# GLOBAL MARKETS RESEARCH

## Daily Market Outlook

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## Mark Time


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- **USD rates.** USTs rallied by another 2-5bps overnight, with long-end bonds mildly outperforming, as US Treasury said regulatory changes regarding the SLR was under consideration. Exemption of USTs has been called for and under discussion for some time now – the move higher in swap spreads (i.e. less negative bond/swap spreads) earlier in the year was in response to such expectations. To put things into perspective, 10Y swap spread was last at -53bps; above -40bps at one point in February with expectations of SLR de-regulation; as high as -20bps area when USTs were temporarily exempted during 2020/21. Whether or not long-end USTS will be supported to such extent remains to be seen, given the different economic environment and financial conditions. 10Y real yield last at 2.14% still appears somewhat high compared to the growth outlook but the term premium is at play; term premium has 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. Near-term range for 10Y UST yield is seen at 4.22%-4.40%.

- **DXY. *Still a Heavy Bias.*** DXY inched modestly higher overnight but continues to trade near recent lows. Trump launched a probe into the need for tariffs on critical minerals, the latest action in an expanding trade war that has targeted key sectors of the global economy. Tariff and Trump policy uncertainty, alongside ongoing protectionist measures, fading US exceptionalism and ballooning US debt are some catalysts that should keep the "sell USD on rally" trade intact as USD's status as a reserve currency and safe haven continues to come under scrutiny. While tariff concerns remain, it does appear to suggest that Trump and his team may be ready to cut a deal with some nations. In the event a watered-down deal is reached between US and several nations, including India, Japan and South Korea (ex China), there may be a tactical chance safe haven proxy FX may unwind. FX with moves that have moved outside of 2 standard deviations (on 30 trading day period) such as USDCHF and USDJPY may be exposed to rebound risk (assuming there is some sort of "conciliatory tone").

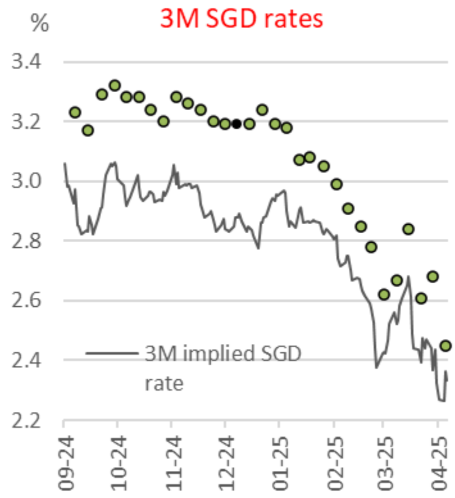
DXY was last at 99.83. Daily momentum is bearish but RSI shows signs of turning higher from oversold conditions. Resistance at 100.5, 101.20 levels. Support at 99.5, 99.1 levels. Week ahead brings retail sales and IP today, followed by housing data on Thu.

- **EURUSD. *Consolidation.*** EUR consolidated as markets re-assess tariff concerns and await ECB meeting (tomorrow). 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 disinflationary pressures. More importantly, ECB's rhetoric is key – if policymakers will be guiding for further cuts or make mention that the EUR's recent rally is excessive, etc. Dovish comments may partially negate EUR's ascend. Pair was last at 1.1326 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.

- **USDJPY. *Sell Rallies.*** USDJPY continue to trade with a heavy bias amid tariff uncertainty and growing doubts over USD's status as a safe haven/ primary reserve currency. This week, there was also confirmation that US Treasury secretary Bessent and Japan's Minister of Finance Kato will discuss FX matters. Kato also said that a weak JPY won't be tolerated when the nation needs to hold trade talks with US. Bias remains to sell rallies for USDJPY. Pair was last at 142.95 levels. Daily momentum is bearish but decline in RSI moderated. Bias remains skewed to the downside but cautious of USDJPY near oversold conditions. Rebound risk not ruled out but bias to fade. Resistance at 144.10, 145 levels. Support at 142 (recent low) before 141.60, and 140 levels.

- **USDSGD. *Bearish but Near Oversold.*** USDSGD continued to trade near recent lows. Pair was last at 1.3160 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. S$NEER was last at 1.38% above model implied midpoint. MAS' downgrade to growth, 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 1.3100 – 1.3250 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.

- **SGD rates.** 4W and 12W MAS bills cut off at 2.55% and 2.45%, respectively, below expectations. The spreads between cut-offs and implied SGD rates narrowed a lot to within 10bps, which might have represented some safe-haven flows into the SGD market. Domestic investors may prefer to stay within the local currency market; for foreign investors, asset swap pick-up has generally been preserved or improved, upon bond/swap moves and the mildly lower SGD basis. Pick-up was last at around SOFR+53bps (before bid/offer spread) at 5Y SGS, around SOFR+63bps at 10Y SGS, and around SOFR+73bps (with 10Y hedge) at 20Y SGS.




Source: Bloomberg, OCBC Research

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