Daily Market Outlook

10 February 2025

Tariff Threats Again

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**. UST yields rose upon the release of labour market statistics. Markets pared back rate cut expectation, with Fed funds futures last pricing 36bps of cuts this year. January non-farm payroll printed a lower-than-expected 143K, but with upward revisions to previous numbers, the 6-month average has now increased to 178K. Meanwhile, household survey showed jobless rate unexpectedly edged lower to 4.0% even after accounting for the annual adjustments to the population controls. Separately, University of Michigan survey showed short-term inflation expectation jumped to 4.3% from 3.3% prior. Inflation worries are again more reflected at the short end, with the UST bearish flatter; the uptick in the 10Y nominal yield was mainly driven by higher real yield while 10Y breakeven was relatively stable. Near-term reaction in USTs to negative tariff headlines may remain relatively muted compared to that in some other asset classes, as there are counteracting factors – namely, growth concerns and safe-haven flows – to inflation worries. The UST curve tended to flatten in reaction to negative tariff headlines - inflation worries may be more reflected at the short end while growth concerns more at the long end. In the absence of negative tariff headlines, we do not see much room for flattening, as front-end pricing is not dovish while near-term downside to the term premium appears limited. Immediate support for 10Y UST is at 4.52% followed by 4.60%; resistance sits at 4.40%.

- **DXY. *Boosted by Tariff Threats.*** USD drifted higher on tariff headlines. Trump just announced plans to impose 25% tariffs on steel and aluminium imports (no mention of effective date) and last Fri, he spoke about introducing reciprocal tariffs this week. Not forgetting that China tariffs on US goods come into effect today, we cannot rule out further deterioration in US-China trade tensions. US data was mixed last Fri – labour market report was on net positive though there are signs of it softening slowly while University of Michigan sentiment fell but inflation expectations rose. DXY was last at 108.30 levels. Bearish momentum on daily chart intact while RSI continued to rise. Rebound risk not ruled out. Resistance at 108.40 (21 DMA), 110.00/20 levels (previous high). Support at 107.80 (50 DMA, 23.6% fibo retracement of Oct low to Jan high), 107 levels. In terms of US data/event this week, CPI (Wed), Powell's semi-annual testimony to lawmakers (Tue, Wed), PPI (Thu), retail sales and IP (Fri) will be closely watched. Markets are pricing about cumulative 36bps of cut for this year with the next cut only fully priced in around Sep-2025 meeting. Softer US data (i.e. CPI) can lead to dovish repricing, and this can weigh on USD. But the recent headline on reciprocal tariffs suggests that risk-off trades may take precedence.

- **EURUSD. *Under Pressure.*** EUR continued to trade under pressure on tariff concerns – be it universal tariffs, reciprocal tariffs or tariffs on European autos. Last week, Trump told the BBC that tariffs on EU goods imported into the US could happen "pretty soon", although he would not give a timeline. He added that "They don't take our cars, they don't take our farm products, they take almost nothing and we take everything from them. Millions of cars, tremendous amounts of food and farm products". Over the weekend, there were reports that EU is considering to lower import tariff on American cars closer to the US rate of 2.5%, from current 10%. That said, the uncertainty on tariffs may still weigh on EUR for now. EUR was last at 1.03 levels. Bullish momentum on daily chart faded while RSI fell. Risks to the downside. Support at 1.0240, 1.0140/80 levels (recent low). Resistance at 1.0360 (21 DMA), 1.0410 (50 DMA).

- **USDJPY. *Tariff Hit May Complicate JPY Direction of Travel.*** USDJPY rose this morning, tracking the rise in USD on tariff concerns. Trump announced plan to impose 25% tariff on all steel and aluminium imports and mentioned introducing reciprocal tariffs on all nations. This may imply that Japan maybe implicated. When it comes to automobile, Japanese cars are amongst the top 5 most popular in US and Korean cars make it to the top 10 list. On agricultural products, Japan has a high tariff rate of 204.3% for rice and 23.3% for meat. The risk is a direct tariff hit on Japanese goods and JPY may come under pressure in this scenario. USDJPY was last at 152.10 levels. Bearish momentum on daily chart intact while RSI is turning higher from near oversold conditions. Rebound risks likely in the interim. Resistance at 152.70/80 levels (100, 200 DMAs), 154.30 levels. Support at 151.50 (38.2% fibo retracement of Sep low to Jan high), 150 levels.

- **CHFJPY. *Take Profit on Short.*** Given the risk of tariffs potentially affecting Japan, we took profit earlier (+2%) on short CHFJPY strategic trade (entered at 170.1) at 166.70. The trade was initially entered in Aug-2024 to proxy for SNB-BoJ policy divergence, which has played out. But recent mention of Trump's reciprocal tariffs has injected some uncertainty that may pose hiccups to JPY's direction of movement. We still favor the short CHFJPY trade idea, on policy divergence thematic but prefer to wait for more clarity on tariff front before re-entering.

-

- **USDSGD. *Consolidation with Slight Risk to Upside.*** USDSGD traded higher this morning amid fresh tariff threats from Trump while China was reportedly building a list of US tech firms for antitrust probes. Pair was last seen at 1.3566. Mild bearish momentum on daily chart faded while RSI rose. 2-way trades likely with risk to the upside. Resistance here at 1.3560/70 levels (21, 50 DMAs), 1.3630, and 1.3690 levels. Support at 1.3460, 1.3420 levels. S$NEER held steady; last seen around 0.86% above model-implied mid.

- **CNY rates**. Repo-IRS were paid up by 2bps this morning while CGB yields traded higher as well. January CPI picked up by more than expected, to 0.5%YoY; consensus was 0.4% which by right should have taken into account the Chinese New Year effect. OCBC economists expect CPI "to contract by more than 0.5% YoY in February", again due to the Chinese New Year effects. Meanwhile, PBoC continued with post-holidays liquidity drainage which is as expected. We remain of the view that liquidity is likely to stay supported despite the usual post-holiday drainage, with big amounts of outstanding outright reverse repo; we believe PBoC will still keep the liquidity condition stable. In offshore, implied CNH rates have been edging higher over recent days; 1W implied CNH rate traded at 3.33% and 2W at 3.19% this morning, partly due to higher USD rates and partly to higher forward points. Front-end implied CNH rates are likely to stay at high end of ranges near-term, given tariff uncertainty.

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