Daily Market Outlook

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BoK on Hold; Focus on ECB

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

Global Markets Research and Strategy

- **USD rates.** USTs rallied for a third day, as the bond market stabilised and went back to trading on the usual risk-on/risk-off dynamics. Overnight's 20Y coupon auction went well, with cut-off a tad below WI level; indirect bid was higher at 70.7%. At the short-end, markets added mildly to rate cuts expectations despite Powell's comments; Fed funds futures last priced a total of 90bps of cuts by year-end, and a terminal rate of around 3.30%. Powell's comments underlined one of the two risks that we have highlighted for our base-case of three Fed funds rate cuts, in terms of the timing. With the FOMC remaining highly data dependent, risk is the Committee will delay rate cuts if the inflation impact of tariffs is reflected in the data sooner than the growth impact. It is not that Powell did not acknowledge growth risk, but he appears to have stayed focused on inflation for now. He commented "we may find ourselves in the challenging scenario in which our dual-mandate goals are in tension. If that were to occur, we would consider how far the economy is from each goal, and the potentially different time horizons over which those respective gaps would be anticipated to close". In the scenario that the FOMC delay rate cuts, the chance is they may have to play some catch-up in the second half of the year. On liquidity, TGA balance rose to 600bn as of 15 April on tax payments; there continues to be bills paydown, at USD60bn tonight and USD49bn next Tuesday. Near-term range for 10Y UST is seen at 4.20-4.34% and a wider range is at 4.06-4.52%.

- **EUR rates**. Bunds traded in range on Wednesday ahead of ECB decision later today at which a 25bp cut is already fully in the price. Focus is on Lagarde's commentaries. Markets look for hints as to whether the central bank is open to cutting rates to below perceived neutral level. Our view has been that ECB is nearing the end of the cycle, but a terminal rate that is below 2% which reflects more of a weak growth/ recession driven rate-cutting cycle may be justified should the economy weaken more than expected. EUR OIS curve has shifted further lower, with 2Y EUR OIS below 1.8% level, pricing in such scenario. Asset swap pick-up (from USD funded perspective) is still not particularly attractive at short-end Bunds, while pick-up has improved somewhat at the longer end compared to levels in February – pick-up was last at SOFR+39bps at 20Y Bund and SOFR+52bps at 30Y Bund. Nevertheless, Bund might have benefited from some diversion flows from USD assets.

- **KRW rates**. Bank of Korea kept its Base Rate unchanged at 2.75%, in line with consensus and our expectation, but it had been a close call. The door appears open for a rate cut at the May meeting. First, the MPC statement opined "while inflation remains stable, downside risks to economic growth have intensified". Against this outlook, reasons that the Board kept rate unchanged included that they need time to further assess any changes in domestic and external conditions, and it is necessary to monitor the high volatility of exchange rates and the trend of household loans. Second, the Bank "will maintain its rate cut stance to mitigate downside risks to economic growth". Third, there was one dissident to today's status quo decision (preferring a 25bp cut instead) while all six members are open to cutting rates over the next three months. KRW IRS were paid up mildly by 2bps upon today's decision; with IRS already pricing in around two cuts on a 6-month horizon, the rates market was not excited by the couple of dovish elements today.

- **SGD rates**. SGD OIS mildly underperformed USD rates on Wednesday and this morning, after an extended period of outperformance. On the SGD SORA OIS curve itself, 2Y and 3Y rates have remained as the lowest points, reflecting expectations for an extended period of flush liquidity condition and for the floating rate SORA to move lower from here sustainably. This outlook is highly uncertain. We hold the view that chasing these rates lower is not preferred. Wednesday's 1Y T-bills cut off at 2.29%, versus 2.95% at the last auction on 23 January. SGD interest rates had fallen materially during this period, and yesterday's cut-off was a tad higher than expected compared to the moves in the corresponding implied SGD rate and the outcome of the MAS bills auctions on Tuesday.

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee
Credit Research Analyst
mengteechin@ocbc.com