GLOBAL MARKETS RESEARCH

Daily Market Outlook

4 March 2025

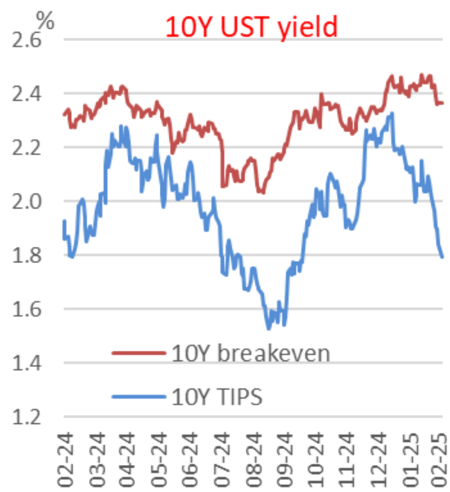
Demand for Safe Haven Proxys

Frances Cheung, CFA
FX and Rates Strategy
FrancesCheung@ocbc.com

Christopher Wong
FX and Rates Strategy
ChristopherWong@ocbc.com

Global Markets Research and Strategy

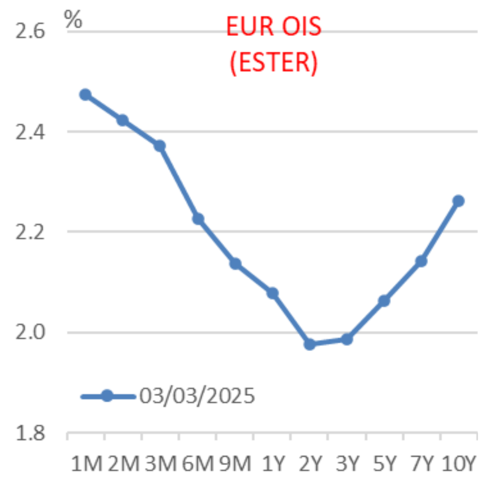
- **USD rates.** USTs rallied further during NY session and onto Asia hours this morning, amid heightened growth concerns. ISM manufacturing printed softer than expected at 50.3 points, with new orders and employment both lower but prices paid higher, underpinning the current market concern about risks of stagflation. 10Y real yield fell to 1.79%, having fallen by a cumulative 54bps from the peak in mid-January, while 10Y breakeven remained sticky downward at 2.3% level. Near-term range for 10Y UST yield is seen at 4.06-4.24%. Fed funds futures added further to rate cut expectations, now fully pricing in three (25bp) cuts for this year, with the terminal rate seen at 3.45% (with reference to the upper end of Fed funds rate target range); these pricings are similar to our base-case of 75bps of cuts and an expected Fed funds rate (upper) of 3.50% by end-2026. Granted, market expectations change swiftly. Before the all-important payroll/other labour market statistics on Friday, there are ADP employment change, ISM services, initial jobless claims etc. Some interim upticks in yields upon any stronger data print cannot be ruled out, while we maintain our medium-term downward bias to yields. The dynamics on the curve may be changing in that, additional growth concerns may also be reflected at the short end with market appearing less reluctant to bring forward rate cut expectations. On liquidity front, usage at the Fed's overnight reverse repos was at USD120bn on 3 March. TGA balance was last at USD560bn as of 28 February. There is net bills paydown of USD6bn this week.



Source: Bloomberg, OCBC Research

- **DXY. *Dragged Lower By UST Yields.*** USD continued to trade lower, owing to the precipitous fall in UST yields and continued moderation in US exceptionalism. US data - ISM mfg, new orders and employment - continued to surprise to the downside overnight. Today, Trump's 25% tariff on Canada and Mexico alongside 10% additional tariff on Chinese imports come into effect, with no room for negotiations. China's state-backed media Global Times reported that China is preparing countermeasures that include both tariffs and a series of non-tariff measures, and US agricultural and food products will most likely be listed (timing uncertain). Canada and Mexico have also pledged retaliatory tariffs in response. A tit-for-tat can undermine sentiments and lead to demand for safe haven proxy, including USTs and JPY. High-beta risk proxy FX including AUD, NZD stayed under pressure but selected AxJ FX, including THB and IDR found a breather thanks to softer UST yields. DXY was last at 106.50 levels. Daily momentum turned flat while RSI fell. Consolidation likely with risks skewed to the downside. Support at 106.35 (38.2% fibo retracement of Oct low to Jan high), 106.10 before 105.00/20 levels (50% fibo, 200 DMA). Resistance here at 107.30 (21 DMA), 107.80/108 levels (23.6% fibo, 50 DMA) before 108.50.

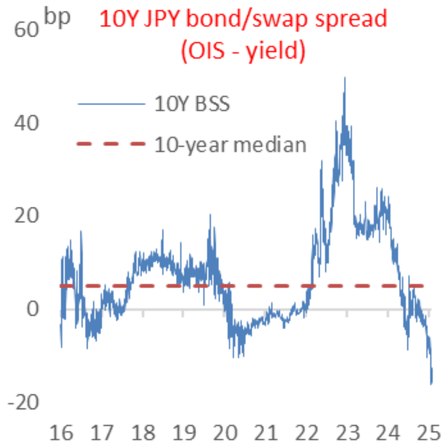
- **EUR rates.** Bunds underperformed with yields up by 4-10bps in a steepening manner, on expectation for the needs for a higher fiscal expenditure. Eurozone CPI and core CPI came in a tad higher than expected, at 2.4%YoY and 2.6%YoY respectively, but still representing disinflation. EUR OIS last priced 81bps of additional rate cuts for the rest of the year, which appears a tad overly dovish to us; our base-case is for 50bps of cuts including an expected 25bp cut later this week. After an expected cut later this week, EUR OIS priced a 62% chance of another 25bp rate cut at the April MPC meeting, while we see back-to-back rate cuts as unlikely. The key discussion at the ECB may be whether interest rates are still restrictive – "a higher r-star calls for careful monitoring of when monetary policy ceases to be restrictive", as Isabel Schnabel put it in her recent speech. The front-end of the EUR OIS curve has become more inverted again, with further downside to 2Y EUR OIS limited near-term.



Source: Bloomberg, OCBC Research

- **EURUSD.** ***2-Way Trades Likely Unless 100 DMA Breaks.*** EUR continued to drift higher as European leaders were seen coming together to offer Ukraine support, fuelling expectations for a higher defence spending. On data front, the higher-than-expected CPI and core CPI print for Feb also pared back some of the markets' dovish expectations on ECB. That said, the looming risk of US tariffs on Europe and the upcoming ECB meeting (Thu) are some 2-way risks to watch for the EUR. Markets are likely to scrutinise ECB meeting for signs of any slowdown in easing cycle of if an end in the easing cycle is in sight. Any hint on the above should add to EUR recovery. On tariffs, Trump has indicated tariff of 25% on European auto and other products but did not mention further details or an effective date. Confirmation of tariff on EU may see EUR dip, but it remains to be seen if the pullback can be sustained, considering the emergence of new positives: potential Ukraine peace deal, expectations of defence spending, chance that ECB easing may slow, etc. Pair was last at 1.0480 levels. Daily momentum is flat while rise in RSI slowed. 2-way trades likely. Key resistance at 1.0510 (100 DMA). Decisive break out puts next resistance at 1.0575 (38.2% fibo retracement of Sep high to Jan low), 1.07 levels (50% fibo). Support at 1.0420 (21DMA, 23.6% fibo), 1.0360/90 (50 DMA) and 1.0280 levels.

- **JPY rates**. January labour market statistics came in largely in line with expectations. Jobless rate printed 2.5% in January, same as the upwardly revised 2.5% in December. Job-to-applicant ratio edged higher to 1.26 from 1.25 prior. JPY OIS traded on the soft side this morning, probably taking cue from the global market. Last week, Tokyo core and core core CPI printed a tad softer than expected, which may just support the expectation that the BoJ is likely to skip the March meeting, but the policy normalisation agenda is unlikely to be derailed. Prospect remains for inflation to stay sustainably around the 2% target with likely another year of solid wage growth. We continue to expect additional 50bps of hikes by the BoJ for the rest of the year. 10Y JGB has underperformed both 20Y JGB and 10Y JPY OIS. At current levels, upside to 10Y JGB yield may be capped without a break higher in 20Y JGB yield and/or 10Y JPY OIS. 10Y JGB may be capped at 1.40/1.45% level for now.



Source: Bloomberg, OCBC Research

- **USDJPY. *Short Bias.*** USDJPY fell below 149-levels this morning amid sharp pullback in UST yields. Trump's tariffs on Canada, Mexico and China come into effect today, undermining risk sentiments while softer US data reinforces the view that Fed cut cycle can still continue. On JPY side of the equation, BoJ has room to further pursue policy normalisation given wage growth prospects and broadening services inflation. Put together, growing Fed-BoJ policy divergence should continue to drive USDJPY to the downside. Pair was last at 149.20. Daily momentum is flat while RSI fell. Bias remains to sell rallies. Support here at 149.20 (50% fibo), 148.80 before 147 (61.8% fibo). Resistance at 150.50, 151.50 (38.2% fibo retracement of Sep low to Jan high). That said, we continue to see a confluence of risk factors, including Trump's tariff threats (reciprocal tariffs) and dividend seasonality trends that may pose intermittent upside pressure for USDJPY. We maintain bias to sell rallies in USDJPY should there be a bounce driven by tariff uncertainty or seasonality trends.

- **USDSGD. *Consolidation.*** USDSGD continued to trade on a softer footing. Firmer EUR (owing to expectations of higher defence spending, supporting growth) and softer USD (on the back of moderation in US exceptionalism, falling UST yields) were some of the drivers weighing on USDSGD. Pair was last seen at 1.3460 level. Mild bullish momentum on daily chart remains intact while RSI turned lower. We still caution for 2-way trades as this week is an event-busy week with potential US tariff imposition, China NPC/CPPCC and US data including ISM services, NFP, as well as Powell's speech. S$NEER was last seen at 1.12% above model-implied mid.

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