Daily Market Outlook

4 April 2025

Growth Fears Linger

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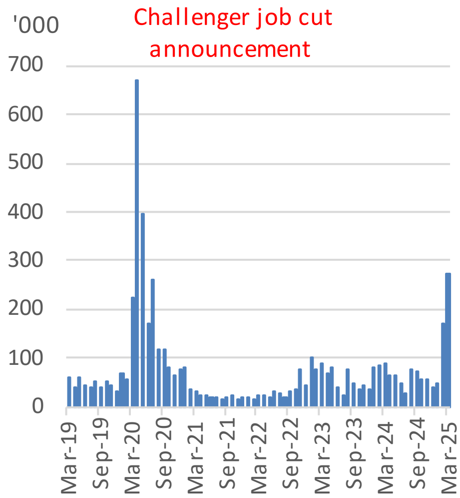
- **USD rates.** USTs extended rallies in a session which was dominated by growth fears. March ISM services index printed weaker-than-expected, with falls in main subcomponents in particular the employment component which fell to 46.2points. Separately, Challenger job cuts announcement tallied a whopping 275K in March. Short-end bonds outperformed on the curve, as investors added further to rate cut bets. Fed funds futures last priced a total of 96bps of cuts this year, and the terminal rate is seen lower at around 3.25% versus 3.50% priced earlier. We have argued that our base-case for three 25bp Fed funds rate cuts this year reflects a no-recession scenario — continued cooling in the labour market will justify rates at less restrictive levels as long as there is no strong rebound in inflation. At the longer end, breakeven joined real yields to push yields lower, although 10Y breakeven at 2.38% is still within our expected range of 2.20-2.40%. 10Y real yield was last at 1.75%; 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. Given the recent rallies, USTs may consolidate around current levels near-term and interim upticks in yields cannot be ruled out but again, we do not see a reversal to an extended uptrend in yields before the next major catalyst. Payrolls and household survey tonight are of focus. Not all government job cuts announced thus far would be reflected in March payrolls; reportedly 75K federal workers accepted the offer to quit but remain on payroll until September. Consensus for change in non-farm payroll is 140K with the usual wide range of forecasts. Given current market sentiment, absence of upside surprise to payrolls may be enough to keep yields anchored.



Source: Bloomberg, OCBC Research

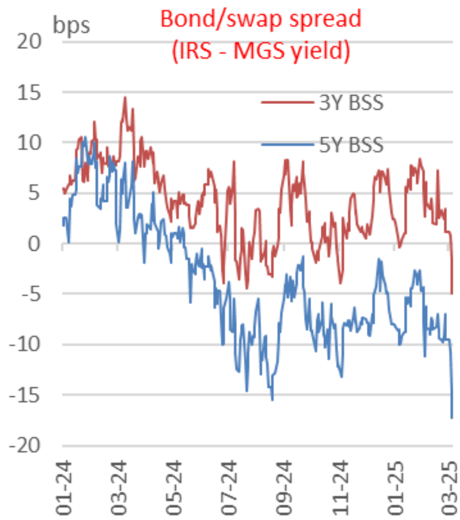
- **DXY.** ***Payrolls in Focus.*** USD extended its decline overnight as the unwinding of US exceptionalism trade accelerated. Markets are increasingly focused on how Trump tariffs are hurting the US economy. US data has also been weaker than expected. ISM manufacturing, services disappointed this week, with new orders, and employment also surprising to the downside. Ultimately for FX, relative growth matters. If growth in the US slumps as a result of its own doing (i.e. protectionist measures) while growth for the rest of the world holds up (on a relative basis), then USD may end up weaker over time. From an FX point of view, markets appear to shift from trading tariff fears to trading US recession, and to some extent even trading the de-dollarisation narrative. To put things in perspective, US protectionist measures, fading US exceptionalism and ballooning US debt are some catalysts that may question USD's status as a reserve currency. DXY fell; last at 101.90 levels. Daily momentum turned mild bearish while RSI fell into near oversold conditions. Death cross about to be formed (50 DMA cuts 200 DMA to the downside) – this can typically be associated with a bearish bias. Support at 101.50 (overnight low), 100.60 before 100.15 (2024 low). Resistance at 102.50 (76.4% fibo retracement of 2024 low to 2025 high), 103.70 (21 DMA). More broadly, we continue to expect a divergent USD play, with USD weaker against major FX, including EUR, CHF and JPY while USD may still maintain a bid tone vs. AxJ FX, taking into consideration the potential implication of Trump tariffs on global growth, global trade and sentiments. That said, the currency bias may change depends on how trade negotiations pan out or if the de-dollarisation thematic overwhelms. Today, focus is on US payrolls report (8:30pm SGT). Consensus looks for NFP to print 140K (vs. 151K previously) and for unemployment rate to hold steady at 4.1%. Softer print may reinforce US growth concerns and further undermine US equity sentiments, and the USD.

- **EURUSD.** ***Bullish Bias But Nearing Overbought.*** EUR extended its run higher overnight amid broad USD slump. EUR was last seen at 1.1065 levels. Daily momentum turned mild bullish while RSI rose. Next resistance at 1.1144 (overnight high), 1.1210 levels (2024 high). Support at 1.1020, 1.0970 levels (76.4% fibo). We continue to maintain a constructive outlook on EUR, 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. That said, we still flag the risk that other tariffs on alcohol (200% tariff), lumber, semiconductors and pharmaceutical drugs may still be forthcoming in coming weeks. Tariff imposition may still weigh on EUR.

- **USDJPY.** ***Safe-Haven Flows.*** USDJPY continued to trade lower amid safe-haven demand while UST-JGB yield differentials continue to narrow. Pair was last at 146.20 levels. Daily momentum turned bearish while RSI fell. Risks remain skewed to the downside. Next support at 145.20 (overnight low), 144.10 (76.4% fibo). Resistance at 147 (61.8% fibo retracement of Sep low to Jan high), 148.90 (21 DMA). 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. *Consolidate.*** USDSGD fell as USD slump overwhelmed tariff concerns. Pair was last at 1.3325 levels. Daily momentum turned mild bearish while RSI turned lower. Technically, the potential rising wedge pattern played out. This is typically associated with a bearish reversal. Support at 1.3310, 1.3270 levels (50% fibo). Resistance at 1.3360 (21 DMA), 1.3390 (38.2% fibo retracement of Sep low to Jan high) and 1.3420 (50 DMA). Despite SGD gains, we continue to flag risks that Singapore may be affected by sectoral-specific tariffs (i.e. pharmaceutical, semiconductor) at some point, depending on Trump's administration. S$NEER was last seen at 0.80% above model-implied mid. MAS quarterly MPC meeting is less than 2 weeks away from now (no later than 14 Apr). Judging from our S$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.

- **MYR rates.** MYR IRS are down by around 7bps across the 2Y to 10Y tenors thus far, compared to Wednesday close. Swaps have further outperformed MGS, with bond/swap spreads (IRS – yields) having fallen to or near cyclical low levels. While we had earlier commented that "IRS may be a bit more sensitive to any downward move in USD rates, given the stable nature of MGS", the bond/swap moves have gone beyond our expectations. Current bond/swap spreads appear supportive of MGS, and there may be some catch-up to be played by the bond side. Asset swap pick-up has improved upon recent bond/swap moves while the MYR basis was relatively stable. Market pricing of rate cuts remained subdued, and part of the pricing may be attributable to the somewhat elevated 3M KLIBOR compared to OPR. OCBC Economists continue to expect no change in OPR this year as the base case, albeit seeing a risk of a rate cut in 2H25.



Source: Bloomberg, OCBC Research

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