Daily Market Outlook

14 April 2025

MAS Review; USD Weaker

- **USDSGD. *USD Trend Overwhelms.*** MAS reduced the policy slope slightly and will continue with policy of a modest and gradual appreciation of the S$NEER policy band. This implies that the rate of SGD appreciation vs basket of trade peers will be reduced. The policy move was well within our expectations. The accompanying MPS noted that *prospects for global trade and GDP growth dimmed in early April. The US has imposed tariffs on imports from most countries in the world, with some of these countries announcing retaliatory tariffs. Economies that levy duties on imports will likely experience an increase in costs and this will weigh on their aggregate demand. At the same time, exporting countries which have been hit by tariffs will be confronted with weaker demand and pressure to lower prices for their output. In addition, global financial conditions have tightened as asset markets have begun repricing risks in the global economy. These factors will exert widespread and potentially reinforcing drags on production, trade, and investments in Singapore's major trading partners. Global growth is expected to weaken this year, with trade possibly moderating to a greater extent.* It also indicated that *amid the weakening external outlook, Singapore's output gap will turn negative. Consequently, imported and domestic cost pressures will remain low, and MAS Core Inflation is forecast to stay well below 2%. The risks to inflation are tilted towards the downside.* Looking on, downgrades to growth and inflation projections for 2025, alongside a highly uncertain external environment, suggests that the door remains open for further easing should macro conditions deteriorate further. By our estimates, S$NEEER strengthened from about +1.1% above model implied mid (pre-announcement) to about +1.35%, at the point of writing. USDSGD spot also traded modestly lower post-announcement. It appears that the broad USD softness trend overwhelms despite MAS easing. USDSGD was last at 1.3170 levels. Daily momentum in bearish while RSI fell to near oversold conditions. Support at 1.3130/50 levels (61.8% fibo retracement of 2024 low to 2025 high), 1.3090 levels. We expect USDSGD to trade range in 1.31 – 1.3250 levels, driven by counteracting forces of softer USD trend, modest depreciation in RMB as well as firmer JPY.

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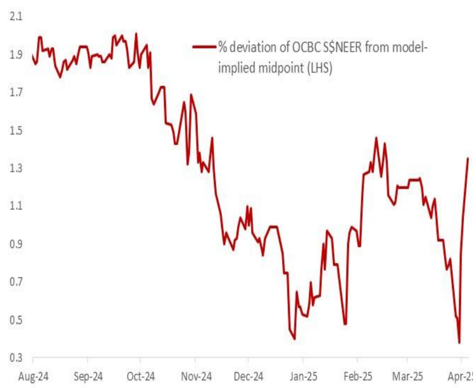
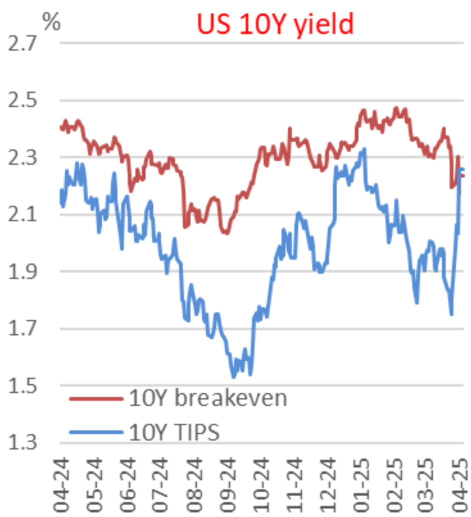


Source: OCBC Estimates

- **SGD rates**. SGD OIS were paid up by 3-4bps today as of writing, outperforming USD OIS despite MAS easing. MAS "reduced slightly" the slope of its S$NEER while maintaining "a modest and gradual appreciation" of the S$NEER policy band. The outcome is in line with our expectation, but it fell sort of some expectations for a zero slope. Given the more volatile USD rates and the soft Dollar itself, immediate performances in SGD rates are not driven much by the MAS policy outcome. That said, 6M SGD forward point appeared to see some bidding interest. And looking further ahead, the dynamic of a more dovish MAS – MAS revised downward GDP, headline inflation and core inflation forecasts – exerting some upward pressure on short-end SGD rates may still kick in especially with front-end SGD-USD rates differentials very negative to start with.

- **USD rates.** USTs were sold off on Friday, but yields retraced from session highs. Fed's Collins said the Fed would absolutely be prepared to help stabilise the financial markets if conditions become disorderly. Expediating plans – such as exempting UST holdings from SLR and stopping QT with reinvestment from MBS into bills and/or USTs – are some of tools, in our view. There was some further respite in early trading this morning in Asia, after the weekend announcement of exemption of some electronics products from reciprocal tariffs. Although the Trump administration said they might still include these products when they plan for sectoral tariffs, the exemption still means narrower unfavourable differential treatment on China (as China is subject to a much higher reciprocal tariff rate). Whether the UST sell-off was a continuation of the liquidation theme, or whether it is something that will develop into the broader scheme of re-allocation away from USD assets remains to be seen. Barring massive structural shifts in demand for USD assets, 10Y real yield at 2.25% appears elevated compared to the growth outlook – we believe the term premium played a significant part in the recent upward move in real yield. Last week's 10Y and 30Y coupon bond auctions went well, and there are 5Y and 20Y bond sales to be digested this week. Next support for 10Y UST sits at 4.52% (in terms of yield) while resistance is at 4.34%.



Source: Bloomberg, OCBC Research

- **DXY.** ***Under Pressure but Near Oversold.*** USD sell-off extended, with DXY below the 100-mark. Precious metals, gold and silver are amongst the biggest beneficiaries as tariff uncertainties show little signs of abating. Country tariffs are progressing to sectoral tariffs. While Trump exempted a range of popular electronics from the 125% tariffs on China and the 10% flat rate to the rest of the world, he said this is only temporary and is part of a plan to apply a different, specific levy to the sector. He also made known that details on the tariff rate for semiconductors would be announced in the coming week. US protectionist measures, fading US exceptionalism and ballooning US debt are some catalysts driving the "sell USD" trade as USD's status as reserve currency and safe haven comes under fire. Reserve diversification away from USD may continue to add to strength for other alternative reserve currencies including CHF, JPY, EUR and gold. DXY was last at 99.67. Daily momentum is mild bearish while RSI fell towards near oversold conditions. Support at 99.5, 99.1 levels. Resistance at 100.1, 101 levels.

- **EURUSD. *Beneficiary of USD's Weakness.*** EUR rose as high as 1.1473 at one-point last Fri before easing. Last at 1.1367 levels. Daily momentum is bullish while RSI rose into near overbought conditions. Risks skewed to the upside. Resistance at 1.1460/70 levels before 1.15. Support at 1.1220, 1.1140 levels. EUR continues to benefit from the broad USD weakness. Focus this week is on ECB meeting (Thu); our house view looks for a cut. Last week, 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.

- **CNY rates**. Repo-IRS were paid up by 1-2bps at open, and CGB yields also traded a tad higher. The overall risk sentiment improved somewhat, while March new yuan loans and aggregate financing beat market expectations. Nevertheless, expectation remains for additional fiscal and monetary policy support to come, which may point to a steepening bias on the CGB curve. PBoC net withdrew CNY50.5bn of liquidity via daily OMOs this morning; the reverse repo maturity is moderate, while MLF maturity is also low at CNY100bn this week and these daily OMOs are not current market focus. In offshore, FX swap curved traded further lower this morning; 1W and 2W implied CNH rates traded low around 0.8-0.9% levels. CNH liquidity has stayed flush, while there is a lack of bidding interest at front-end given the relatively stable spot. Net-buy via Southbound Stock Connect amounted to HKD82bn last week, while RMB deposits in Hong Kong moved back to above the RMB1trn mark, standing at RMB1035bn as of end-February.

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