Daily Market Outlook

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Demand for Safe Haven Amid Growth Fears

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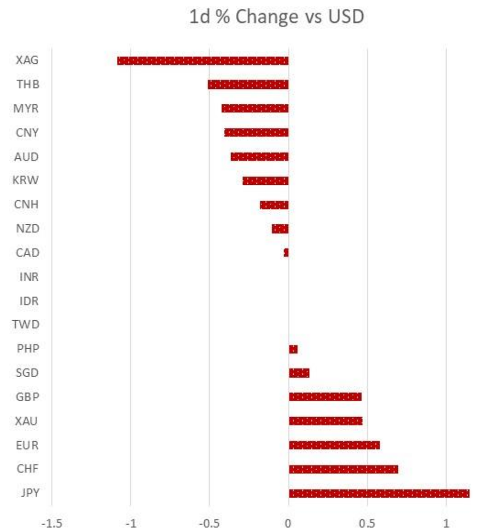
- **USD rates.** UST yields fell upon the tariff announcements which included higher-than-expected tariff rates. USTs did not have much time to react during NY hours as it was late session; yields fell further at Asia open, now down by more than 10bps compared to Tuesday's NY close. Fed funds futures price 85bps of cuts by the end of this year, with the chance of a 25bps cut by June FOMC priced at 90%. With growth concerns lingering while the inflation impact may be reflected in the data sooner than the growth impact, the UST curve is unlikely to steepen given the rate cuts which are already in the price. In Asian markets that were open as of writing, curves went mostly lower in a parallel or mildly flattening manner. While there may be room for negotiation on tariffs, any improvement from this hawkish starting point will still likely drag growth, and retaliation cannot be ruled out despite Bessent urged trading partners to negotiate instead of retaliating. 10Y real yield was last at 1.79%; making reference to the 2013-2019 period – during which US enjoyed decent economic growth but 10Y real yield was capped at 1.2%, there is further downside to 10Y real yield. That all being said, given the recent rallies, USTs may consolidate around current levels near-term. Interim upticks in yields upon any concession in tariff rates achieved by negotiation cannot be ruled out but again, we do not see a reversal to an extended uptrend in yields. Range for 10Y UST yield is seen at 4.00-4.20%. At the front end, we have long argued our base-case for three 25bp Fed funds rate cuts reflects a no-recession scenario – triggers for rate cuts will likely need to come from the labour market/growth front; continued cooling in the labour market will justify rates at less restrictive levels. On this, tonight's March ISM services and Friday's payroll and household survey will be of focus.

- **DXY.** ***ISM Services, Payrolls Next.*** Varied reaction in FX markets with open trade, growth-sensitive FX such as CNH, KRW, SGD, MYR and THB under some pressure post-tariff announcement. There is likely to be a period of negotiation and retaliatory responses between tariffed countries and the US. It may take a while before we see the final tariff outcome; but in the interim, we should continue to see divergent USD at play: with USD weaker vs G3 majors (EUR, JPY and GBP) but USD maintaining a bid tone vs AxJ FX. Safe-haven proxies such as gold, JPY and CHF continue to stay supported. DXY fell 0.7%; last at 103 levels. Mild bullish momentum



Source: Bloomberg, OCBC Research

on daily chart faded while RSI fell. The pullback risk that we earlier flagged has played out. Support here at 103, 102.50 levels (76.4% fibo). Resistance at 103.90/10 levels (21 DMA, 61.8% fibo retracement of Oct low to Jan high), 104.60 and 105 levels (50% fibo, 200 DMA). Near term this week, focus on ISM services tonight and payrolls tomorrow. Another softer print may reinforce growth concerns in the US and undermine US equity sentiments. But looking out, growth ultimately matters. If US growth becomes weaker as a result of its own doing (i.e. higher tariffs, protectionist measures) while growth for the rest of the world continues to hold up, then the USD may end up weaker over time.

- **EURUSD. *Bulls Need to Break Above 1.10 to Gain Further Traction.*** EUR jumped post-tariff announcement. Reciprocal tariff rate of 20% on EU was largely in line with street's estimates. We remain cautious as other tariffs on alcohol (200% tariff), lumber, semiconductors and pharmaceutical drugs may still be forthcoming in the coming weeks. Tariff imposition may still weigh on EUR. Earlier, EU members were 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. But at the same time, EU is also identifying concessions it is willing to make to secure the partial removal of US tariffs. EUR was last seen at 1.0920 levels. Bearish momentum on daily chart shows signs of fading while RSI rose. Next resistance at 1.0950/70 levels (76.4% fibo, recent high), 1.1020 levels. Support at 1.0850 (21 DMA), 1.0820 levels (61.8% fibo retracement of Oct high to Jan low). We had earlier shared our bias - *look for dips to buy into, considering the emergence of several positive factors, including EU defence spending (supportive of growth), chance that ECB easing may slow and prospects of a complete ceasefire in Ukraine at some point. The rare display of responsiveness and concerted willingness of European leaders to spend on defence gave EUR a fresh boost.* More importantly, growth matters. While US is a major economic powerhouse (accounted for 25% of the world's nominal GDP in 2024), other big nations such as EU (18.4%) and China (16.6%) should not be written off. For EU, massive defence spending can be supportive of growth while in China, there are some signs of tentative economic stabilisation. If US growth slumps as a result of its own doing while growth for the rest of the world holds up, USD may end up weaker. Alongside ballooning US debt, fading US exceptionalism and US protectionism measures, USD as a reserve currency status may even be questioned, leading to a hunt for the next alternative reserve currency. That said, this process may still take time.

- **USDJPY. *Safe-Haven Flows.*** USDJPY fell as demand for safe-haven overwhelms even as Japan is slapped with 24% reciprocal tariff rate. USDJPY was last at 147.60 levels. Bullish momentum on daily chart faded while RSI fell. Risks skewed to the downside. Next support at 147 (61.8% fibo retracement of Sep low to Jan high), 146.50 levels. Resistance at 149.00/20 levels (21 DMA, 50% fibo). We reiterate our view that beyond the near-term impact of tariffs, we still look for USDJPY to trend lower, premised on Fed-BoJ policy divergence (Fed rate cut cycle while the BoJ has room to further pursue policy normalisation, supported by economic data including upbeat GDP, signs of potential increase in wages, firmer CPI, etc.).

- **USDSGD. *Mild Upside Risk.*** USDSGD drifted to a high of 1.35 at one point overnight post-tariff announcement but has since traded lower. Singapore was hit with a 10% reciprocal tariff rate, unlike other neighbours. But that said, SGD is a currency that can be affected by global trade, economic growth and its own monetary policy. Singapore may also be affected by sectoral-specific tariffs (i.e. pharmaceutical and semiconductor) at some point. Pair was last at 1.3440 levels. Daily momentum is mild bullish, but RSI turned lower. Technically, we are still watching for a potential rising wedge pattern, which is typically associated with a bearish reversal. Resistance at 1.3480/1.35 levels (100 DMA, recent high). Support at 1.3390 levels (38.2% fibo retracement of Sep low to Jan high), 1.3340/65 levels (21, 200 DMAs), 1.3310 levels. S$NEER was last seen at 0.61% above model-implied mid. MAS quarterly MPC meeting is less than 2weeks away from now (no later than 14 Apr). Judging from our S$NEER model, markets may already be pricing 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.

- **CNY rates**. PBoC net injected CNY49bn of liquidity via daily OMOs this morning; daily OMOs may not be of much importance, as market awaits potential policy stimulus instead. The tariff rates announced by Trump were more hawkish than expected. Commerce Ministry was quoted as saying it would take resolute countermeasures in response. Still, market expectations are for domestic stimulus and support policy to come through, when tit-for-tat retaliation appears not viable. CGB yields and repo-IRS are biased to the downside near-term. In offshore, front-end FX swap points were bid and implied CNH rates rose alongside but the move was not dramatic thus far, probably as spot move was also contained.

- **SGD rates**. SORA OIS opened 3-6bps lower. At Wednesday's auctions, 4W MAS bills cut off at 2.62% and 12W MAS bills cut off at 2.61%, within our expected range. Meanwhile, 36W MAS bills cut off at 2.50%. The spreads between cut-offs and implied SGD rates were further compressed, more so for the 4W bills, reflecting flush SGD liquidity. On the OIS curve, the 2Y and 3Y stay as the lowest point, reflecting not only the current liquidity condition, but also a lower-rate-view and an extended period of flush liquidity. Chasing these rates lower is not preferred. We opined yesterday that "current bond/swap levels appear fairly supportive of SGS" and bond/swap spreads (OIS - yield) have since risen mildly, i.e. bond outperformed swaps. Given potentially further safe-haven flows, there may still be a small room for SGS to outperform.

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