Daily Market Outlook

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Retracement

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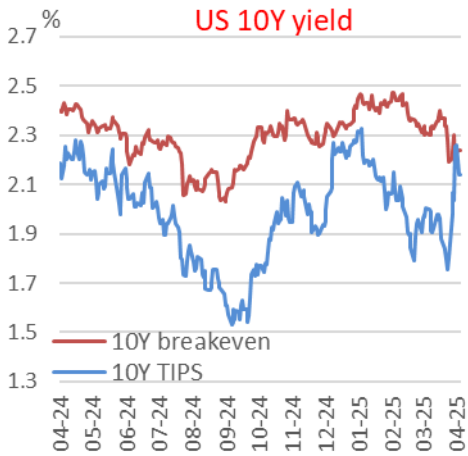
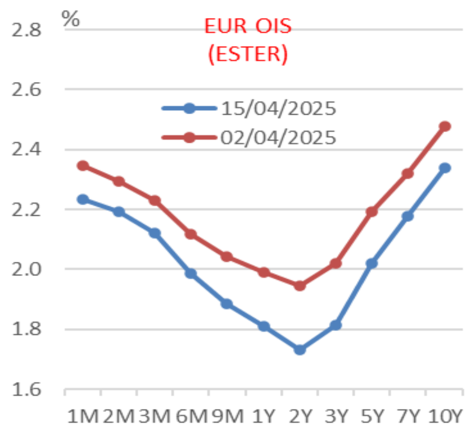
- **USD rates.** USTs rallied by more than 10bps overnight, upon some tariff relief. Granted, the development on the tariff front stays fluid, but the markets took comfort as there may be concessions/exemptions from here. Also, given earlier sell-off in USTs, at least part of liquidation demand might have been satisfied. We wrote "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." We do not jump into a conclusion, and if anything, diversification has been ongoing over the years. Barring massive structural shifts in demand for USD assets, 10Y real yield at 2.135% (which has nevertheless retraced by 12bps overnight) still looks somewhat high but the term premium needs to fall to push real yield lower. Term premium might have been pushed up by a confluence of factors, including concerns about further re-allocation away from USD assets, and worries about US fiscal positions. On the latter, the 5Y TIPS and 20Y Bond sales will be a test to the market. Last week's 10Y and 30Y coupon bond auctions went well; and there is coupon bond settlement of USD40bn this week. Meanwhile, constrained by the debt ceiling, US Treasury continues to pay down bills, at USD64bn this week, which may help buffer the heavy maturities.



Source: Bloomberg, OCBC Research

- **DXY. *Tentative Stabilisation?*** USD sell-off seen over the past few sessions showed tentative signs of stabilisation. US assets regained some lost ground, with UST and equities finding some demand overnight. Gains in safe haven proxy FX, including CHF, JPY and EUR slowed. FX vols have also eased, albeit still near elevated levels. Overnight, Trump was said to consider possible exceptions to his tariffs on imported vehicles and parts to give auto companies more time to set up manufacturing in the US. The temporary respite should see retracement trades from recent outsized moves in the FX markets. DXY was last at 99.80 levels. Daily momentum is mild bearish but RSI shows signs of turning higher from oversold conditions. Resistance at 100.5, 101.20 levels. Support at 99.5, 99.1 levels. Week ahead brings empire manufacturing tonight, retail sales and IP tomorrow, followed by housing data on Thu.

- **EUR rates.** Bunds yields edged lower overnight, underperforming USTs – this was after a period of Bunds outperformance. For this week's ECB meeting, a 25bp cut is already fully in the price. Focus is on Lagarde's commentaries. The markets look for hints as to whether the central bank is open to cutting rates to below the perceived neutral level. Our view has been that ECB is nearing the end of the cycle, but a terminal rate that is below 2% which reflects more of a weak growth/ recession driven rate-cutting cycle may be justified should the economy weaken by more than expected. The EUR OIS curve has shifted further lower, with 2Y EUR OIS below 1.8% level, pricing in such scenario. Asset swap pick-up (from USD funded perspective) is still not particularly attractive at short-end Bunds, while pick-up has improved somewhat at the longer end compared to levels in February – pick-up was last at SOFR+39bps at 20Y Bund and SOFR+52bps at 30Y Bund. Nevertheless, Bund might have benefited from some diversion flows from USD assets. Front-end EUR basis have edged back up, with 3M EUR basis around par (last at -0.75bp) compared to the recent low of -4bps, signalling normalising USD liquidity condition.

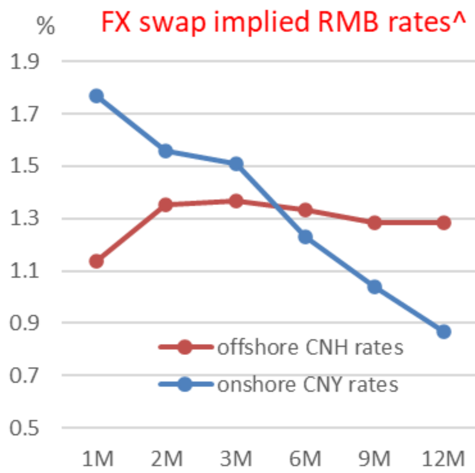


Source: Bloomberg, OCBC Research

- **EURUSD. *Consolidation.*** EUR bulls paused overnight, ahead of ZEW survey, industrial production data today, current account (Wed) and ECB meeting (Thu). On ECB, our house is looking for a 25bp cut. Trade tensions pose growth concerns while the drop in energy prices and much stronger EUR are likely to have added to the disinflationary pressure. More importantly, ECB's rhetoric is key – whether policymakers will be guiding for further cuts or mention that EUR's recent rally as excessive, etc. Dovish comments may partially negate EUR's ascend. Pair was last at 1.1350 levels. Daily momentum is bullish while RSI rose into near overbought conditions. Consolidation likely. Resistance at 1.1460/70 levels before 1.15. Support at 1.1280, 1.1160 levels.

- **USDSGD. *Takes Cues from USD.*** USDSGD continued to trade near recent lows as markets re-assess the tariff pause and future tariff imposition. Pair was last at 1.3150 levels. Daily momentum in bearish while RSI shows tentative signs of turning near oversold conditions. Support at 1.3130/50 levels (61.8% fibo retracement of 2024 low to 2025 high), 1.3090 levels. On MAS policy, a slight easing means that MAS will continue with the policy of modest and gradual appreciation of the S$NEER policy band. In theory, a much gentler slope of appreciation can imply that the SGD strength (on TWI terms) that we have seen in the past 2-3 years should become less so going forward. On the contrary, our estimates showed that S$NEEER strengthened from about +1.1% above model implied mid (pre-announcement) to about +1.43%. Broad USD softness and SGD's safe haven properties are some factors causing some temporary distortion, resulting in relative SGD outperformance against peers. This should correct over time. Looking on, MAS downgrade 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. But at this point, it may be too early to jump the gun. Near term, we expect USDSGD to trade range in 1.3120 – 1.3270 levels driven by counteracting forces of softer USD trend, modest depreciation in RMB as well as firmer JPY. Potential sectoral tariffs on pharmaceuticals and semiconductors are additional factors that may undermine SGD at some point, when they are imposed.

- **CNY and CNH rates**. CNH liquidity has stayed flush, with 1W implied CNH rate trading at below 0.6% this morning, while the whole FX swap curve was lower. Offshore implied CNH rates have remained below onshore implied CNY rates for tenors 3M and below. Factors behind the flush CNH liquidity include: 1/ Stock Connect inflows have been adding to the offshore CNH liquidity pool. 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. 2/ There appears to be a lack of bidding interest at front-end for now given the relatively stable spot. 3/ Demand for CNH beyond the front-end also appears limited with not much supply of papers – there was net paydown of offshore RMB bonds in March. 4/ The other side of the equation is tighter USD liquidity, which has been a recent phenomenon at times of heightened market volatility. At current levels, we suspect further downside to front-end CNH rates may be more limited. First, net offshore RMB bonds issuances will likely be positive this month given light maturities, reversing from the net paydown in March. Second, USD liquidity appears to have improved somewhat as reflected by the EUR basis and JPY basis. In onshore, repo-IRS and CGB yields traded on the firm side at open this morning, which may simply be reflecting the stable risk sentiment. Nevertheless, expectation remains for additional fiscal and monetary policy support to come, which may point to a steepening bias on the CGB curve. NCD maturities are getting heavier in the coming months, at CNY2.45trn in May and CNY4.02trn in June; some liquidity support will be welcome.



Source: CEIC, OCBC Research ^15 April morning

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