Daily Market Outlook

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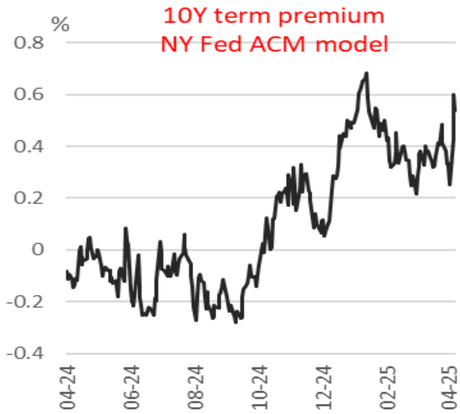
Dollar Slump

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

Christopher Wong
FX and Rates Strategy
ChristopherWong@ocbc.com

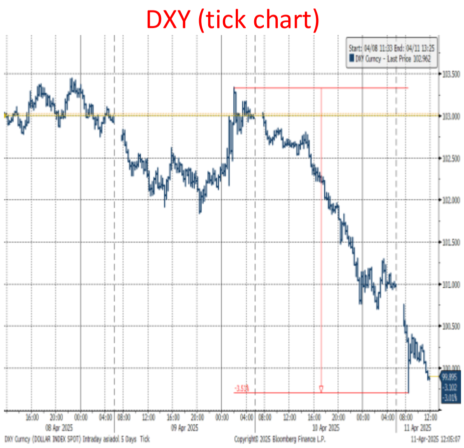
Global Markets Research and Strategy

- **USD rates.** Mid to long-end USTs were sold off overnight, reversing to the liquidation theme as trade tension escalated between US and China. After 10Y swap spread broke below its 2016 low two days ago (now around -59bps), 30Y swap spread is approaching its own 2016 low, last at -95bps, reflecting liquidation pressure. This was notwithstanding the solid 30Y coupon bond auction on Thursday; the bond sales garnered a bid/cover ratio of 2.43x versus 2.37x while indirect accepted was a tad higher at 61.9% versus 60.5% prior. Market mentality shifted swiftly, from cheering about the 90-day pause to bracing for trade tension escalation and lingering uncertainty (flip-flopping polices and unclear negotiation outcomes). Latest estimate by NY Fed's ACM Model of the 10Y term premium was Wednesday's 0.54%); we suspect the term premium might have gone back to near Tuesday's 0.6% level overnight. Whether the recent liquidation of USD assets develops into a broader asset re-allocation strategy among foreign investors is yet to be seen. Overnight, short-end USTs outperformed, as market added to rate cuts expectations; Fed funds futures last priced a total of 91bps of cuts by year end. March CPI printed softer than expected, with headline inflation decelerated to 2.4% YoY and core inflation also eased to 2.8% YoY. While investors mostly looked past this data set, it nevertheless showed the disinflation trend was intact before the tariff impact.



Source: Bloomberg, OCBC Research

- **DXY.** ***Sell-off Becoming Broader.*** The USD sell-off intensified and was across the board overnight. The decline can be attributed to a several factors including softer CPI data, tariff uncertainties, growth concerns as well as market chatters of some sovereign selling USTs. FX markets appear to shift from trading tariff fears to trading US recession and the de-dollarisation narrative. US protectionist measures, fading US exceptionalism and ballooning US debt are some catalysts that may question USD's status as a reserve currency. Although the USD is not likely to be displaced in the short term, the global financial landscape is evolving. Reserve diversification away from the USD may also add to strength for other alternative reserve currencies including CHF, JPY, EUR and gold. DXY was last at 100.23 levels. Daily momentum is mild bearish while RSI fell towards near oversold conditions. Support at 100.10, 99.5 levels. Resistance at 101.40, 102.5 (76.4% fibo retracement of Oct low to 2025 high).



Source: Bloomberg, OCBC Research

- **EURUSD. *Beneficiary of USD Weakness.*** EUR surged above 1.13-handle, more than its 3-year high as the USD slump deepens. Pair was last at 1.1330 levels. Daily momentum is bullish while RSI rose. Risks skewed to the upside. Resistance at 1.1460, 1.15 levels. Support at 1.1220, 1.1140 levels. Yesterday, EU announced that it will suspend its first wave of retaliatory levies against US for 90 days to focus on negotiations. That said, EU is also showing that it is no pushover. European Commission President Ursula added that tariffs would kick in if talks are not satisfactory. Elsewhere, Europe and China are also in trade talks to set minimum prices on Chinese EVs.

- **USDJPY. *Sell Rallies.*** USDJPY slumped amid broad USD decline and tariff uncertainty lingers. The White House updated that tariff on China goods was at least 145%, not 125%. Risk aversion and growing doubts about USD's status as a primary reserve currency are some of the factors adding to USDJPY's sell-off. Pair was last at 143.40 levels. Daily momentum is bearish while RSI fell. Risks skewed to the downside. Support at 143, 141.60 levels. Resistance at 144.10 (76.4% fibo), 147 (61.8% fibo retracement of Sep low to Jan high). Near term, we caution for the risk of officials expressing their discomfort and if they assess recent moves to contain excessive volatility. That said, this is a case of broad USD softness rather than idiosyncratic factor affecting JPY. More broadly, we still look for USDJPY to trend lower, premised on safe-haven flow, Fed-BoJ policy divergence (Fed rate cut cycle while the BoJ has room to further pursue policy normalisation). Wage growth, broadening services inflation and upbeat economic activities in Japan should continue to support BoJ policy normalisation although tariff uncertainty may complicate BoJ outlook to some extent. Fed-BoJ policy divergence should bring about further narrowing of UST-JGB yield differentials, in turn underpinning the broader direction of travel for USDJPY to the downside.

- ***USDSGD. MAS Policy on Monday.*** There is a wide range of market expectations as to what MAS' choice of policy lever may be, but the consensus is for a policy slope reduction. Notably, the forecasting community has turned more dovish, with some looking for MAS policy to go neutral (i.e. 0 rate of appreciation). Judging from our S$NEER model, markets are likely to have fully factored in a slight reduction of policy slope. **Our base case is for MAS to ease the policy slope slightly** as policymakers take into consideration softer core CPI and potential growth implications from US tariffs. A slight reduction in policy slope implies lowering the rate of appreciation as focus shifts from fighting inflation to supporting growth. We do not rule out an outside chance of MAS flattening the policy slope (i.e. 0 rate of appreciation) if the assessment of both external and domestic growth outlook is drastic or potentially in a crisis mode. The last time the S$NEER policy band was flat was during covid period and in Apr 2016 when the external environment was assessed to be less favourable. Overnight, USDSGD fell amid USD slump. Pair was last at 1.3265. Daily momentum turned bearish while RSI fell. Risks skewed to the downside. Support at 1.3260, 1.32 levels. Resistance at 1.3330 (200 DMA), 1.3410 (21 DMA). S$NEER was last seen at 0.9% 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