Daily Market Outlook

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Trump Tariffs Weigh on Sentiments

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- **USD rates**. UST curve bearish steepened on Friday, and cash bonds extended falls upon further tariff headlines over the weekend. USTs underperformed Bunds and Gilts, while reaction in ACGBs this morning appears muted, probably because of the different implications of tariff on inflation perceived for the US versus the rest of the world. Investors have stayed cautious ahead of Tuesday's US June CPI print, waiting to see if there is any tariff passthrough, when the base effect is already not favourable. Consensus looks for mild acceleration in CPI and core CPI inflation; given current market sentiment, in-line inflation prints may be enough to prevent market from getting more dovish, while any upside surprise may push yields to higher ranges. Upon UST sell-off on Friday, swap outperformed resulting in lower swap spreads at the long end. 10Y swap spread was last at -55bps and 30Y swap spreads was at -87bps. Upticks in 10Y yield was driven by both higher breakeven and higher real yield; 10Y yield has moved onto a higher range of 4.34-4.52%. Fed funds futures last priced around 51bps of cut with the chance for a 25bp cut by the September FOMC meeting seen at 70%.

- **DXY. *Plenty of US Data This Week***. USD held on to mild gains, amid rise in UST yields and ahead of US CPI (Tue). Trump announced tariffs over the weekend – 30% on all imports from Mexico and the EU (wef. 1 Aug) somewhat weighed on risk proxies. US and European futures were down while Asian equities traded mixed this morning. Asian and high-beta FX were largely trading on the back foot with NZD, AUD, PHP and IDR leading losses while precious metals were firmer. DXY was last at 97.9 levels. Bullish momentum on daily chart intact but rise in RSI moderated. We continue to caution for the risk of mild USD rebound in the near term but look for opportunities on rally to fade into. US data this week – CPI (Tue); PPI (Wed); retail sales (Thu); Uni of Michigan sentiment (Fri) in focus. Any slippage in data may serve as a good entry point to fade this USD bounce. Overall, we still expect USD to trade weaker as USD diversification/ re-allocation trend, Fed cut cycle take centre-stage. US policy unpredictability, and concerns of about the rising trajectory of debt and deficits in the medium term should continue to underpin the broad (and likely, bumpy) decline in the USD.

- **EURUSD. *More Downside if 21DMA Breaks.*** EUR fell last week, in line with our caution for some "speed bumps" in the interim. Trump's announcement of 30% tariff on all imports from EU over the weekend dampened European futures and EUR this morning. But the impact appears somewhat muted. This could be partially mitigated by France announcing plans to increase (from EUR32bn to EUR64bn) and expedite defence spending – double the military budget by 2027 (3 years earlier than initially planned) in response to geopolitical situation. PM Bayrou will provide more details on Tue. On tariffs, Ursula, president of the European commission said that EU remains 'ready to continue working towards an agreement' by the 1 Aug deadline. EU's countermeasures (worth about $24.5bn of imports from US) will be delayed until early Aug and leaders have also prepared a second list of countermeasures that is "by now agreed to". EUR was last at 1.1680 levels. Bearish momentum on daily chart intact while RSI fell. Risks remain skewed to the downside for now. Next support at 1.1660 levels (21 DMA), 1.1620. If these levels break, then more downside may play out. Next big support at 1.1470 levels (50 DMA). Resistance at 1.1710, 1.1830 levels. Overall, tariff concerns and comments from ECB officials (on pace of EUR gains) may slow EUR's appreciation but overall, the constructive outlook remains intact.

- **USDSGD. *Consolidation.*** USDSGD was a touch firmer, tracking the broad rise in USD. Pair was last at 1.2810 levels. Daily momentum is mild bullish while RSI rose. Consolidation likely. Resistance at 1.2860 (50 DMA), 1.2910 levels. Support at 1.28, 1.2750 levels. US CPI data tomorrow may influence USDSGD. S$NEER was stable near upper bound; last at ~1.93% above our model-implied mid. From a trade weighted point of view, there may be limited room for SGD to appreciate against trade peers, like KRW and TWD, EUR.

- **CNY rates**. Reverse repo maturity is light this week, at CNY425.7bn (including today's); PBoC net injected CNY119.7bn via daily OMOs this morning. MLF maturity is on the low side, at CNY100bn tomorrow followed by another CNY200bn later in the month; still, market watch as to whether there will be another net MLF injections later in the month. Liquidity tightness may arise from tax payments and NCD rollover needs. 12M AAA NCD rate appears to be floored at around 1.6% level. Repo-IRS and CGB yields have been trading in ranges, failing to break lower probably constrained by the 1.4% OMO reverse repo rates, while investors hold hope for some additional stimulus in the property sector. In offshore, front-end CNH rates have stayed anchored. Southbound Stock Connect flows recovered to HKD80bn in June versus the HKD46bn in May, although that was still below the volumes in earlier months. Month to date (as of 11 July) inflows amounted to HKD35bn. Prospect remains for inflows to come to the HKD market through the various Connect programs, adding to CNH liquidity. This week's date releases include China exports-imports trade, aggregate financing and new yuan loans.

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