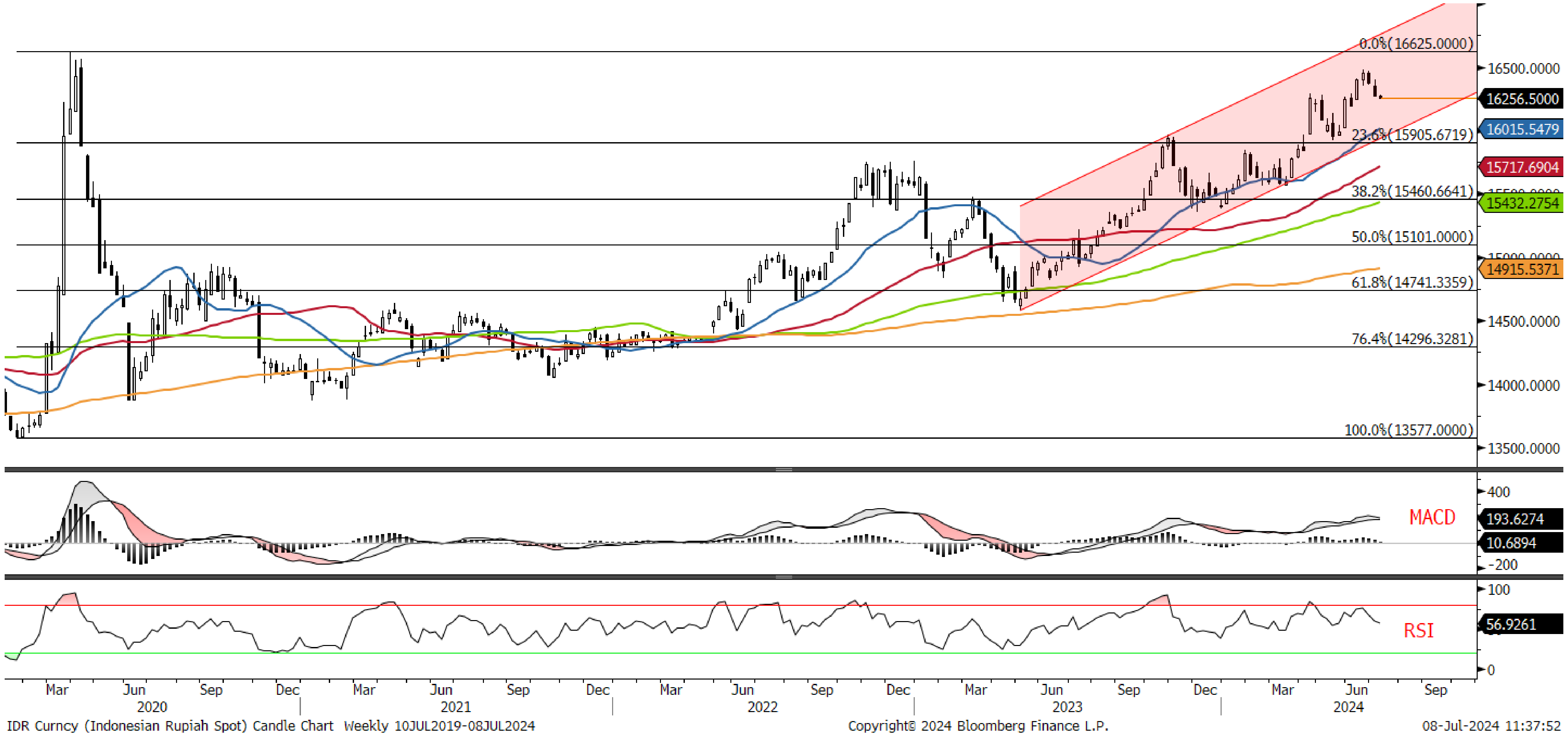
- Excluding covid-period, UST yields have been a key driver of USDIDR.
- Typical carry appeal of IDR pales in comparison as US rates continue to stay elevated.
- IDR recovery would require Fed pivot.
- Fiscal discipline (to set fiscal deficit at 2.29%-2.82% of GDP) should help to restore market confidence.
- Current IDR spot has deviated significantly from "fundamental fair value estimates" -> IDR should correct (or strengthen) over time.



Note: *President-elect Prabowo spoke about plans to boost public debt to 50% of GDP (from current 39%) in his 5-year term. The initial floatation of the idea triggered fears if government will increase debt/ run larger budget deficit to fund spending/ compromise on fiscal discipline, and this weighed on IDR. But subsequently over the weekend, Thomas Djiwandono denied in saying that this is not a formal plan and government would adhere to legal limits on fiscal metrics.

Source Bloomberg, OCBC Research

USDIDR: Bullish Trend Channel Intact but Momentum Shows Signs of Fading



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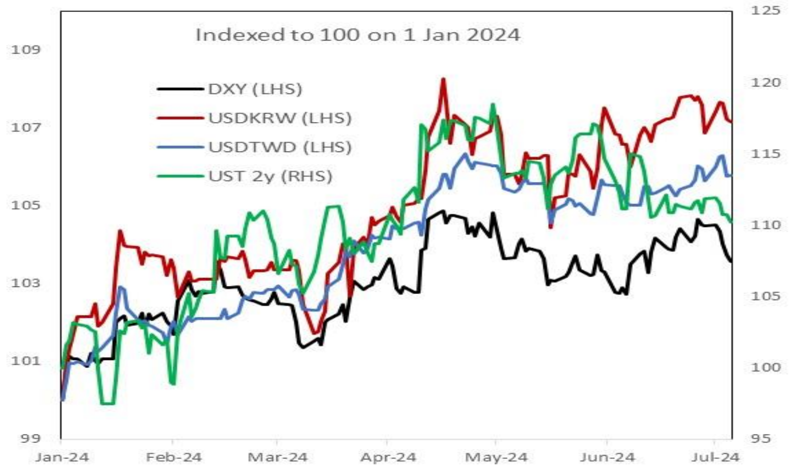
Source: Bloomberg (weekly chart), OCBC Research

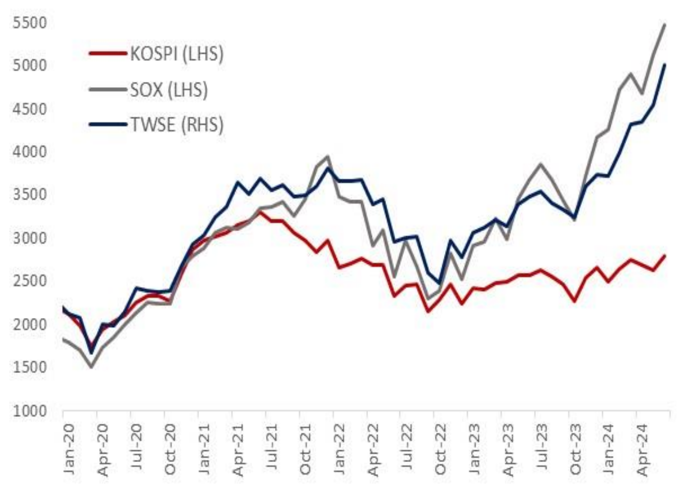
KRW, TWD: Recovery May Play Catch-up to Correlation with Tech Rebound

- Tech stocks, exports' positive correlation with KRW and TWD have broken down this year.
- Higher for longer (US rates, USD) has been a bigger driver undermining KRW, TWD.
- But as Fed embarks on rate cut cycle in 3Q and high for longer narrative fades, there may be room for KRW, TWD to play catch-up, especially if growth environment remains conducive.
- Risk to recovery bias is when the tech rebound sputters/ tech equities retrace or foreign outflows accelerate.
- Between the two, bias for TWD to gain more vs. KRW on potential CBC-BOK monetary policy divergence.

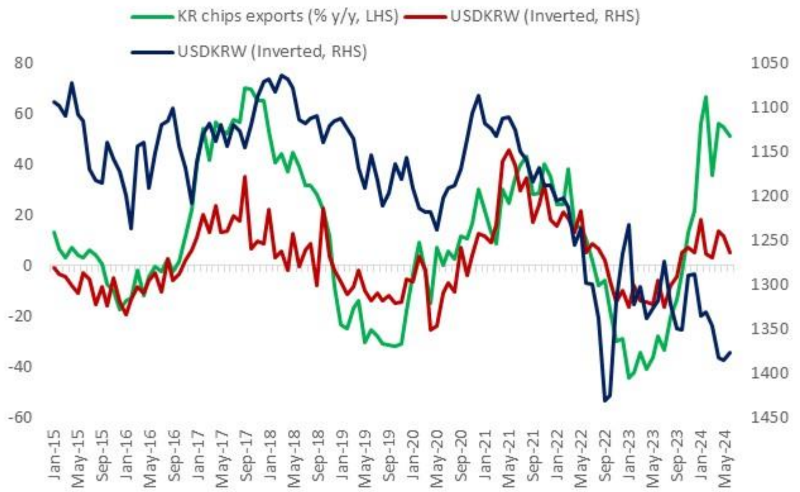
High for Longer Drove USDKRW, USDTWD Higher



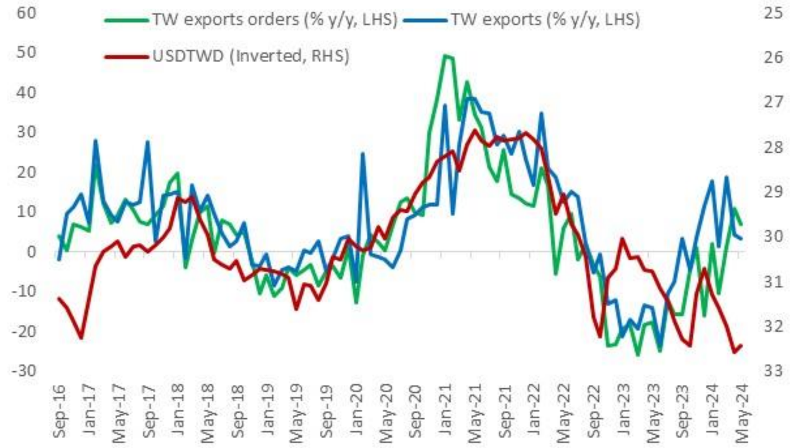
Tech Stocks Still on the Rally



KRW Yet to Benefit from Sharp Rebound in Chips Exports



TWD Yet to Benefit from Rebound in Exports, Exports Orders



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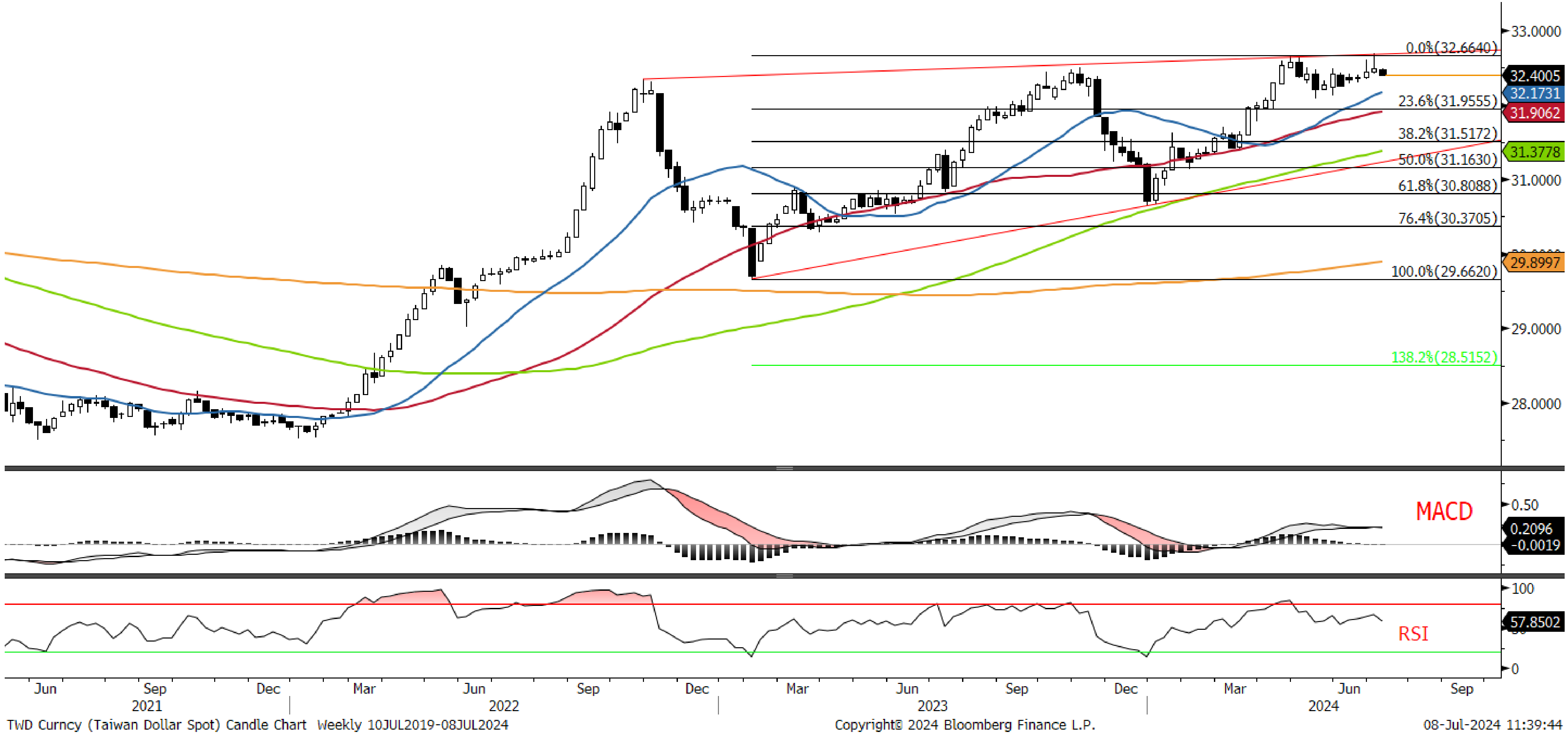
Source Bloomberg , OCBC Research

USDKRW: Bullish Trend Channel Intact; Looking for the Turn Lower

Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index
Source: Bloomberg (weekly chart), OCBC Research

USDTWD: Rally Shows Tentative Signs of Losing Steam



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Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index
Source: Bloomberg (weekly chart), OCBC Research

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