

## Daily Market Outlook

16 July 2024

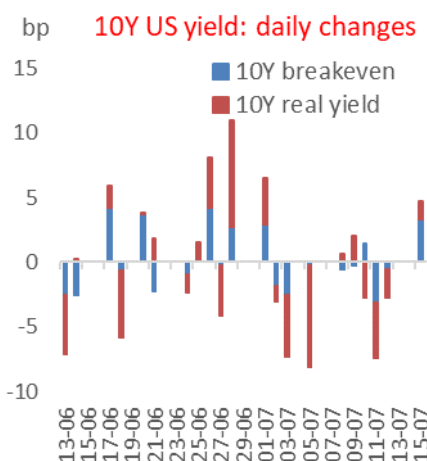
### Steepening continued; ECB rhetoric in focus

- USD rates.** The UST curve bearish steepened overnight, as investors added further to rate cuts expectations while long-term inflation expectation edged up. The 10Y term premium as measured by NY Fed’s ACM model was a tad lower, not suggesting heightened worry over fiscal position. Overnight, the respective demand for 3M T-bills and 6M T-bills reflected heavier rate cut bets. The 3M cut-off was lower at 5.195% versus 5.230% prior, while the 6M cut-off fell by more to 4.985% from 5.080% prior. These resulted in a spread between 3M and 6M rates of -21bps versus -15bps at last week’s auctions. Fed funds futures pricing turned slightly more dovish, with more than a 100% chance being priced for a 25bp cut by the September FOMC meeting, and a total of 68bps of cuts priced by year-end. Market rate cut expectation was reinforced by the latest comments from Powell, who said data in the second quarter has added somewhat to confidence that inflation is moving towards the 2% target; “now that inflation has come down and the labor market has indeed cooled off, we’re going to be looking at both mandates”. While we do not assume a Trump victory would lead to materially higher inflation or materially wider fiscal deficits, market may choose to position on such expectations in the interim; this, coupled with increasing conviction of the start of the easing cycle, shall underline our curve steepening view.
- EUR rates and EURUSD.** Bunds mildly outperformed Gilts and USTs overnight, while EURUSD traded slightly lower following a modestly higher US dollar. The ECB is widely expected to stay put on rates this week, but investors look for hints of a September cut which is around 80% priced by swaps, although Lagarde is likely to remain non-committal. Bunds might also have continued to benefit from safe haven flows with unsettled fiscal issues in France, while France’s state auditor earlier described the divergence of the budget deficit from other EU countries as “unacceptable”; note OAT-Bund yield spreads did not come in further in recent days. EUR OIS pricing of 44bps of rate cuts by year-end looks roughly fair compared to our base-case of 50bps of rate cuts between now and year-end. Technical wise for EURUSD, we continue to expect selling pressure at the 1.09 resistance level in the near term, before a more entrenched softening move in the Dollar itself. Looking further ahead, our view remains that a softer

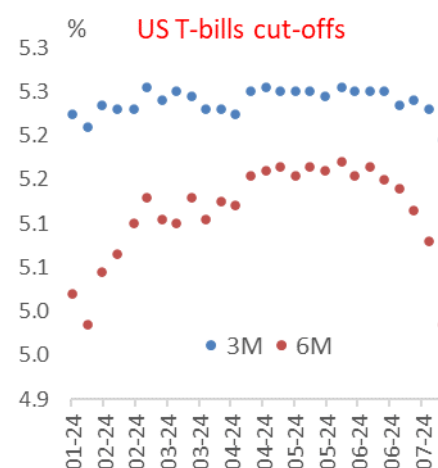
Frances Cheung, CFA  
 FX and Rates Strategy  
[FrancesCheung@ocbc.com](mailto:FrancesCheung@ocbc.com)

Herbert Wong  
[Herberhtwong@ocbc.com](mailto:Herberhtwong@ocbc.com)

Global Markets Research and Strategy



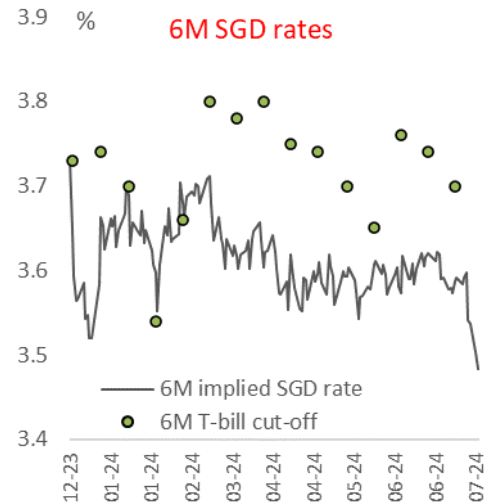
Source: Bloomberg, OCBC Research



Source: CEIC, OCBC Research

dollar alongside expected growth pick-up in the Eurozone shall provide support to the EUR on a multi-month horizon.

- SGD rates.** SGD OIS underperformed USD OIS in the latest leg of downward move, in line with historical pattern. Our medium-term view remains that SGD rates will likely lag USD rates in a downward move. That said, such underperformance may be mild only, especially if MAS keeps current S\$NEER setting with a positive slope. Today brings the auctions of 4W and 12W MAS bills. The 1M and 3M implied SGD rates were last trading at 5bps and 7bps lower than the levels around the time of the previous auctions. We expect MAS bills cut-offs to come in the range of 3.80-3.85%. As for Thursday's 6M T-bills auction, the offer amount is SGD6.8bn which is a tad higher than those at the previous two auctions. 6M implied SGD rates has dropped by a cumulative 10bps since the last T-bills auction. T-bills cut-off may fall to the 3.60-3.65% area probably nearer the 3.60% handle.
- HKD rates.** Market has added to expectation for the benchmark 3M HIBOR to fall, especially on a six-month horizon. 6x9 FRA on 3M HIBOR was last at 4.20%, versus current 3M HIBOR at 4.71% and our year-end expectation of 4.50%. The pricing may look overly dovish, as we expect short-end HKD rates to fall less than USD rates do. First, falls in USD rates are driven by expected monetary easing in the US itself; despite the peg, HKD-USD rates differentials do fluctuate. Second, HKD rates lagged USD rates mildly during the tightening cycle. We do however acknowledge there is downside risk to our short-end HKD rates expectations, which have been partly premised on expected inflows into HKD assets.



Source: MAS, Bloomberg, OCBC Research



Source: Bloomberg, OCBC Research

## Macro Research

**Selena Ling**  
Head of Research & Strategy  
[lingssselena@ocbc.com](mailto:lingssselena@ocbc.com)

**Tommy Xie Dongming**  
Head of Asia Macro Research  
[xied@ocbc.com](mailto:xied@ocbc.com)

**Keung Ching (Cindy)**  
Hong Kong & Macau Economist  
[cindyckeung@ocbc.com](mailto:cindyckeung@ocbc.com)

**Herbert Wong**  
Hong Kong & Taiwan Economist  
[herberhtwong@ocbc.com](mailto:herberhtwong@ocbc.com)

**Lavanya Venkateswaran**  
Senior ASEAN Economist  
[lavanyavenkateswaran@ocbc.com](mailto:lavanyavenkateswaran@ocbc.com)

**Ahmad A Enver**  
ASEAN Economist  
[ahmad.enver@ocbc.com](mailto:ahmad.enver@ocbc.com)

**Jonathan Ng**  
ASEAN Economist  
[jonathanng4@ocbc.com](mailto:jonathanng4@ocbc.com)

**Ong Shu Yi**  
ESG Analyst  
[shuyiong1@ocbc.com](mailto:shuyiong1@ocbc.com)

## FX/Rates Strategy

**Frances Cheung, CFA**  
Head of FX & Rates Strategy  
[francescheung@ocbc.com](mailto:francescheung@ocbc.com)

**Christopher Wong**  
FX Strategist  
[christopherwong@ocbc.com](mailto:christopherwong@ocbc.com)

## Credit Research

**Andrew Wong**  
Head of Credit Research  
[wongvkam@ocbc.com](mailto:wongvkam@ocbc.com)

**Ezien Hoo**  
Credit Research Analyst  
[ezienhoo@ocbc.com](mailto:ezienhoo@ocbc.com)

**Wong Hong Wei**  
Credit Research Analyst  
[wonghongwei@ocbc.com](mailto:wonghongwei@ocbc.com)

**Chin Meng Tee**  
Credit Research Analyst  
[mengteechin@ocbc.com](mailto:mengteechin@ocbc.com)

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

Co.Reg.no.: 193200032W