Daily Market Outlook

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Soggy Sentiment

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- **USD rates.** USTs traded in ranges on Friday but opened weaker in Asia this morning following weekend news of narrower tariff scope. Ahead of the April 2 deadline, media reported Trump's planned reciprocal tariff could be more targeted and some countries would be exempt. Bond futures opened a tad weaker, and cash bonds saw yields higher this morning in a steepening manner. Fed funds futures last priced 68bps of cuts this year. There are auctions of 2Y, 5Y and 7Y coupon bonds this week, with settlement next week. For this week, net coupon bond settlement is at USD28bn, while there is net bills paydown of USD51bn. TGA balance fell further to USD383bn on 20 March. The mildly improved risk sentiment may set a floor to UST yields for now, but the news flows are very fluid and there is a line-up of data this week: March PMIs, February new home sales, February durable goods orders, March Conference Board, and February PCE. Near-term range for 10Y yield remains at 4.20-4.34% with 10Y breakeven stable at around 2.3% level, while 2Y yield at 3.90-4.00% appears consistent with current Fed funds rate pricing.

- **DXY. *Interim Bottom.*** USD inched higher as 2 Apr reciprocal tariff deadline draws nearer. Officials said that Trump will announce widespread reciprocal tariffs on nations or blocs but is set to exclude some. As of now, Trump administration is not planning separate, sectoral-specific tariffs to be unveiled at the same event. It was also mentioned that only countries that don't have tariffs on the US, and with whom the US has a trade surplus, will not be tariffed under the reciprocal plan. So likely, Australia, Singapore, HK and perhaps, UK may be excluded while China, EU, South Korea, Japan, India and Thailand are amongst some of the countries that may be hit (for having tariff on US goods and a trade surplus with US). Tariff imposition (although not blanket but targeted to some extent) can undermine sentiments and lead to spikes in the USD. The likes of KRW, JPY, CNH, MYR, IDR may be undermined in the near term. In addition, there remains some caution of EM contagion risks. Weekend arrest and subsequent imprisonment of Istanbul's mayor may continue to weigh on Lira and EM FX today. Tariff war and lingering EM contagion fears can undermine risk sentiment. USD may continue to be better bid in the near term. DXY was last at 104 levels. Daily momentum turned mild bullish while RSI rose. Rebound risk remains likely in the interim. Resistance here at 104 (61.8% fibo retracement of Oct low to Jan high), 104.40 and 105 levels (50% fibo, 21, 200 DMAs). Support at 103.10, 102.50 levels (76.4% fibo). Day ahead brings CFNAI, prelim PMIs.

- **EURUSD. *Corrective Pullback.*** EUR fell for a 3rd consecutive session. The German/European spending plans 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. To add, TRY sell-off may also have spillover effects on EUR, given some exposure of European banks to Turkish borrowers (about EUR100bn). On tariffs, it remains uncertain in terms of timing on whether the 25% tariff on European auto and other products or the 200% tariff on European alcohol will be effective soon. Confirmation of the tariffs may see EUR dip, but the pullback may not translate into a larger decline. Instead, it may even be seen as a chance to buy dips, considering the emergence of new positive factors: potential Ukraine peace deal, expectations of defence spending (supportive of growth) and chance that ECB easing may slow. EUR was last seen at 1.0825 levels. Bullish momentum on daily chart is fading while RSI fell. Risks skewed to the downside in the interim. That said bullish crossovers observed: 21 cut 200 DMA to the upside while 50 cuts 100 DMA to the upside. Bias to buy dips. Support here at 1.08, 1.0700/20 levels (21, 200 DMAs, 50% fibo retracement of Oct high to Jan low). Resistance at 1.0950/70 levels (76.4% fibo, recent high), 1.1020 levels.

- **USDJPY. *Rebound Risk Near Term.*** USDJPY inched higher. Data and BoJ policy may take a back seat for now as the focus shifts to Trump's reciprocal tariffs on 2 Apr. Earlier, Trump had 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. We had also flagged that Japan may be at risk of being hit by US reciprocal tariffs as Japanese cars are the top 5 most popular in US. (Japan shipped 1.37mio vehicles to US in 2024, accounting for 28% of Japan's exports to US). Currently, US imposes a 2.5% tariff on imported Japanese cars and this tariff rate may rise, leading to a potential demand hit for Japanese cars. There have been chatters of production adjustments or supply chain shifts in attempt to avert being hit by reciprocal tariff adjustment, but it remains uncertain if this would be useful. In terms of agricultural products, Japan also 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 that can potentially put a downward pressure on JPY. Also not forgetting JPY dividend seasonality trends that may weigh on JPY in the near term. Pair was last at 149.80 levels. Bullish momentum on daily chart intact while RSI rose. Slight rebound risk not ruled out in the near term but bias to sell rallies. Death cross appears to be in the making (50 cuts 200 DMA to the downside). Resistance at 150, 151.50 (38.2% fibo retracement of Sep low to Jan high) and 152 (50, 200 DMAs). Support at 148.30, 147 levels (61.8% fibo).

- **USDSGD. *CPI On Tap Today.*** USDSGD continued to inch higher, tracking the bounce in USD as caution over 2 Apr reciprocal tariff comes into play. Pair was last at 1.3360 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), 1.3460/70 levels (50, 100 DMAs). Support at 1.3300/10 levels, 1.3270 (50% fibo) and 1.32 levels. S$NEER was last seen at 1.18% above model-implied mid. MAS quarterly MPC meeting is less than one month from now. Judging from our S$NEER model, markets are not expecting a move at the upcoming meeting, at least for now. Next CPI print release today is key. A softer print may move expectations on MAS policy. But MAS policy is only one factor affecting USDSGD. In the interim, tariff uncertainties may still keep the pair supported.

- **CNY rates.** Repo-IRS traded on the soft side this morning but with limited price action. Funding rates have eased, with FR007 last at 1.82% versus around 2.00% level in the past two days and NCD rates edged further below 2.00%. Last week, PBoC net injected CNY498.5bn (combining reverse repos operations/maturities and MLF maturity). There is a total of CNY1.4trn of reverse repos maturing this week; PBoC net withdrew CNY346bn via daily OMOs this morning. Markets watch as to whether part of these will be replaced by outright reverse repos. At PBoC Q1 monetary policy meeting, the central bank reiterated it would cut interest rates and RRR at an appropriate time, while adding “reducing the overall cost of social financing”. Markets may not react too much to these comments just yet, as outright easing will still be deployed “at an appropriate time”.

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