

Daily Market Outlook

2 May 2025

Markets Sensitive to Data

- **USD rates.** USTs fell overnight as ISM manufacturing printed firmer than expected, reversing the rally on Wednesday. Over the past two days, yields were up by a net 2-4bps across 2Y to 10Y. ISM manufacturing came in at 48.7 versus 49.0 prior, against expectation for a fall to 47.9; new orders and employment components increased. Separately, continuing claims and initial jobless claims printed more than expected. Overall, this was not a strong set of data but might have alleviated some of the worries about more rapid growth deterioration. These movements suggest the market remains sensitive to the data, with tonight's payroll and labour market reports in focus. As usual, uncertainty surrounding payroll outcome is high, with estimates in a wide range of 60K to 170K. Layoff of federal workers are still unlikely to be entirely reflected in April payroll given some federal employees have remained on the payroll despite having quitted their jobs. That said, other indicators suggest the labour market has eased further. On balance, a print that is above 160K may be seen as "strong". For the Fed, the unemployment rate under the household survey is one of key indicators which is overlaid with the job vacancy rate (last higher to 4.3% in March). 10Y real yield back to around 2% appears high compared to the growth outlook; range for 10Y yield is still seen at 4.06-4.34% with 4.20% the next key resistance for the bond.
- **DXY. NFP Data Risk.** USD short squeeze (vs safe haven) continues as tariff de-escalation show some signs of gaining momentum. China's Ministry of Commerce said that China is currently evaluating the possibility of trade talks with the US but urges the US to show sincerity and that they should be ready to remove unilateral tariffs. The Ministry also noted that the US has recently sent messages to China through relevant parties, hoping to start talks with China. Prospects of a US-China dialogue should see safe havens such as JPY, CHF and gold unwind, while AxJs including KRW and CNH may build on gains. In the interim, USD should continue to trade a mixed path – firmer vs major G3 including EUR while USD may trade softer against procyclical FX proxy, including AUD and KRW. The FX laggards (such as TWD and IDR) prior to the Liberation Day are now playing catch up on gains to other FX as USD's decline breached several key supports in those pairs, in turn hastening the pace of USD conversion to local FX. DXY was last at 100.1 levels. Daily momentum turned bullish while though the rise in RSI

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moderated. Rebound risk not ruled out. Resistance at 100.80/101 levels (23.6% fibo retracement of 2025 peak to trough, 21 DMA). Support at 99.2, 98.90 levels. Payrolls report will be eyed later (8:30pm SGT). Potentially a better print (lower unemployment rate vs 4.2% expectations or higher NFP vs. 138k expectations) may see markets defer Fed rate cut expectations, and this may lead to USD trading broadly higher in response. A worse-off number (i.e. higher unemployment rate or softer NFP) may trigger risk-off sentiments. Safe haven proxies, including JPY and CHF may rebound while the rebound momentum seen in some AxJs may stall.

- **EURUSD. 21 DMA Key Support.** EUR traded lower as USD short covering continued. Hopes of a US-China tariff de-escalation saw further unwinding in stretched USD shorts vs EUR and other safe-haven proxies. Elsewhere, several ECB officials also turned more dovish. ECB Chief Economist Lane said that there is no reason to say that a 25bp move is always the default although he would not pre-commit to any rate path. He also warned that EUR's strength is weighing on the region's economic recovery via disinflation. Rehn said that he sees downside risks to the region's inflation outlook and that the value of EUR is important in assessing policy. He earlier added that ECB should keep lowering interest rate at its next meeting in June if forecasts show eurozone inflation falling below the ECB's 2% target. He also said that ECB should not rule out larger interest rate cuts. EUR was last at 1.1290 levels. Daily momentum turned mild bearish while decline in RSI moderated slightly. Key support here at 1.1280 (21 DMA) before 1.1235 (23.6% fibo retracement of 2025 low to high) and 1.1030 levels (38.2% fibo). Resistance at 1.1420, 1.1570 (recent high). Next week, the EU is planning to present a package of trade proposals to US, including the proposal to lower tariff and non-tariff barriers, boosting European investments in the US, cooperating on global challenges such as tackling China's steel overcapacity and purchasing US goods like liquefied natural gas and technologies. Focus is on EU-US trade talks and may add to EUR's decline if talks does not show progress.
- **JPY rates.** BoJ kept rate on hold as expected and sounded much less hawkish. On top of the downgraded assessment on growth and inflation, the central bank put risk to both growth and inflation to the downside versus upside for inflation at the previous assessment. 1/ Growth "is likely to moderate" versus "growing at a pace above its potential" prior; 2/ timeline for inflation to stay sustainably at 2% target has been pushed out, and in the interim, "underlying inflation is likely to be sluggish, mainly due to the deceleration in the economy". JPY OIS further pared back rate hike expectation, to around 10bps of hike before year end. The economic downgrade was mostly due to the highly fluid trade development. BoJ itself commented "it is extremely uncertain how trade and other policies in each jurisdiction will evolve and how

overseas economic activity and prices will react to them". In our view, if the outlook turns for the better, e.g. if there is further de-escalation on the trade front with some concessions in tariff rates and other trade barriers through trade deals, then rate hikes can be put back onto the table. The markets are not convinced at this juncture and are unlikely to go ahead of the curve to price in hikes.

- **USDSGD. Price Action Dictates.** USDSGD continue to trade range-bound near recent levels. Pair was last at 1.3085 levels. Daily momentum is flat while recent rise in RSI moderated. 2-way risks from here. Support at 1.3010 levels (76.4% fibo retracement of 2024 low to 2025 high), 1.2960 levels. Break below these key support levels may point to another leg lower for USDSGD towards 1.2790 (2024 low). Resistance at 1.3160 (61.8% fibo), 1.32 levels. S\$NEER was last at 1.36% above model implied midpoint.



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