GLOBAL MARKETS RESEARCH

Daily Market Outlook

19 March 2025

Watching Dots

- **USD rates.** USTs traded within ranges overnight ahead of FOMC decision. The upticks in yields in reaction to housing starts and import/export price indices was brief and yields retraced lower shortly after. Fed funds futures pricing was little changed, at 59bps of cuts for this year. February import price index accelerated to 2.0% YoY; rose by 0.4% MoM after an upwardly revised 0.4% in January. The outcome might be a result of the tariffs implemented in the month and front-loading demand elsewhere where tariffs were yet to hit. Things to watch at 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 (with or without some upward adjustments in individual dots) may 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 rose to USD150bn on Tuesday upon bills paydown as we flagged yesterday. Range for 10Y UST yield remains at 4.23-4.34% and a wider range is at 4.20-4.40%.

- **DXY.** ***Distribution of Dot Plot, Press Conference Eyed.*** USD continued to trade with a heavy bias as US exceptionalism trade faded. **FOMC meeting is eyed tonight (Thu 2am SGT).** Focus on dot plot – whether there will be any revisions to rates guidance, including the distribution of the dot shift among voting members and if Fed or Powell acknowledges growth concerns, especially with the recent softer data. There can be many scenario permutations but a case of Fed acknowledging growth concerns and elevated inflation arising out of tariffs may suggest that the downside path of some USD/AxJ may potentially slow, especially ahead of 2 Apr reciprocal tariff risk. The likes of KRW and JPY may be undermined in the short term. But to be fair, there remains many cross currents in the FX markets that may continue to see more nuances and idiosyncratic FX moves. For instance, THB holds gains owing to parabolic moves in gold prices while IDR slumped on some

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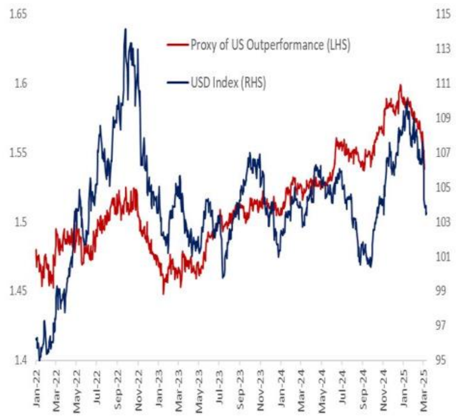
US Exceptionalism Fading Alongside USD's Decline



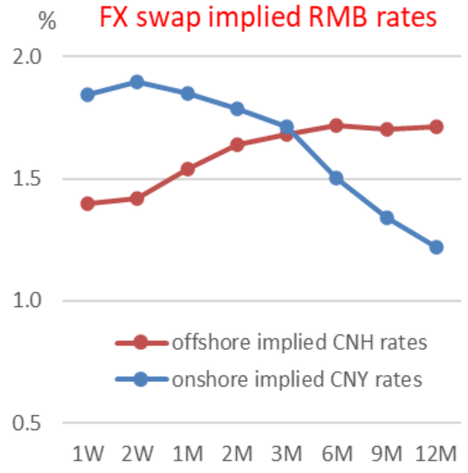
Source: Bloomberg, OCBC Research

domestic noises and worries of growth slowdown. RMB continues a balancing act, with CFETS index falling with DXY index (i.e. CNH strengthened against USD but weakened against other trade partners such as EUR, GBP and SGD). DXY was last at 103.35 levels. Bearish momentum on daily chart is fading while RSI shows signs of rising from near oversold conditions. Mild rebound risk is 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 103.10, 102.50 levels (76.4% fibo).

- **EURUSD.** ***Bulls May Pause Soon?*** EUR's quick run-up to 1.09-handle came on the back of prospects of a peace deal in Ukraine (which Putin and Trump have agreed to a limited ceasefire overnight), potential ECB pause (in Apr) and hopes of large German spending. German parliament has voted in favor of the EUR500bn infrastructure fund and reforming the debt brake. Defence spending of more than 1% of GDP will be exempted from the debt brake and state governments are allowed to run annual deficits of up to 0.35% of GDP. This deal has to clear the upper house on Friday to become law. A 2/3 majority is required and there is some uncertainty as the Free voters of Bavaria party has yet to express support for the deal. Any hiccups may have asymmetrically larger downward pressure on EUR while another positive vote should see EUR build on gains marginally. EUR was last at 1.0935 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 or may even turn lower. Resistance here at 1.0940, 1.0970 (76.4% fibo). Support at 1.0820 (61.8% fibo retracement of Sep high to Jan low), 1.0700/20 levels (200 DMA, 50% fibo).

- **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 and 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**. CGB yields and repo-IRS traded on the soft side this morning, with limited price actions. Some funding rates rose again over the past couple of days, with the 7-day repo rate for depository institutions last at 2.00% and FR007 last at 1.99%. Our view has been that funding pressure might remain on the tight side without active PBoC liquidity injections, in view of heavy NCD maturities. On the other hand, offshore implied CNH rates slid over the past two days, from already low levels, likely with inflows into CNH pool and with a lack of bidding interest at the front-end with a stable spot. Offshore implied CNH rates are higher than onshore implied CNY rates at below 3M tenors; this is not a usual phenomenon, but we opined that the relatively loose CNH liquidity might stay for a while more. At the back end, we are somewhat neutral at offshore-onshore spreads in the FX swap points. The 12M spread has narrowed steadily, from more than 1000pips in Dec/early Jan to the last 360pips; a narrowing in the spread was in line with our expectation, but room for further narrowing appears limited. That said, a reversal in the spread move may not be imminent either. Onshore NCD rates hovered around the 2% level while back-end implied CNY rates are better anchored (last at 1.34% and 1.22% for 9M and 12M tenors), resulting in some asset-swap pick-up at NCDs. As such, back-end CNY points may face some bidding interest at times.



Source: Bloomberg, OCBC Research

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