Daily Market Outlook

2 April 2025

2-Way Trades into Tariff Day

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- **USD rates.** USTs traded in ranges in NY session ahead of tariff announcement; yields opened higher in Asia morning as the bond market traded with a cautious tone after days of rallies. Fed funds futures pricing was little changed, at 74bps of cuts for this year despite the uptick in ISM prices paid component when the overall ISM manufacturing index including new orders and employment components printed weaker than expected. Separately, JOLTS openings showed some cooling in the labour market. Job openings decreased by 194K to 7.57mn in February, dragged by the transport and utilities sector; job openings-to-unemployed ratio edged lower to 1.07. We are of the view that triggers for rate cuts will likely need to come from the labour market and hence the growth front. Our base-case remains for three 25bps of Fed funds rate cuts this year, which we have argued is a no-recession scenario; continued cooling in the labour market will justify rates at less restrictive levels. Immediate focus for the market is however tariff announcement. Range for 10Y UST yield is seen as wide at 4.06%-4.34% with various possibilities of market reaction vis-à-vis tariff details. On balance, we still see any interim upticks in yields as a correction, instead of a reversal to an extended uptrend as tariff threat lingers. On liquidity, usage at the Fed's overnight reverse repo fell to USD231bn on Tuesday; there is a small net bills settlement of USD4bn on the week. TGA balance stood at USD406bn on 31 March, and extraordinary measures remaining was at USD207bn as of 26 March.

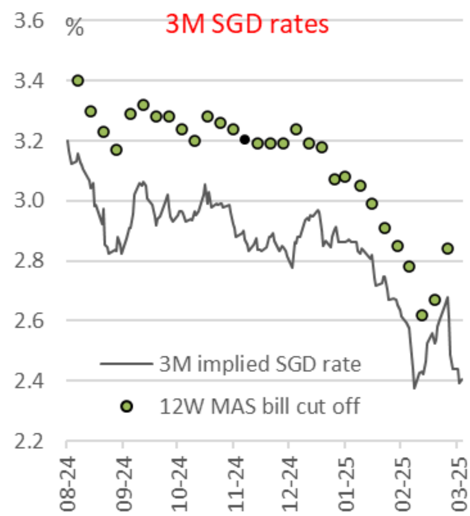
Source: Bloomberg, OCBC Research

- **DXY.** ***2-Way Trades Into Event Risk.*** USD held steady as markets await reciprocal tariff announcement on 2 Apr (4pm ET/4am SGT Thurs morning). There are reports to suggest that Trump's team is still in the midst of finalising tariffs, with options ranging from reciprocal to tiered to universal tariffs. DXY was last at 104.20 levels. Daily momentum is mild bullish while RSI fell. Not ruling out the risk of a pullback. Support at 103.10, 102.50 levels (76.4% fibo). Resistance at 104.00/10 levels (21 DMA, 61.8% fibo retracement of Oct low to Jan high), 104.60 and 105 levels (50% fibo, 200 DMA). This week, watch ADP (Wed); ISM services (Thu); payrolls (Fri). Softer data should weigh on USD. From a markets point of view, Trump's tariff threat has been very well flagged in advance. Rates markets have reacted, pivoting to growth concerns from inflation while US equities (S&P 500, NASDAQ) have fallen over 10% at one point. In FX world, AxJ FX have also largely traded on the back foot in the second half of March. It is also interesting to note that the North Asian neighbours (except Taiwan) - Japan, China and South Korea have banded together and agreed to make a joint response to US tariffs. Trump's tariff and security threat (over aid to Ukraine) have also led to a rare unity among European countries to put together a "ReArm Europe" plan. EU members are also considering deploying its anti-coercion instrument, which could lead to restrictions on trade and services, intellectual property rights, foreign direct investment, and access to public procurement. At the same time, EU is also identifying concessions to make to the Trump administration to secure the partial removal of US tariffs. We had earlier noted that the trade friction during Trump 1.0 primarily involved the US and China, whereas in current episode, Trump took it further, as trade friction becomes a broader conflict between the US and the rest of the world (ROW). And this time, nations including China and Europe seem more prepared, whether it is deploying retaliatory strategies, counter-negotiation tactics or coming together. It may be premature to draw definitive conclusions about the future dynamics of trade friction and negotiations, but we cannot dismiss the possibility that the USD could weaken if the trade war between the US and the ROW results in US being worse off. Looking past tariff noises, growth ultimately matters. If US growth becomes weaker as a result of its own doing (i.e. higher tariffs, protectionism measures) while growth for the ROW holds up, USD may end up weaker over time. That said, tariff imposition may potentially still see kneejerk risk-off response, and that could lead to USD upside risks in the near term.

- **USDJPY. *Bias to Sell Rallies.*** USDJPY remains caught in a 2-way trade between safe haven demand and JPY being directly hit by reciprocal tariffs. Pair was last at 149.78. Bullish momentum on daily chart intact but decline in RSI moderated. 2-way trades likely. Retain bias to sell rallies. Death cross formed (50 cuts 200 DMA to the downside). Support at 149.10/20 levels (21 DMA, 50% fibo), 148.70 and 147 levels (61.8% fibo). Resistance at 151.20/50 levels (38.2% fibo retracement of Sep low to Jan high, 50, 200 DMAs), 153 (100 DMA). Japan was one of the countries that was singled out by Trump for taking advantage of the US. For instance, Japan imposes over 20% tariff rate on several agricultural products including beef and cheese, around 30% on leather shoes and about 10% on clothing and commercial trucks. There have been chatters of production adjustments or supply chain shifts in attempt to avoid being hit by reciprocal tariff adjustment, but it remains uncertain if this would be useful. Hence 2-way trades for USDJPY is still likely in the interim unless Japan is exempted from reciprocal tariffs. In this scenario, JPY is likely to strengthen in risk-off trades.

- **USDSGD. *Mild Upside Risk.*** USDSGD continued to inch higher amid cautious sentiments ahead of 2 Apr reciprocal tariffs. Although Singapore may have lesser risk of being hit by reciprocal tariff, SGD is a currency that can be affected by global trade, economic growth and its own monetary policy. There are also risks that Singapore may be affected by sectoral-specific tariffs (i.e. pharmaceutical, semiconductor) at some point, depending on Trump's administration. Pair was last at 1.3430 levels. Daily momentum is mild bullish but rise in RSI moderated. Technically, we are watching for a potential rising wedge pattern, which is typically associated with a bearish reversal. Resistance at 1.3480 levels (100 DMA). Support at 1.3390 levels (38.2% fibo retracement of Sep low to Jan high), 1.3340/60 levels (21, 200 DMAs), 1.3310 levels. S$NEER was last seen at 0.81% above model-implied mid. MAS quarterly MPC meeting is less than 2 weeks away from now (no later than 14 Apr). Judging from our S$NEER model, markets are starting to price in some risk of an easing. While it may be a close call, we believe there is a strong chance that MAS will slightly adjust its policy slope downward, particularly in light of another downside surprise to core CPI.

- **SGD rates**. SORA OIS slid by 7-10bps on Tuesday, outperforming SGS which also rallied. The new 5Y SGS benchmark was last quoted at 2.448/2.424% versus the cut-off at 2.61% at last week's auction. Still, current bond/swap levels appear fairly supportive of SGS; this, together with the stable/a tad lower SGD basis have maintained asset swap pick-up as well. Asset swap pick-up was last at around SOFR+50bps at 5Y SGS, at around SOFR+59bps at 10Y SGS and at around SOFR+70bps at 15Y SGS. At the front end, liquidity is flush with front-end forward points trading heavy. There are 4W, 12W and 36W MAS bills auctions today. 1M and 3M implied SGD rates were trading at around 2.39% and 2.40% respectively. 4W and 12W MAS bills may cut off in the range of 2.55-2.65%.



Source: Bloomberg, OCBC Research

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