Daily Market Outlook

18 March 2025

Holding Pattern

- **USD rates.** USTs did a round trip overnight, ending the day little changed; curve pivotal flattened mildly as markets pared back rate cut expectations upon a mixed retail sales result. February retail sales same in weaker than expected, at 0.2% MoM while January outcome was revised down; but the control group measure rose by a better-than-expected 1.0% MoM. Overall, the outcome was probably not the deterioration that the markets had feared. Fed funds futures last priced a total of 59bps of cuts this year. Risk sentiment also held up on hope that implementation of tariffs might be more orderly with incoming Trade Representative Greer. With the recent upticks in yields and hawkish repricing of Fed funds rate, the bond and rates market are now in a more comfortable position heading into FOMC. With 10Y real yield having gone back to around 2% level, there is some downside room if data prints soft; range for 10Y UST yield is seen at 4.23-4.34% and a wider range is at 4.20-4.40%. Things to watch at the FOMC meeting: 1/ Dot-plot, as part of SEP. A higher median dot will likely lead to some hawkish market repricing; an unchanged median dot will be seen as a greenlight for current market pricing; in the scenario where the median dot stays unchanged, but the distribution of dots shows some dovish adjustments, markets may add mildly to rate cut expectations. 2/ Commentaries. Thus far, Committee members' comments focused on inflation impact of tariffs, with little touch on the growth impact; we would therefore like to see Powell at least mentioning the risk of slower growth instead of insisting on the current solid or resilient activities. 3/ QT. Any more concrete hints on the timeline for ending QT will be welcome. Usage at the Fed's o/n reverse repos fell to USD89.5bn on Monday upon coupon bond settlement; the usage is likely to rise again with bills paydown totalling USD94bn on Tuesday and Thursday.

- **DXY. *Consolidate Ahead of FOMC.*** USD continues to trade near recent lows. US exceptionalism trade continues to fade as markets are increasingly focused on how Trump policies are hurting the US economy. Recent US data including payrolls, CPI, PPI, Uni of Michigan sentiment, empire manufacturing and retail sales data have all disappointed to the downside. FOMC meeting (Thu 2am SGT) is eyed this week. Focus on dot plot – if there will be any revisions to rates guidance and if Fed acknowledges growth concerns. Uncertainty on this front has led to mild unwinding of

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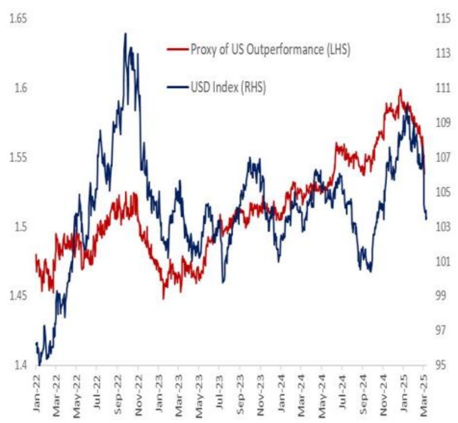
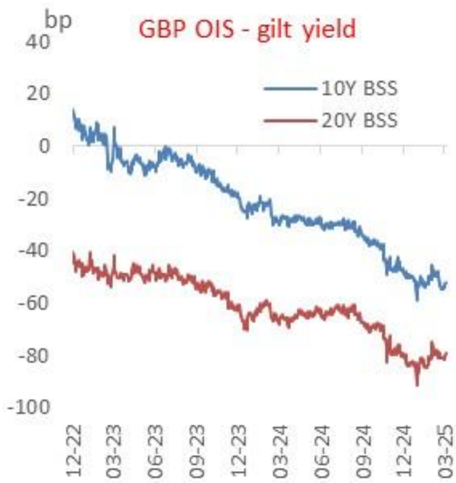
US Exceptionalism Fading Alongside USD's Decline



Source: Bloomberg, OCBC Research

USD shorts. DXY was last at 103.55 levels. Bearish momentum on daily chart is fading while RSI shows signs of rising from near oversold conditions. Mild upside risk not ruled out. Resistance at 104 (61.8% fibo retracement of Oct low to Jan high), 105 levels (50% fibo, 21, 200 DMAs). Support at 103.20, 102.50 levels (76.4% fibo). Data today brings housing starts, building permits, export/import price index and industrial production.

- **GBP rates.** The Gilt curve pivotal flattened as well on Monday, as investors stayed cautious at the short end ahead of BoE MPC meeting. BoE is widely expected to keep its policy Bank Rate unchanged at 4.5%, and as usual the split of votes is one of the focuses. To recap, at the February meeting, the surprise came as two voted for a 50bp cut when the decision was a 25bp cut. Extrapolating this will be a 7-2 vote again, with 7 for a hold and 2 for a 25bp cut. A split that deviates from this "neutral" scenario may trigger some mild market repricing. There are arguments for both dovish and hawkish shifts, between downside risk to growth and upside risk to inflation. Long-end bond/swap spreads showed signs of stabilisation of late, with current spread levels probably seen as providing some support to Gilts, while markets gave the benefit of doubt to the notion that defence spending will be deficit neutral. The next key event for the bond market is the Spring Statement 2025, to be released on 26 March.



Source: Bloomberg, OCBC Research

- **EURUSD. *May Correct Lower.*** EUR continued to hold on to gains above 1.09 handle on prospects of a peace deal in Ukraine, potential ECB pause (in Apr) and hopes of large German spending. The Bundestag will vote later today on whether to take the brakes off defence spending, paving the way for a jump in defence-related investments. The proposal being voted is that any spending on defence that amounts to more than 1% of Germany's GDP would no longer be subject to a limit on borrowing (currently this debt ceiling has been fixed at 0.35% of GDP). The vote requires a 2/3 majority to pass under the current Bundestag and it appears to have a higher chance of passing this under the current Bundestag. The new parliament convenes on 25 Mar and it may be challenging to pass as both AfD party and far-left Die Linke party have already expressed their decision to vote against it. It is important as other European countries will be watching if this proposal passes as any slip-up will have an implication on European Commission Ursula's plan for EUR800bn ReArm Europe Fund. Bundestag will also vote on the €500 billion ($528 billion) infrastructure fund to invest in priorities such as transportation, energy grids and housing. EUR was last at 1.0910 levels. Daily momentum is bullish but shows signs of slowing while RSI show signs of turning lower from overbought conditions. Pace of rise may moderate. Support at 1.0820 (61.8% fibo retracement of Sep high to Jan low), 1.0700/20 levels (200 DMA, 50% fibo). Resistance at 1.0940, 1.0970 (76.4% fibo). We also keep a look out on the phone call between Trump and Putin over Ukraine ceasefire for potential implications on EUR and gold.

- **USDSGD. *2-Way Trades.*** USDSGD consolidated near recent lows amid softer USD while EUR and RMB continued to hold gains. Pair was last seen at 1.3320 levels. Daily momentum is not showing a clear bias while RSI showed tentative signs of rising. There remain many cross currents: tariff uncertainties, fading US exceptionalism, China tech stocks re-rating, prospects of Ukraine peace dividend. We still caution for 2-way trades. Resistance at 1.3370/90 levels (21 DMA, 38.2% fibo retracement of Sep low to Jan high), 1.3470/80 levels (50, 100 DMAs). Key support at 1.3300/10 levels. Break puts next support at 1.3270 (50% fibo) and 1.32 levels. S$NEER was last seen at 1.20% above model-implied mid.

- **CNY rates**. Repo-IRS were offered down 2bps at open this morning, while PBoC net injected CNY235.6bn of liquidity via daily OMOs. Onshore CNY bonds (excluding NCDs) saw inflows of CNY3.8bn in February, after five months of outflows. The inflows into CGBs at CNY1bn was small, and we need further observation to gauge whether inflows are coming back as a trend. Separately, inflows into NCDs amounted to CNY7.0bn, the biggest monthly inflows since July 2024. NCD inflows were not surprising though. NCD rates went up during February to near the 2% level, while implied CNY rates were better anchored. Hence, the asset swap pick-up at NCDs improved which might have attracted some foreign investors to re-build positions after hefty liquidation in some of the previous months. NCD maturities stay heavy until June; without active PBoC liquidity injection, NCD rates may stay at relative high levels.

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