Daily Market Outlook

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Tariff Hurts

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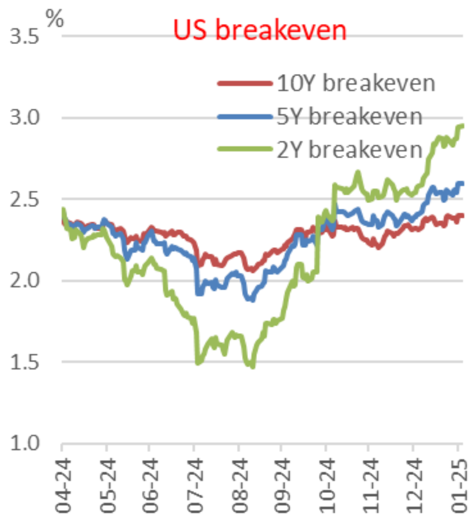
- **USD rates**. USTs opened with yields higher by 4-7bps this morning upon tariff news over the weekend; bond reaction has narrowed somewhat as of writing with long-end yields even a tad lower. USTs benefitted from some safe haven flows in the previous days when tariff threats came, in a lighter form. Now given higher oil and other commodity prices, inflation fear likely dominates and inflation worries may be more reflected at the front-end i.e. denting expectation for rate cuts, than at the long end where there may be growth concern at play – note 10Y real yield has retraced from recent peak. Net-net, near-term reaction is likely a bearish flattening of the curve; we do however note that the 2Y breakeven is elevated after the steady increases over past months which suggests potential inflation impact of tariffs is partially in the price. In Fed fund futures, Oct, Nov and Dec contracts were down by around 4bps (higher implied yields) thus far. On the data front, PCE price indices came in mostly in line with expectation, while consumer spending was resilient; these support the notion that there is room for additional Fed funds rate cuts, but the fed is not in a hurry. US Treasury's quarterly refunding documents will be released tonight.



Source: Bloomberg, OCBC Research

- **DXY. *Trump Ignites Trade War.*** USD gapped higher at open, in reaction to Trump's tariff announcement on Canada, Mexico and China over the weekend. He also confirmed that tariff will 'definitely happen' with European Union. Canada has responded with a 25% counter-tariff on $107bn of US goods while Mexico pledged retaliatory levies. Trump's ignition of trade war undermined sentiments. Not surprisingly, high-beta FX including AUD, NZD and CAD were down nearly between 1.5% and 2% today. JPY was the least affected (-0.3% vs USD) amid safe haven demand. DXY was up 1.3%. Tariffs may undermine global trade, growth, sentiments and pose risks of inflation for US. This may derail its disinflation journey and imply fewer Fed cuts in 2025/26. Further hawkish re-pricing alongside risk-off sentiments will keep USD supported in the interim. DXY was last at 109.80 levels. Bearish momentum on daily chart shows signs of fading while RSI continued to rise. Rebound momentum likely still intact. Resistance at 110.20 levels (previous high). Support at 108.65 (21 DMA), 107.80 (50 DMA, 23.6% fibo retracement of Oct low to Jan high). Looking on, focus will be on Trump's talk with Trudeau. In the interim, there is little expectations for a deal or truce. Hence any USD dips may be shallow for now. On Asian FX, we expect policymakers to step in to smooth excessive volatility. But more broadly in consideration of tariffs on Canada, Mexico and to some extent China, as well as Trump setting expectations for tariffs to hit European Union at some point. Alongside high-beta FX (AUD, NZD), we would also expect CAD, MXN, EUR, RMB and RMB-proxy such as KRW, THB, MYR to come under pressure. On the other hand, FX that are more domestic-oriented (less open trade, lower correlation with RMB) such as PHP and typical safe haven proxy, such as JPY, CHF and gold may be less affected.

- **AUD rates**. ACGBs outperformed this morning, which can be a reflection of safe haven flows and RBA rate cut expectation. January home value index dropped by 0.2%MoM, the second monthly fall. Last week's releases showed Q4 CPI slowed more than expected, with headline having eased to 2.4%YoY and trimmed mean to 3.2%YoY. That quarter continued by be affected by Energy Bill Relief Refund rebates which reduced electricity costs for households. The trimmed mean measure excluded the falls in electricity and automotive fuel, together with other large price rises and falls. The steady easing in trimmed mean YoY inflation is encouraging and may provide room for the RBA to finally start cutting rates. Our base-case is a total of 50bps of cuts this year; although we have pencilled in one cut each in Q2 and Q3, decision at this month's MPC meeting has become a close call.

- **EURUSD. *Heavy.*** EUR extended its decline after Trump warned about tariffs on European Union. In the interim, EUR may continue to face downward pressure on a few factors: 1/ stagnation in the Euro-area; 2/ risk that ECB may need to cut below neutral to support growth; 3/ rise in energy costs (as cold weather depletes reserves and reduced Russian supplies) adding more pain to industrials and households; 4/ tariffs hitting Europe's exports when growth is already stagnating. Recall last week, FT reported that US Treasury secretary Scott Bessent favours universal tariffs on US imports, starting at 2.5% while Trump said he wants tariffs 'much bigger' than 2.5%. EUR was last at 1.0210 levels. Bullish momentum on daily chart faded while RSI fell. Risks to the downside. Support at 1.0140/80 levels (recent low). Resistance at 1.0280, 1.0350 (21 DMA).

- **USDSGD. *Bid.*** USDSGD rose sharply, in reaction to risk-off and broad USD strength. Pair was last seen at 1.3696. Bearish momentum on daily chart faded while RSI rose. Rebound risks intact for now. Rising wedge pattern was nullified. Resistance at 1.37, 1.3750 (2025 high). Support at 1.36 (21 DMA), 1.3560 (50 DMA). S$NEER weakened; last seen at 0.5% above model-implied mid. With tariff threats undermining broad sentiments, SGD should also come under pressure to some extent, given that MAS recently reduced policy slope (i.e. rate of appreciation to slow).

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