Daily Market Outlook

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Trump Plans to Send Letters

Christopher Wong
FX and Rates Strategy
ChristopherWong@ocbc.com

Global Markets Research and Strategy

- **DXY. *Temporary Boost*.** USD saw a bump higher overnight after payrolls report came in stronger than expected – NFP +147k (vs. 106k expected) while unemployment rate dipped to 4.1% (vs. 4.3%), initial jobless claims also fell. ISM services also surprised to the upside, alongside new orders. Timing of next cut was pushed back to Oct, from Sep and markets now implied about 52bps cut for the year (vs. 65bps cut the day before payrolls report was released). Elsewhere overnight, the House voted 218-214 to pass a $3.4tn fiscal package that cuts taxes, curtails spending on safety-net programs and reversed much of Joe Biden's efforts to move the country toward a clean-energy economy. Trump is likely to sign this on 4 Jul. DXY was a touched firmer; last at 97 levels. Mild bearish momentum on daily chart shows tentative signs of fading while RSI rose from near oversold conditions. Resistance at 97.50/60 levels, 98 (21 DMA). Support at 96.40, 96.10 levels. Technically, we continue to caution that the decline in the USD may see a slower speed or even pause in the interim while we continue to keep a look out if there are more trade deals before the 9 Jul truce deadline (and if this deadline will be extended). This week, Indonesia and Vietnam reached some agreement with US while there is still some uncertainty with regards to US-Japan. Overnight, **Trump told reporters that US might start sending letters (about 10 a day) today informing partners on specific tariff levels – a risk that may potentially see a more restraint risk appetite (for Asian procyclical FX) heading into the long weekend.** While there is risk of USD bounce in the short term (like what we've seen thus far), we continue to expect USD to trade weaker as USD diversification/ re-allocation trend takes centre-stage while Fed cut cycle potentially comes into focus in 2H 2025. 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. Note that US markets are closed today for holidays.

- **EURUSD. *Speed Bumps.*** EUR slipped overnight, consistent with our caution for slower pace of gains or even some consolidation in the interim. ECB minutes overnight highlighted concerns of EUR's appreciation and higher tariff that may affect exports. It made some specific comments- "Since the April tariff shock, the EUR/USD exchange rate had decoupled from interest rate differentials, partly owing to a change in hedging behaviour. Historically, the euro had depreciated against the US dollar when volatility in foreign exchange markets increased. Over the past three months, however, it had appreciated against the dollar when volatility had risen, suggesting that the euro – rather than the dollar – had recently served as a safe-haven currency." It also noted that "Despite comparable funding costs on the two sides of the Atlantic, when taking into account currency risk-hedging costs, US companies had increasingly turned to euro funding. This underlined the increased attractiveness of the euro". Statement also noted that latest projection saw inflation cooling to 1.6% in 2026 before returning to 2% in 2027, with the economy perking up thanks to higher public spending in Germany. ECB also indicated that "While energy prices and exchange rates were likely to lead to headline inflation undershooting the target for some time, inflation dynamics would over the medium term increasingly be driven by the effects of fiscal policy". We had earlier highlighted that comments from ECB officials this week likely marked the first hint of concern or slight discomfort around the EUR's pace of appreciation (though the level is not the concern). We noted that several ECB officials made remarks on currency this week. ECB Vice President Guindos said that a rise in the euro beyond $1.20 could make things "much more complicated", though he sees current levels as no cause for concern. ECB's Simkus also commented that the speed at which the EUR is rising is something the ECB must monitor particularly carefully. That said, there are also ECB officials who do not seem overly concerned. Overall, our constructive outlook on EUR remains intact though we see risks of slower pace of appreciation in the interim due to event risks – relating to recent ECB comments (may imply an implicit cap), 9th July truce deadline and from a positioning point of view (where EUR is stretched). EUR was last at 1.1770 levels. Bullish momentum on daily chart shows tentative signs of fading while RSI turned lower from overbought conditions. Support at 1.1630, 1.1550 (21 DMA). Resistance at 1.1820 levels, before 1.1920 levels. While we cautioned for slower pace of gains or even some consolidation in the interim, the bias remains to buy dips.

- **USDSGD. *2-Way Risks.*** USDSGD was a touch firmer but price action suggests that bulls were rejected. Pair was last at 1.2740 levels. Daily momentum is flat while the rise in RSI moderated. Consolidation likely. Resistance at 1.2780, 1.2810 levels (21 DMA), 1.2890 (50 DMA). Support at 1.2710, 1.2650 levels. S$NEER eased slightly 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.

GLOBAL MARKETS RESEARCH

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
mengteechin@ocbc.com

Co.Reg.no.: 193200032W