Daily Market Outlook

14 February 2025

Tariff Delay

- **USD rates.** USTs rallied on Thursday upon delays in reciprocal tariffs while some components under PPI suggested potentially softer inflation pressure to be reflected by PCE price index than by CPI. PPI final demand rose by 0.4%MoM in January versus an upwardly revised 0.5% in December; PPI final demand goods less foods and energy was up by 0.1% while PPI final demand services was up by 0.3%. Investors looked past the headlines and focused on components which feed into the PCE price index such as hospital outpatients/inpatient care and airline passenger services which exhibited softer price pressure. UST yields mostly went back to or near pre-CPI levels; 10Y yield again traded near the key 4.52% level and range remains at 4.40-4.60%. Fed funds futures added mildly to rate cut expectation to 33bps for this year vs 28bps priced after CPI. Overnight's 30Y coupon bond auction drew soft demand, tailing by around 1bp; other auction parameters were also soft with bid/cover ratio lower at 2.33x and indirect accepted a tad lower at 65.1%. USTs nevertheless did not react much to the auction result. Next week, there is net coupon bond settlement of USD18.8bn and net bills payment of USD1bn, reflecting supportive liquidity conditions.

- **DXY. *Bulls Are Squeezed.*** USD longs are caught wrongfooted. Even as Trump signed an executive order to impose reciprocal tariffs, they will not come into effect until 1 Apr. These reinforced our view that tariffs – be it sectoral or reciprocal – is a bargaining chip for Trump to negotiate in attempt to unlock some agenda favouring America (to level playing ground, fair trade etc.). Markets have been positioning for tariff trade (i.e. long USD) but the repeated delay in tariffs seem to gradually build up expectations that Trump may not deliver tariffs as much as feared, depending on how trade negotiations go and if he gets any concession. With the tariff delay, prospects of Ukraine peace talks, US CPI and PPI data out of the way, the focus goes back to US data tonight – retail sales and industrial production. Softer US data may see USD longs bail. DXY was last at 107 levels. Daily momentum turned bearish while RSI fell. Risk remains skewed to the downside. Support at 106.20/40 levels (100 DMA, 38.2% fibo retracement of Oct low to Jan high). Resistance at 107.80 (23.6% fibo), 108.00/10 (21, 50 DMAs), and 108.50 levels. With regards to reciprocal tariffs, we have earlier highlighted that Korea, India,

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Thailand and Japan impose a higher weighted average tariff rate than the US does on these countries. Reciprocal tariff rate adjustments from US may potentially impact these countries more. If FX were to be reactive to tariff announcements, KRW, INR, THB and JPY may potentially be subjected to higher volatility. Overnight, Trump ordered his administration to consider imposing reciprocal tariffs on numerous trading partners, singling out Japan and South Korea as nations that he believed are taking advantage of the US.

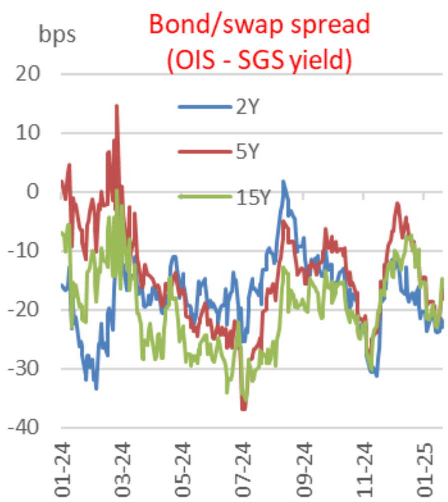
- **EURUSD. *Buoyed by Peace Dividend, Tariff Delay.*** EUR continued to trade higher on news that reciprocal tariffs does not comes into effect immediately but sometime in 1 Apr. The 6weeks+ push suggests that Trump may want to leverage on the threats to open up negotiations with some trade partners. The delay and hopes of Ukraine peace dividend is frustrating EUR shorts. Last seen at 1.0460 levels. Daily momentum turned mild bullish though rise in RSI moderated. Resistance at 1.05, 1.0540 levels. Break-out puts next resistance at 1.0570 (38.2% fibo retracement of Sep high to Jan low, 100 DMA). Support at 1.0390 (21, 50 DMAs), 1.03 levels. The peace talk remains in early stages and the phone call (between Trump and Putin) did not involve Ukraine or Europe. While the negotiation process is not likely to be smooth, we believe progress on this front is a positive start. It can even be a strong positive factor that overwhelms other EUR-negative factors, which were more or less in the price (stagnant economy, dovish ECB), depending on how the peace deal takes its form. We have turned neutral on EUR outlook (from bearish), looking to initiate buy on dips (at better levels). That said, we still caution for the risk of reciprocal tariff on EU, that may come within weeks even though effective data can be in Apr. Such announcement may undermine EUR.

- **USDJPY. *Still Watching Out for Reciprocal Tariff.*** USDJPY fell sharply as reciprocal tariff delay led to a turnaround in UST yields. USDJPY fell, last at 152.60 levels. Daily momentum is flat while RSI fell. Consolidation likely in the interim. Support at 152.50/80 levels (100, 200 DMAs), 151.50 (38.2% fibo retracement of Sep low to Jan high), 150 levels. Resistance at 154.30, 155.30 levels (50 DMA). We believe Japan may not be spared. When it comes to automobiles, 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. In fact, Trump yesterday ordered his administration to consider imposing reciprocal tariffs on numerous trading partners, singling out Japan and South Korea as nations that he believes are taking advantage of the US.

- **USDSGD. *Consolidation at Lower Levels.*** USDSGD fell further, tracking the sharp pullback in UST yields while riding on EUR's momentum. Delayed tariffs and prospects of Ukraine peace deal are supportive of risk sentiments, leading to broad unwinding of USD longs. Pair was last seen at 1.3435. Daily momentum turned mild bearish while RSI fell. 2-way trades likely with risks now slightly skewed to the downside. Support at 1.3406 (100 DMA), 1.3380 levels (38.2% fibo retracement of Sep low to Jan high). Resistance at 1.3520 (23.6% fibo, 21 DMA), 1.3570 levels (50 DMA) and 1.36 levels. S$NEER strengthened; last seen around 1.27% above model-implied mid.

- **AUD rates.** Next week's RBA decision is a close call despite a 25bp cut almost fully in the price which is also the consensus. We are also more inclined to see a 25bp cut by the RBA on 18 February; that said, we still see the RBA rate cutting cycle as a shallow one compared to major DM central banks. The dovish shift in expectation for RBA came mostly after the Q4 inflation prints – we wrote "Q4 CPI slowed more than expected, with headline having eased to 2.4%YoY and trimmed mean to 3.2%YoY. That quarter continued by be affected by Energy Bill Relief Refund rebates which reduced electricity costs for households. The trimmed mean measure excluded the falls in electricity and automotive fuel, together with other large price rises and falls. The steady easing in trimmed mean YoY inflation is encouraging and may provide room for the RBA to finally start cutting rates." Economic activity data, on the other hand, still pointed to resilient growth. Cash rate futures last priced an 87% chance of a 25bp cut at the February meeting, and a total 79bps of cuts this year. Our base-case is for a total of 50bps of cuts this year.

- **SGD rates.** SGS initially cheapened on Thursday taking cue from UST market; buying interests came in later in the day, with SGS yields ended the day 1-2bps lower. SGS outperformed SORA OIS at the 10Y, 15Y and 20Y over the past couple of days, in line with our view as we wrote on Wednesday "at current bond/swap spreads, we see room for SGS to outperform OIS". Meanwhile, 2Y bond/swap spread (OIS – SGS yield) last at -23bps appears somewhat low which may provide room for the 2Y SGS to outperform. At the front end, 6M T-bills cut off at 2.90%; incoming bid was strong at SGD23.3bn resulting in a bid/cover ratio of 3.19x. Recent cut-offs at MAS bills and 6M T-bills all came in mildly below expectations (narrower spreads over implied rates), amid the flush domestic liquidity condition. The strong demand at yesterday's 6M T-bills auction also reflected investor demand to lock in the yield of 2.90% which was still higher than longer tenor SGD rate/yield levels. Asset swap wise, pick-up at 20Y SGS was last at around SOFR+70bps (before bid/offer spreads), at 10Y SGS was around SOFR+50bps.



Source: CEIC, OCBC Research

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