GLOBAL MARKETS RESEARCH

Daily Market Outlook

4 February 2025

Delay

- **DXY.** ***Truce Tamed USD Bulls.*** USD eased after Trump agreed to delay tariffs against Mexico and Canada for one month. Mexico agreed to tackle issues relating to illegal migrants and drugs. During this 1-month period, both US and Mexico will attempt to negotiate a deal. US and Canada will also work on a final economic deal during the 1-month period. The twist in development is similar to the Colombia case just about a week ago – in which Colombia agreed to accept deportees after Trump threatened to impose tariffs. Trump plans to speak to China soon. If a similar "truce" plays out, USD may end up reversing the gap higher seen on Monday. While worsening/ broadening of trade war can undermine sentiments and provide a boost to the USD, we cannot rule out compromises or truce that may also provide a temporary breather for risk proxies. That said, unless we get greater clarity on trade relief/truce, markets may still prefer to buy USD on dips. DXY was last at 108.80 levels. Bearish momentum on daily chart shows signs of fading while RSI rose. Rebound risk not ruled out. Resistance at 110.20 levels (previous high). Support at 108.60 (21 DMA), 107.80 (50 DMA, 23.6% fibo retracement of Oct low to Jan high). Data focus this week on JOLTS job openings (Tue); ADP, ISM services (Wed); payrolls (Fri).

- **USD rates.** USTs ended NY session at levels similar to those after the initial reactions at Asia open on Monday, i.e. without much of a reversal after the 30-day delay in tariff imposition. Fed funds futures last priced 41bps of cuts this year, versus 46bps priced last Friday. While market may enjoy an interim relief given the tariff delay, perceived inflation risk from potential tariffs may keep the UST curve flat around current level for now, before investors add to Fed funds rate cuts expectation. UST reaction to any escalation in trade tensions may be more muted than that in some asset classes, as there are counteracting factors – namely, safe-haven flows and growth concerns – to inflation worries. We expect inflation worries to be more reflected at the short end while growth concerns to be more reflected at the long end of the curve. Other than tariffs news, US Treasury released most recent quarterly refunding documents. Net marketable borrowing in Q12025 is estimated at USD815bn, USD9bn lower than earlier estimates; net marketable borrowing in Q22025 is estimated at USD123bn. Q2 borrowing has usually been on the low side upon

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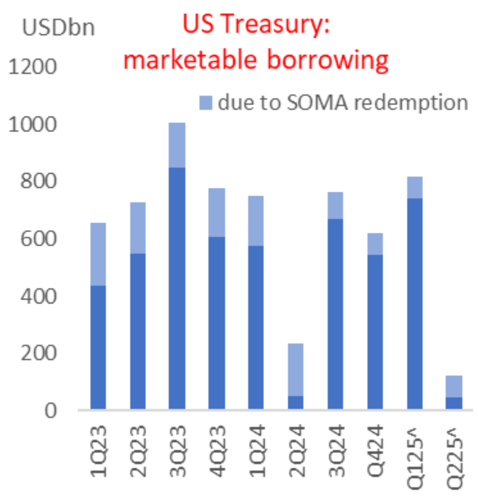

Source: US Treasury, OCBC Research
^US Treasury estimates

tax payments; net of SOMA redemption, estimated Q2 borrowing was similar to a year ago. Intended individual auction sizes will be announced on Wednesday and we do not expect upsizes; we watch if US Treasury continues to commit to no upsize in the quarters ahead. 10Y UST yield continued to trade near the 4.52% level that we have highlighted as the key resistance (for the bond); 10Y real yield at 2.132% still appears on the high side.

- **IndoGBs** traded on the weak side along with the IDR on Monday, amid tariff news. Sentiment has since turned for the better with the tariff delay, providing a more constructive backdrop for the conventional bond auction today. SRBI rates fell further at the latest auction on Friday; SRBI rates fell by cumulative 45-49bps over the past three auctions, which may also provide support to short-end IndoGBs. Indicative target for today's conventional bond auction is IDR26trn with flexibility to be upsized to IDR39trn, comprising the reopening of FR104 (2030 bond), FR103 (2035 bond), FR106 (2040 bond), FR107 (2045 bond), FR102 (2054 bond), FR105 (2064 bond), and bills. Again, individual auction size of IDR26-28trn for conventional bond and of IDR10-12trn for sukuk would be consistent with Q1 issuance target. We continue to see 10Y IndoGB-UST yield spread at 245-250bp area as stable.

- **SGD rates.** SGD OIS has outperformed USD OIS over the past week, resulting in more negative SGD-USD rates spreads. Within the SGD market, SORA OIS mildly outperformed SGS. With bond/swap spreads (OIS - yield) at around 20bps level across 2Y, 5Y and 10Y tenors, the bonds look supported. MAS will not be holding a mini-auction on 26 February following feedback from primary dealers, i.e. there are two remaining, optional mini-auctions for this year, in May and October. Today brings 4W, 12W and 36W MAS bills auctions. We noted earlier that the spreads between MAS bills cut-offs and implied SGD rates had narrowed from elevated levels attained in December. 1M and 3M implied SGD rates traded at around 2.86% this morning; 20-25bps spreads would imply cut-offs of 3.06-3.11% for 4W and 12W bills. These levels are for reference only as the spreads with implied rates have been unstable.

- **EURUSD. *Downside Risk.*** EUR retraced losses overnight after Trump postponed tariffs on Mexico and Canada. That said, risks for EUR may still be skewed to the downside as Trump has yet to unveil further tariff details on Europe. So, in comparison, MXN and CAD can enjoy a breather while uncertainty looms for European Union, as Trump did earlier warn about tariffs. EUR was last at 1.0320 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). In the interim, EUR may still face downward pressure on a few factors: 1/ stagnation in the Euro-area; 2/ risk that ECB may need to cut below neutral to support growth; 3/ rise in energy costs (as cold weather depletes reserves and reduced Russian supplies) adding more pain to industrials and households; 4/ tariffs hitting Europe's exports when growth is already stagnating. Recall last week, FT reported that US Treasury secretary Scott Bessent favours universal tariffs on US imports, starting at 2.5% while Trump said he wants tariffs 'much bigger' than 2.5%.

- **USDCNH. *Watching Onshore Fix Tomorrow.*** The rise in USDCNH to above 7.37 briefly yesterday was reversed out entirely, after delay in tariffs on China and Mexico provided some hopes that the same may be repeated for China. This remains early to tell until Trump talks to China, likely within the next couple of hours. It is the same old playbook – to impose substantial tariffs if no deal is reached. But we need to stress that trade deals are never forged overnight. Finer details and legality takes time. Any sign that both Xi and Trump have a "good talk" or both countries are working to come on a deal should qualify as a temporary truce, and supportive of sentiments. In addition, there were signs that China may be preparing for negotiations to avoid a full-blown trade war. WSJ reported that China is planning more investments in US, renewing pledge not to devalue the RMB to support its exports and commit to reduce shipments of fentanyl precursors. It was also reported that *Beijing is also looking to treat the situation around TikTok as a commercial matter, meaning it might allow investors in its Chinese parent ByteDance negotiate a deal with interested American bidders*. Aside from Trump, USDCNY fixing will be closely watched if China makes good on its pledge on not to devalue the RMB. Onshore markets reopen tomorrow. The fix was last set at 7.1698 before LNY holidays. If tomorrow's fix comes in above 7.20, then markets may interpret it as a sign that policymakers are allowing the RMB to depreciate. In this scenario, there may be a strong likelihood for USDCNH to trade closer towards 7.40 and beyond. USDCNH was last seen at 7.3120. Daily momentum turned mild bullish while rise in RSI slowed. Consolidation likely until we get some clarity out of Trump-China talks. Support at 7.30 (50 DMA), 7.2755. Resistance at 7,35, 7.37 levels.

- **USDSGD. *Consolidate.*** USDSGD reversed yesterday's gains entirely after Trump defers tariffs on Mexico and Canada by a month. Risk proxies, alongside most AXJs, including SGD found relief. Pair was last seen at 1.3610. Bearish momentum on daily chart faded but rise in RSI moderated. 2-way trades likely. Resistance at 1.3690, 1.3750 (2025 high). Support at 1.36 (21 DMA), 1.3560 (50 DMA). S$NEER was last seen around 0.6% above model-implied mid.

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