Daily Market Outlook

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Slight Caution

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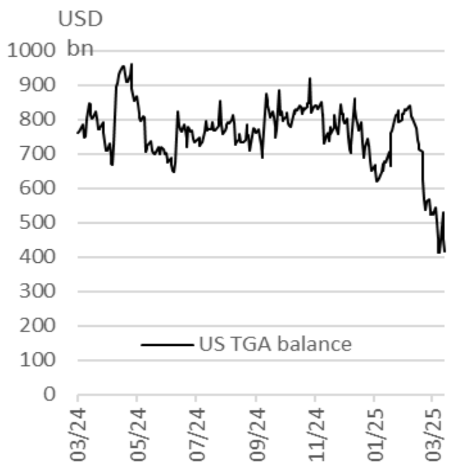
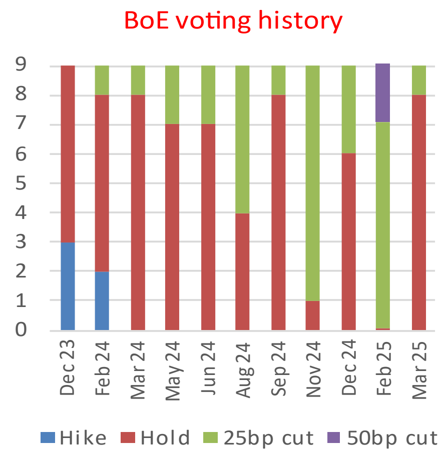
- **USD rates.** USTs consolidated within recent ranges, in the absence of fresh catalysts. Fed funds futures priced 67bps of cuts for this year, little changed from a day ago. Jobless claims/initial claims came in mostly in line; existing home sales rebounded to +4.2% MoM but the sequential changes have been volatile. Near-term range for 10Y UST yield remains at 4.20-4.34%; only when the yield breaks decisively on either side we will be eyeing a new range. We have long seen 10Y breakeven in the range of 2.2-2.4% as fair; movements in nominal yield have been more driven by real yield, which may remain so. Next week, there will be further bills paydown of USD51bn, while net coupon bond settlement is at USD28bn. TGA balance fell further to USD415.8bn as of 19 March, as bill issuances are constrained by the debt ceiling; amount of remaining extraordinary measures has been estimated at USD106bn as of 12 March. Bank reserves stood at USD3.4trn and reverse repos (all tenors) at USD522bn as of 12 March. The higher bank reserves resulted from limited bills issuances and the subsequent drawdown in TGA balance, which more than offset the shrinkage in the overall balance sheet; this is expected to reverse once the debt ceiling issue is resolved. Slower QT from 1 April will help buffer the potential volatility in money market rates upon and after a resolution of the debt ceiling.



Source: Bloomberg, OCBC Research

- **GBP rates.** Gilts initially did not react much to the 8-1 vote at BoE decision, but yields rose as Governor Bailey's comments hit the wire. Bailey suggested a wait-and-see mode, as there is a lot of economic uncertainty. Nevertheless, he added that he thinks "interest rates are on a gradually declining path". GBP OIS pared back rate cut expectation to 46bps for the rest of this year, versus 53bps priced before the decision. Our base-case is for additional 75bps of cuts this year, although we acknowledge the risk that the BoE may delay rate cuts in view of potential inflation pressure. On balance, we believe one 25bp cut per quarter remains consistent with the "gradual and careful" approach to the further withdrawal of monetary policy restraint. The uncertainty Bailey mentioned refers to both inflation and growth, which does not sound as hawkish to us as interpreted by the market. In terms of the split of vote, it has tilted marginally to the less dovish side; that said, the votes reflect more of the view at a particular meeting (which did move the market as we expected), rather than representing a



Source: BoE, OCBC Research

strong forward guidance. The next key event for the bond market is the Spring Statement 2025, to be released on 26 March.

- **DXY. *Caution May See USD Rebound.*** USD rebounded in cautious trading as 2 Apr reciprocal tariff deadline draws closer while markets keep a close watch over "triple-witching" (a quarterly event when index futures, index options and stock options contracts estimated at ~$4.5tn, all expire simultaneously. This event is typically associated with higher volatility). To recap on reciprocal tariffs, Trump earlier said it will affect "everyone" and is intended to "equalise" trade. Trump wants to hit any country that charges a duty on US-made goods with "the same exact tariff." Tariff imposition can undermine sentiments and lead to spikes in the USD, unless the implementation dates are rolled back again. The likes of KRW, JPY and IDR may be undermined in the near term. In addition, there remains some caution of EM contagion risks after Turkish Lira and Colombian Pesos saw a sharp sell-off at one point yesterday, driven by idiosyncratic (domestic) factors. Tariff war and some EM contagion fears can bring back memories of the 2018 EM sell-off. This risk reinforces our view that USD shorts may be unwound in the near term. DXY was last at 103.90 levels. Bearish momentum on daily chart faded while RSI is rising from near oversold conditions. Mild rebound risk is not ruled out. Resistance at 104 (61.8% fibo retracement of Oct low to Jan high), 105 levels (50% fibo, 21, 200 DMAs). Support at 103.10, 102.50 levels (76.4% fibo).

- **USDJPY. *Rebound Risk Near Term.*** USDJPY ticked higher. BoJ policy may take a back seat for now as a confluence of external risk factors, including Trump's reciprocal tariff threats on 2 Apr and JPY dividend seasonality trends may prove "noisy" for USDJPY. Pair was last at 149.10 levels. Bullish momentum on daily chart intact while RSI rose. Slight rebound risk not ruled out. Resistance at 150, 151.50 (38.2% fibo retracement of Sep low to Jan high). Support at 148.30, 147 levels (61.8% fibo). Wage growth outcome (from shunto negotiations likely end-Mar or early Apr) and inflation pressure are key markers to watch to get a sense on the timing of the next policy move. Our view remains unchanged - prospects of wage growth, broadening services inflation and upbeat economic activities in Japan continue to support BoJ policy normalisation. Fed-BoJ policy divergence should underpin broader direction of travel for USDJPY to the downside.

- **EURUSD. *Watching Upper House Vote.*** EUR fell, in line with our caution for EUR gains to slow. EUR was last at 1.0840 levels. Bullish momentum on daily chart faded while RSI fell. Risks skewed to the downside. Support at 1.0820 (61.8% fibo retracement of Sep high to Jan low), 1.0700/20 levels (200 DMA, 50% fibo). Resistance at 1.0940, 1.0970 (76.4% fibo). German spending plan will need to clear the upper house today. A 2/3 majority is required and there is some uncertainty as the Free voters of Bavaria party has yet to express support for the deal. Any unexpected surprise may have an asymmetrically larger downward pressure on EUR. The German spending plan and hopes of a Ukraine peace deal are positive catalysts for EUR but given the sharp run-up in EUR, and ahead of reciprocal tariff risks on 2 Apr, we continue to caution for risk of near-term pullback.

- **USDSGD.** ***Watching CPI Report Next Monday.*** USDSGD rebounded, tracking the bounce in USD as caution over 2 Apr reciprocal tariff comes into play. Pair was last at 1.3355 levels. Daily momentum turned mild bullish while RSI rose. Risk skewed towards the upside. Resistance at 1.3370/90 levels (21 DMA, 38.2% fibo retracement of Sep low to Jan high), 1.3470/80 levels (50, 100 DMAs). Support at 1.3300/10 levels, 1.3270 (50% fibo) and 1.32 levels. S$NEER was last seen at 1.11% above model-implied mid. MAS quarterly MPC meeting is about one month away from now. Judging from our S$NEER model, markets are not expecting a move at the upcoming meeting, at least for now. Next CPI print release is on next Mon (24 Mar). A softer print may move expectations on MAS policy. But MAS policy is only one factor affecting USDSGD. In the interim, tariff uncertainties may keep the pair supported.

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