Daily Market Outlook

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Cross Currents

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- **USD rates.** UST yields corrected higher on profit-taking flows and the mildly improved risk sentiment as US might consider lowering tariffs on Canada and Mexico. The UST curve steepened as long-end real yield rebounded. The upticks in yields overnight represent more of a healthy correction, given how rapid real yield and the term premium had fallen, rather than pointing to a reversal back to an extended uptrend in yields, in our view. 10Y breakeven is likely to remain sticky downward at 2.3-2.4% area, while real yield will continue to fluctuate depending on the data. Overall, yields are likely to oscillate in the lowered ranges. At the front end, Fed funds futures pared back rate cut expectation mildly to 70bps for this year, which is still more dovish than just weeks ago. Fed's Williams opined tariffs are inflationary and said that monetary policy is in a good place and he did not see the need to change borrowing costs right away, i.e. not so dovish at this point of time. We believe the FOMC, before long, may have to put a bit more attention on the growth implication. On liquidity front, usage at the Fed's overnight reverse repos was higher at USD135bn on 4 March. TGA balance was last at USD567bn as of 3 March. After the net bills paydown of USD24bn yesterday, there is net bills settlement of USD18bn on Thursday, hence, a net bills paydown of USD6bn this week; there is another net bills paydown of USD39bn next Tuesday. Limited bills supply is likely to cap front-end rates/yields.

- **DXY. *Mixed.*** There are plenty of cross currents affecting FX markets – NPC/CPPCC meetings in China, Trump's speech to Congress, US exceptionalism trade falling out of favor, US tariffs and tit-for-tat responses as well as prospects of Ukraine peace dividend. USD reaction was somewhat mixed even with tariffs on Mexico, Canada and China "going live". Tit-for-tat responses can undermine sentiments and lead to demand for safe haven proxy, including USTs, gold and JPY, CHF. High-beta risk FX proxy including AUD and NZD stayed under pressure but selected AxJ FX, including THB and IDR found a breather thanks to softer UST yields. That said, if UST yields resume uptick, recent gains in Asian FX may not hold up. DXY was soft – near a 3-month low. But that was also due to stronger EUR (which is 57.6% weight in DXY basket). We must caution that tariff development can remain fluid. US Commerce Secretary Lutnick suggested that tariffs on Canada and Mexico could be lowered as soon as Wed and just on the Newswire, Trump told

Congress that China, India and Korea tariffs are high and announced that reciprocal tariffs come into effect on 2 Apr. He also reiterated 25% tariffs on aluminium, copper and steel. On net, cross currents should continue to see idiosyncratic moves in FX markets. DXY was last at 105.80 levels. Daily momentum turned mild bearish but decline in RSI moderated. Consolidation still likely. Support at 105.50, 105.00/20 levels (50% fibo, 200 DMA). Resistance at 106.35 (38.2% fibo retracement of Oct low to Jan high), 107 (21 DMA) and 107.80/108 levels (23.6% fibo, 50 DMA) before 108.50. Data focus on ISM services, ADP employment (Wed) and payrolls, Powell to speak (Fri).

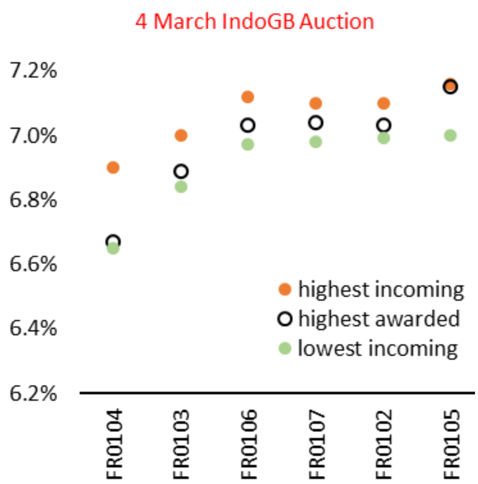
- **USDCNH**. ***Steady.*** The CPPCC/NPC meetings are underway and economic targets are as per expected so far. We do not expect any shifts in RMB and still expect policymakers to maintain RMB stability. Markets will continue to watch out for support measures to boost domestic demand, and if the Xi-private sector relationship continues to warm. But there are many cross currents in markets - lower UST yields provided breather for Asian FX but trade friction undermined sentiments. US exceptionalism is also wearing off with risks of stagflation in the US. This can weigh on USD. We would need China's economic recovery to regain firmer footing, sentiment/confidence in China to bounce back (re-rating in Chinese tech stocks has been a catalyst) and for USD to turn lower for RMB to further recover. But for now, some deterioration in US-China trade relation remains a risk to watch. Near term should see cross currents driving USDCNH in 7.24 - 7.30 range. Pair last seen at 7.2690 levels. Mild bullish momentum on daily chart intact but shows signs of fading while decline in RSI moderated. Support seen at 7.2540. 7.2370 and 7.2225 (200 DMA). Resistance at 7.2750/80 levels (21DMA, 23.6% fibo retracement of Sep low to Jan high), 7.30 (50 DMA).

- **EURUSD. *Boosted by Willingness to Spend.*** EUR rose sharply as expectations for fiscal and defence spending gathers traction. EU is proposing EUR150bn in loans to boost defence spending and is also planning to activate a mechanism that allow countries to use their national budgets to spend an additional EUR650bn on defence over 4 years without triggering budgetary penalties. Chancellor-in-waiting Friedrich Merz said on Tuesday night that Germany would amend the constitution to exempt defence and security outlays from limits on fiscal spending to do "whatever it takes" to defend the country. He said that the main center parties had also agreed to launch a €500 billion ($528 billion) infrastructure fund to invest in priorities such as transportation, energy grids and housing. Concerted willingness to spend is giving EUR a fresh boost. That said, the looming risk of US tariffs on Europe and upcoming ECB meeting (Thu) are some of the 2-way risks to watch for the EUR. Markets are likely to scrutinise the ECB meeting for signs of any slowdown in easing cycle or if the end of the easing cycle is in sight. Any hint on the above should add to EUR recovery. On tariffs, Trump has indicated 25% tariffs on European auto and other products but did not mention further details or an effective date. Confirmation of the tariffs may see EUR dip but it remains to be seen if the pullback can be sustained, considering the emergence of new positives: a potential Ukraine peace deal, expectations of defence spending, chance that ECB easing may slow, Germans attempting to form a coalition government fast and likely to increase spending/ support growth, etc. EUR was last at 1.0610 levels. Daily momentum turned mild bullish while rise in RSI slowed. 2-way trades likely, bias to buy dips. Support at 1.0575 (38.2% fibo retracement of Sep high to Jan low), 1.0510 (100 DMA) and 1.0450 (21 DMA). Resistance at 1.0690 (50% fibo), 1.0720 (200 DMA).

- **USDJPY. *Sell Rallies.*** USDJPY rebounded, tracking UST yields higher. Pair was last at 149.90. Daily momentum is showing tentative signs of turning bullish while RSI rose. Cautious of short term rebound risks but retain bias to sell rallies. Resistance at 150.50, 151.50 (38.2% fibo retracement of Sep low to Jan high). Support at 149.20 (50% fibo), 148.80 before 147 (61.8% fibo). Trump tariff threats (reciprocal tariffs) and dividend seasonality trends may pose intermittent upside pressure for USDJPY. Sell rallies preferred as growing Fed-BoJ policy divergence should continue to anchor the broad direction of travel of USDJPY to the downside.

- **USDSGD. *Consolidation.*** USDSGD continued to trade lower, owing to the pullback in UST yields and steady RMB. Stronger EUR (owing to expectations of higher defence and fiscal spending supporting growth) also weighed on USDSGD. Pair was last seen at 1.3405 level. Mild bullish momentum on daily chart shows signs of fading 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 1.2% above model-implied mid.

- **IndoGBs.** MoF awarded IDR30trn worth of bonds at Tuesday's auction, upsizing from the indicative target of IDR26trn. We have expected mild upsizes at auctions whenever the bond market backdrop is favourable. YTD gross issuances amounted to IDR182.2trn versus quarterly target of IDR228trn. There are one conventional and one sukuk auctions left for the quarter; total gross issuances in the quarter is likely to come in mildly below or broadly in line with target, putting financing in a comfortable position. Incoming bids at yesterday's auction was strong at IDR75.78trn, with most bids going to FR104 (2030 bond) and FR103 (2035 bond) as usual. Cut-offs were near lowest incoming



Source: DJPPR, OCBC Research

bid levels for these two bonds. IndoGBs saw outflows over recent days, probably as the spot move had affected sentiment. With 10Y IndoGB-UST yield differential having widened back to around 270bps, the domestic bond is likely to find some support and stay resilient to the UST sell-off overnight

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