Daily Market Outlook

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AxJs Waking Up to Tariff Risks

Frances Cheung, CFA
FX and Rates Strategy
FrancesCheung@ocbc.com

Christopher Wong
FX and Rates Strategy
ChristopherWong@ocbc.com

Global Markets Research and Strategy

- **USD rates.** UST yields rose by 8-9bps across the curve on Monday, as March PMIs printed firmer than expected, while Trump flagged a narrower scope and giving "a lot of countries breaks". We opined that improved risk sentiment may set a floor to UST yields for now. However, we do not look for an extended uptrend in yields, as after all, tariffs are coming, and tariff threat will linger. The news flows are very fluid and there is a line-up of data after PMIs: February new home sales, February durable goods orders, March Conference Board, and February PCE. Between inflation and growth impact of tariffs, the risk is the FOMC may choose to delay rate cuts if the inflation impact is reflected in the data sooner. Markets pared back rate cuts expectations to around 62bps of cuts this year. Bostic's comments do not represent a new piece of information; from the dot-plot we knew a few members changed their view and Bostic identified himself to be one of them. Movements in long-end yields were mainly driven by real yields, in line with our view. Next support for 10Y UST is at 4.42% in terms of yield and resistance sits at 4.23%. 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 which may keep front-end yields better anchored.

- **Asian FX. *Under Pressure*.** USD continued to trade better bid against most Asian FX, as 2 Apr reciprocal tariff draws closer. It may also be complacent at this point to second guess if tariffs will be narrower and it is perhaps prudent to wait and see for better clarity. As of now, the Trump administration is not planning separate, sectoral-specific tariffs to be unveiled at the same event, but nothing stops Trump from announcing these tariffs on other dates before or after. Overnight, Trump threatened to impose tariffs on countries that buy Venezuelan oil. 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 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 can undermine sentiments and lead to spikes in the USD. The likes of KRW, JPY, CNH, MYR, IDR and THB may be undermined in the near term. On IDR, the currency has seen relative underperformance, largely due to softer fundamentals including fiscal worries, unexpected current account deficit, economic soft patch and growing expectations that BI may have to soon ease policy. At the same time, external conditions turned unfavorable, further weighing on IDR. Last week, there was a sell-off in some EMFX including Turkish Lira and Colombian Peso driven by domestic uncertainty while US reciprocal tariffs on 2 Apr remains a big risk. The upticks seen in USDCNH and USDCNY fixing (as guidance proxy) seen over the last few sessions are also key factors to watch as a stable RMB had helped to anchor sentiments in AxJ FX. The risk of a weaker RMB is one factor that would undermine AxJs including IDR, especially if markets continue to play catch-up in pricing in tariff risk impact on global growth outlook. DXY was last at 104.30 levels. Daily momentum is mild bullish while RSI rose. Rebound risk remains likely in the interim. Resistance here at 104.40 and 105 levels (50% fibo, 21, 200 DMAs). Support at 104 (61.8% fibo retracement of Oct low to Jan high), 103.10, 102.50 levels (76.4% fibo).

- **EURUSD. *Corrective Pullback.*** EUR fell for a 4th consecutive session as tariff uncertainty bites. 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. 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 1.0805 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 Underway.*** USDJPY continued to trade higher, in line with our caution. Pair was last at 150.75 levels. Bullish momentum on daily chart intact but rise in RSI slowed. We continue to caution for rebound risks 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 151.50 (38.2% fibo retracement of Sep low to Jan high),151.60/70 levels (50, 200 DMAs) and 153.20 (100 DMA). Support at 150, 148.30 and 147 levels (61.8% fibo). 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 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. Additionally, JPY dividend seasonality trends may weigh on JPY in the near term.

- **USDSGD. *Bid***. USDSGD traded higher, tracking the bounce in USD as caution over 2 Apr reciprocal tariff comes into play. Pair was last at 1.3385 levels. Daily momentum turned mild bullish while RSI rose. Risk skewed towards the upside. Resistance here at 1.3390 levels (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$NEER was last seen at 1.10% above model-implied mid. MAS quarterly MPC meeting is less than one month from now. Judging from our S$NEER model, markets are not expecting a move at the upcoming meeting, at least for now. Softer core CPI added to expectations that MAS may ease in upcoming meeting. But MAS policy is only one factor affecting USDSGD. In the interim, tariff uncertainties may still keep the pair supported.

- **CNY rates.** PBoC said from this month onwards, MLF will be granted at fixed volumes, via auctions with multiple winning yields. This is another step taken to fade the role of MLF rate as a policy guidance. The rates will now be determined by a price discovery process which will help policymakers gauge market demand at different interest rate levels. The fixed volume of CNY450bn this month means there will be a small net injection of CNY63bn which helps support market liquidity. Implications of the auction method on short-end rates may be marginally to the downside. The 1Y MLF rate was last at 2.0%; this compares to current AAA 1Y NCD rate at 1.93%, and lower rates at shorter tenors. The bond market thus far took the change positively, with yields lower by 3-4bps.

GLOBAL MARKETS RESEARCH

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
mengteechin@ocbc.com

Co.Reg.no.: 193200032W