GLOBAL MARKETS RESEARCH

Daily Market Outlook

3 March 2025

Consolidation

- **USD rates.** UST did not react much to the in-line PCE price indices initially, with yields edging lower; the bond rally was extended later in the session amid geopolitics; yields ended NY 5-6bps lower, but USTs opened weaker in Asia. Fed fund futures last priced 66bps of cuts this year, with a 25bp cut at the June FOMC meeting almost fully priced; the terminal rate was last priced at around 3.50% (with reference to the upper end of Fed funds rate target range). Current market pricings are not far from our base-case, which is 75bps of cuts this year and a rate of 3.50% by end-2026. We expect UST yields to consolidate around current levels before payrolls on Friday. Soft payroll may push 10Y real yield further lower, while 10Y breakeven may be sticky downward at 2.3% level for now, as price data show mild disinflation/stability. Overall, the downside to long end yields may be more limited before the next catalyst. The dynamics may also be changing in that, additional growth concerns may also be reflected at the short end with market appearing less reluctant to bring forward rate cut expectations. Current 10Y UST yield level is around our multi-month expectation of 4.25%, with near-term range seen at 4.20%-4.34%; we maintain our medium-term downward bias to yields. Latest update on US Treasury's extraordinary measures shows that USD110bn was left as of 26 February, improving from the trough of USD34bn on 24 February; however, TGA balance fell to USD538bn as of 27 February. There is net bills paydown of USD6bn this week. Friday's bills auctions garnered solid demand amid low supply, with bid/cover ratio at 3.100x for the 4W bills and 2.980x for the 8W bills.

- **DXY. *Paring Back Earlier Gains.*** USD started the week on a softer footing as risk sentiments regain footing. European leaders working with Ukraine on a plan to stop the fighting and better PMIs across the region including China, Taiwan, Indonesia and Thailand were some of those drivers. Elsewhere, markets remain hopeful: 1/ on expectations that China will deliver support measures to boost domestic demand at its NPC/CPPCC meeting (start on Tue); 2/ Trump may delay tariff implementation timeline (again). The latter can prove "noisy" for markets. If the tariffs are imposed as scheduled, we may see risk-off sentiment returning and USD may jump in response. DXY was last at 107.18. Daily momentum turned mild bullish but rise in RSI faltered. Consolidation likely. Resistance at 107.30 (21 DMA), 107.80 levels (23.6% fibo). Support at 106.80

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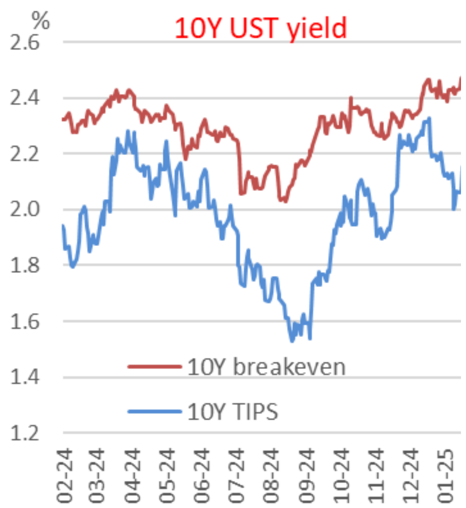

Source: Bloomberg, OCBC Research

(100 DMA), 106.35 (38.2% fibo retracement of Oct low to Jan high). There is quite a handful of data this week, including ISM manufacturing (Mon), ISM services, ADP employment (Thu) and payrolls (Fri). Softer print may negate some of USD's strength, but better data will see USD finding support on dip.

- **EURUSD. *2-Way Trades.*** EUR found support as European leaders were seen coming together to offer Ukraine support. An emergency security summit was convened on Sunday. UK PM Starmer said UK, France and "one or two others" would work with Ukraine on a "plan to stop the fighting." The broader European Council will meet on Thursday to discuss a €20 billion ($21 billion) military package for Ukraine and steps to boost defense spending, including a potential loosening of fiscal rules. Moving away from Ukraine, Trump's tariff threats remain. He mentioned implementing a 25% tariff on EU although he did not give an effective date. He also stated that the 25% tariff on Canada and Mexico would come into effect on 4 Mar, alongside Chinese imports being slapped with a further 10% tariff. The actual implementation of the tariffs should undermine EUR, but EUR may bounce if there is another pushback. EUR was last seen at 1.0420 levels. Daily momentum is now showing a clear bias while RSI rose. 2-way trades likely. Resistance here at 1.0420 (21DMA, 23.6% fibo), 1.0510 (100 DMA) and 1.0575 (38.2% fibo retracement of Sep high to Jan low). Support at 1.0360/90 (50 DMA), 1.0280 levels. For the week, CPI estimate is in focus today – a strong print may aid EUR's recovery – before the ECB meeting (Thu). Markets have already priced in 85bps of cut this year. Any hawkish surprise may see dovish expectations pare back and can be supportive of EUR.

- **USDJPY. *Short Bias.*** USDJPY touched a high of 151.02 this morning but was brief as the pair reverted to trade lower. Last at 150.35 levels. Daily momentum is flat while rise in RSI moderated. Bias remains to sell rallies. Resistance at 150.50, 151.50 (38.2% fibo retracement of Sep low to Jan high). Support at 149.20 (50% fibo), 148.80 before 147 (61.8% fibo). We continue see a confluence of risk factors, including Trump's tariff threats and dividend seasonality trends that may prove "noisy" for USDJPY. That said, macro drivers remain intact. Prospects of wage growth, broadening services inflation and upbeat economic activities in Japan continue to support the BoJ policy normalisation while fading US exceptionalism validates our bias for the Fed cut cycle to continue. Fed-BoJ policy divergence should underpin broader direction of travel for USDJPY to the downside. So, maintain bias to sell rallies in USDJPY should there be a bounce driven by tariff uncertainty or seasonality trends.

- **USDSGD. *Consolidation.*** Rise in USDSGD moderated, as USD strength eased. Pair was last at 1.35 levels. Daily momentum is mild bullish but rise in RSI moderated. Resistance at 1.3500/20 levels (23.6% fibo), 1.3550 (50 DMA). Support at 1.3450/65 levels (21, 100 DMAs), 1.3380/90 levels (38.2% fibo retracement of Sep low to Jan high). S$NEER continued to weaken, last seen at 1.06% above model-implied mid.

- **CNY rates**. PBoC conducted CNY1.4trn of outright reverse repos in February, while maturity was CNY800bn, thereby net injecting CNY600bn of 3M and 6M liquidity. This more than covers the CNY200bn shortfall in MLF rollover. The replacement of part of MLF with outright reverse repos was expected. However, some of the liquidity from outright reverse repos may be for further replacement of the maturing short-term liquidity this week. PBoC net drained CNY195.5bn via OMOs this morning, and there is a total of 1.463trn of reverse repos maturing for the rest of the week. Liquidity remains on the tight side. Repo-IRS opened lower but have since been paid back, little changed on the day as of writing. With heavy NCD maturities for months to come, the funding pressure is likely to stay. In offshore, implied CNH rates fell at open, with no intense pressure on spot. The spread between 12M CNH and CNY points narrowed further to 530pips versus 680pips implied by the full impact of 20% FX risk reserve. We had expected a narrowing in the offshore-onshore spread but at current levels, further narrowing may be slow.

- **SGD rates.** SORA OIS continued to be offered down, outperforming SGS. SGD OIS also outperformed USD OIS at the front end (below 1Y tenor) amid flush SGD liquidity. There are 4W, 12W and 36W MAS bills auctions on Tuesday. The spreads between 4W and 12W cut-offs and implied SGD rates narrowed over recent auctions, which was also a reflection of the liquidity situation. 1M and 3M implied SGD traded at around 2.65% and 2.62% respectively this morning, which were around 2bps and 5bps lower than levels around last week's MAS bills auctions. As per this morning's market levels, cut-offs for the 4W and 12W MAS bills may come in at 2.80-2.85% for the 4W and at 2.77-2.82% for the 12W. With the recent moves in bond/swap spreads, asset swap pick-up to 20Y SGS has improved, to around SOFR+80bps (before bid/offer spreads). The 10s20s segment of the SGS curve has also steepened mildly over recent days, pointing to some relative value at 20Y SGS.

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