

Daily Market Outlook

6 June 2025

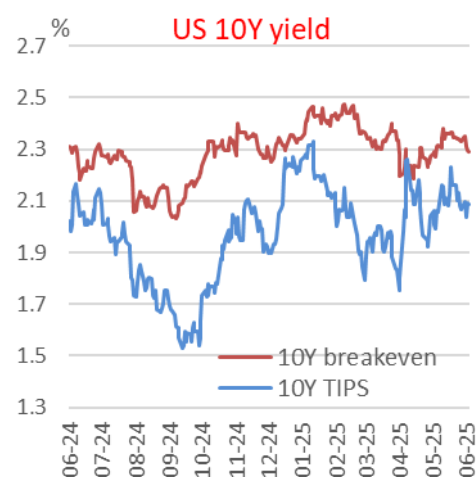
PBoC liquidity support; SGD T-bills cut-off fell further

- USD rates.** UST yields rebounded from intra-day lows overnight on hopes for trade talk progress. Long-end yields ended the day little changed while short-end yields were a few bps higher, as bond investors stayed cautious ahead of payroll and other labour market statistics tonight. Expectation for nonfarm payroll is again diverse, from 75K to 190K with median forecast of 126K as per Bloomberg survey. Key will be the conditions in sectors that had made more notable contributions to nonfarm payroll changes over the past months, including “education & health services”, “trade, transportation & utilities” and “leisure & hospitality”. Fed funds futures pricing was little changed, at 54bps of cuts for this year. 10Y breakeven continued to hover around 2.3% level and 10Y real yield around 2% level. A payroll print between 100-130K may see muted market reaction, while yields may break either side according to downside/upside surprise to this range of payroll; granted, the unemployment rate and underemployment rate will be scrutinised at the same time. Range for 10Y UST yield remains at 4.34-4.52% near term.

- EUR rates.** Bunds underperformed on Thursday after ECB policy rate cut decision, as Lagarde’s comments were seen as less dovish than expected. 1/ Lagarde commented that after the latest 25bp rate cut, “at the current level of interest rates, we believe that we are in a good position to navigate the uncertain conditions that will be coming up” – this is interpreted as saying the central bank can afford to adopt a wait-and-see approach, potentially skipping the July meeting in terms of rate cut. 2/ She revealed “there was one Governing Council member who did not support the [Thursday’s] decision” – presumably that member preferred to hold rate instead of cutting by a bigger magnitude. However, 3/ her comment that “we are getting to the end of a monetary policy cycle” is subject to interpretation. Her comment was “I think we are getting to the end of a monetary policy cycle that was responding to compounded shocks, including COVID, the illegitimate war in Ukraine and the energy crisis. But of course we are now into a different time with policies”. This means, in response to new shocks, some further easing cannot be ruled out, in our view. EUR OIS pricing of rate cut was little changed – now at additional 32bps of cuts before year end, similar to the pricing (adjusting for the delivered rate cut) before yesterday. Our base-case remain for one more 25bp cut

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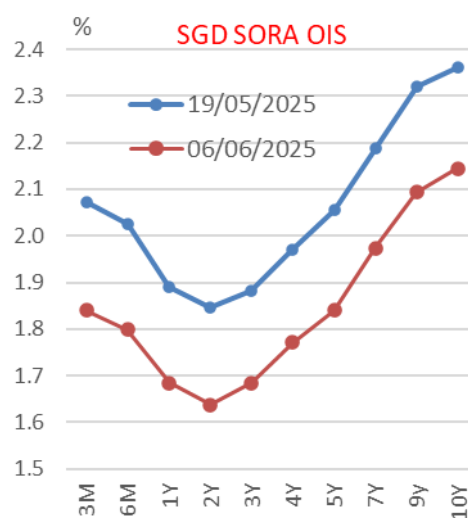
Global Markets Research and Strategy



Source: Bloomberg, OCBC Research

which will bring the deposit rate to 1.75%. We also maintain our view that the OIS curve is dovish enough and see the 2Y EUR OIS as bottoming.

- CNY rates.** PBoC announced on Thursday that it would offer CNY1trn of outright reverse repos of tenors 91-day today. First, it is a timely liquidity provision against heavy maturities of NCDs (CNY4.16trn) and of outright reverse repos in the month. Second the announcement being made ahead of the auction (instead of being revealed at month-end) increases information transparency and sends a signal to the market that PBoC remains supportive. Repo-IRS traded on the weak side but still with not much price action. We continue to expect front-end rates to be better anchored, with continued liquidity support, potential further monetary easing, and still some deflationary pressure. Next to watch is May PPI (consensus at -3.0% YoY) and May CPI (consensus at -0.2% YoY) to be released on Monday.
- SGD rates.** 6M T-bills cut off at 2.05% on Thursday, versus the cut-off of 2.20% at the auction on 22 May. Considering the fall in implied 6M SGD rate since 22 May, the cut-off of 2.05% was within expectations. Demand for high-rated papers such as SGS is strong, while SGD liquidity is flush. Asset swap into MAS bills have usually provided spreads of 15-25bps above SOFR, which is considered decent compared to US T-bills, while Singapore's credit rating is higher than that of US. The Singapore Government operates a balanced budget policy and most of the government's borrowings are not used to fund its expenditure, which allows flexibility in the calibration of auction sizes in reaction to prevailing market conditions. As such, the supply outlook tends to be supportive. Asset swap pick-up is wider further out the curve, as the SGD basis curve is inverted. SGS stands to benefit from diversion of flows. On rates side, SORA the overnight rate fell further to sub-1.5% level, and SORA OIS have moved onto new ranges; before a change in the liquidity situation, 1.9-2.0% area may be seen as the cap for rates for now. We suspect stronger sterilisation and/or higher supply of bills is required to mop up some liquidity. On the SORA OIS curve, 2Y and 3Y remain as the sweet spots at this point in time for hedging purposes.



Source: Bloomberg, OCBC Research



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