Daily Market Outlook

24 July 2025

Trade Deals Fuel Risk-On Sentiment

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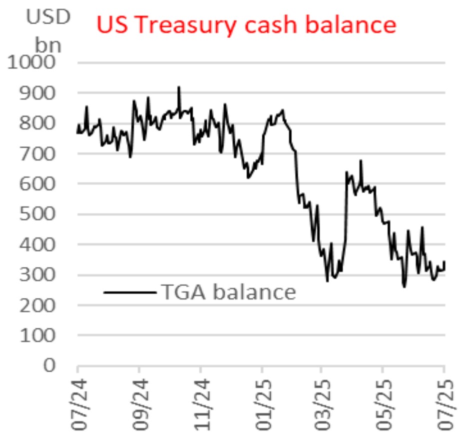
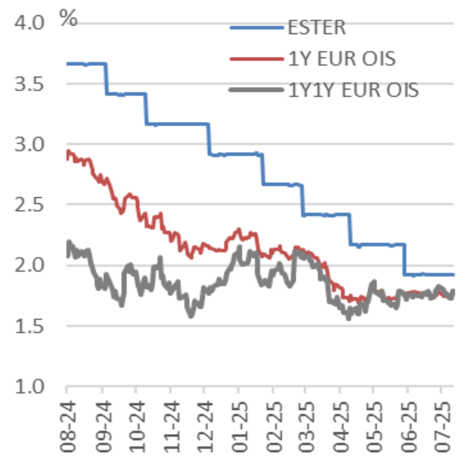
- **USD rates**. DM bond yields mostly rose in a steepening manner on Wednesday on trade deal hope. Long-end yields nevertheless retraced from session high as the 20Y coupon bond auction went well. The 20Y bond cut off at 4.935% which was around 1.6bps below WI level; bid/cover ratio was higher at 2.79x versus 2.68x prior and indirect accepted was higher at 67.4% versus 66.7% prior. TGA balance rose to USD345bn as of 22 July, as US Treasury is rebuilding cash positions, with USD67bn of net bill settlement this week. Meanwhile, usage at overnight reverse repo fell to USD189.6 on 23 July, versus the recent high of USD213.6bn on Monday, as some funds moved to the bills market. Overall, we expect additional bills supply to be readily absorbed. At the longer end, 10Y breakeven went further lower to 2.387% in line with our expectation. Data release tonight include PMI and new home sales, which are unlikely to alter market pricings much.



Source: Bloomberg, OCBC Research

- **EUR rates**. Bund yields rose on Wednesday upon headlines on a possible trade deal and hence a better risk sentiment, while ECB is widely expected to stay put on rates later today. The 2.00% deposit rate is seen as being around the neutral level, and as such, what will bring rate lower is a further deceleration in growth. We still have a final 25bp cut on our forecast profile, but there is no urgency for the ECB to deliver it. We do not expect any material change in Lagarde's communication and hence the monetary policy meeting may come as a non-event. EUR OIS last priced the chance of a 25bp cut by year end at 86%, which appears roughly fair. On the Bund curve, the steepening momentum appears to have slowed/pause; we see a small room for 2s10s to steepen further from here, with the segment within one standard deviation wider than 6-month average while 10Y bond/swap spread at -17bps is not particularly appealing.



Source: Bloomberg, OCBC Research

- **DXY. *Slippage.*** While the USD enjoyed a bounce in the first half of July, USD is now trading on the backfoot. Decline in yields, and more trade deals being announced (Japan, Philippines while negotiations are still ongoing with Korea, Europe, China, etc.) were some of the factors, in the absence of key tier-1 US data. Latest tariffs represent some sort of closure to the tariff uncertainty that had lingered for the year as most countries appeared to accept new tariff rates, without putting much fight. Equities continued to rally, risk-sensitive FX including AUD, NZD as well as EUR were the main beneficiaries, while DXY is back to 97.20 levels. Bullish momentum on daily chart faded while RSI fell. Risks remain skewed to the downside. Support at 97 levels. Resistance at 97.60 (21 DMA), 98.50 (50 DMA), 99.60 levels (23.6% fibo retracement of 2025 high to low). Day ahead brings prelim PMIs, initial jobless claims, new home sales, Kansas City Fed manufacturing before durable goods orders tomorrow.

- **EURUSD. *Will There Be Deals for EU?*** The EU-China Summit will be held in Beijing today. According to Financial Times report, the meeting was initially planned as a two-day summit in Brussels, but President Xi declined invitation to attend. It was only decided this week that the meeting will go ahead in China. There will be a meeting between President Xi, Premier Li Qiang, European Commission President von der Leyen and European Council President Costa. Both Europe and China share interests in multilateralism and global challenges but face significant obstacles due to conflicting strategic priorities (human rights, Russia, etc.). Europe will probably negotiate for access to rare earth materials while China may look to reduce tariff on China EVs in Europe. Expectations are not high for any fruitful takeaway. So, if we do get any news, it will probably be more positive for EUR, and RMB. Earlier, there was also mention by Trump that a trade deal with EU may be coming soon. Elsewhere ECB meeting today – largely a non-event. Markets are looking for just 1 more cut with little urgency, after all the ECB had cut rate 8 times this cycle. EUR was last at 1.1770 levels. Bearish momentum on daily chart shows signs of waning while RSI rose. Next resistance at 1.1780, 1.1840 levels. These levels need to be taken out for bulls to reassert. Support at 1.1715 (21 DMA), 1.1630 and 1.1550 levels (50 DMA).

- **USDJPY. *Bearish Momentum Creeping In.*** USDJPY continued to trade lower, in line with our call for downside play. While political uncertainty (referring to PM Ishiba's political career), rating concerns (dependent on fiscal health and Moody's actions) and carry play is supportive of USDJPY, "sell USD" trade can overwhelm. We acknowledged that a carry trade may be appealing but also warned that the appeal can erode if USD sell-off returns in a big way. USDJPY was last at 146 levels. Bullish momentum on daily chart faded while decline in RSI moderated. Support at 145.60 (100 DMA), 145.20 (50 DMA). Resistance at 147.15 (38.2% fibo), 149.40/70 levels (200 DMA, 50% fibo retracement of 2025 high to low).

- **USDSGD. *Tracking USD.*** USDSGD continued to trade lower amid softer USD, risk-on sentiment. Pair was last at 1.2755. Mild bullish momentum on daily chart shows signs of fading while RSI fell. Price action shows some risk of falling wedge, which can be associated with bullish reversal. We may want to exercise caution over chasing downside in the pair. Watch price action for now. Support here at 1.2750, 1.27 levels. Resistance at 1.2785 (21 DMA), 1.2835 (50 DMA). YTD as of Jun 2025 core inflation continued to average 0.6%. vs. MAS projection for 0.5 - 1.5%. Our base case is for MAS to maintain policy status quo. Having implemented two consecutive easings in the first half of 2025 by reducing the policy slope, a pause at this juncture will allow policymakers to evaluate the effects of earlier easing measures and await greater clarity on tariff-related uncertainties. A MAS hold should see little impact on S$NEER while a dovish hold (statement to contain more dovish leaning rhetoric should point to slight weakening in the S$NEER. The implication of MAS policy on USDSGD is only one side of the equation as USD trend, broader market thematics matter. In the scenario MAS holds, USDSGD can still resume its trend lower, tracking the soft USD play.

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