GLOBAL MARKETS RESEARCH

Daily Market Outlook

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EUR Awakening

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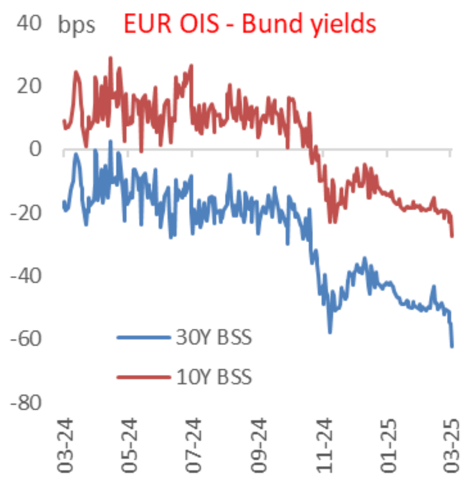
Global Markets Research and Strategy

- **USD rates.** UST yields rebounded from session lows upon firmer prints of ISM services (and upward revision to services PMI), ending the day 2-5bps higher from previous close. 10Y real yield rose by 5bps to 1.938%, while 10Y breakeven was relatively stable – we wrote yesterday that "10Y breakeven is likely to remain sticky downward at 2.3-2.4% level, while real yield will continue to fluctuate depending on the data". Despite some interim upticks, yields have nevertheless moved to lower levels and are likely to fluctuate within these lower ranges; triggers are needed for yields to move up decisively to higher ranges. The Fed's Beige Book for March has been released, based on information collected on or before 24 February. Overall, the assessment on consumer spending and the labour market was a tad softer, while that on prices was a tad firmer. On the economy, the March Beige Book has it that "consumer spending was lower on balance" vs "consumer spending moved up moderately" in the January edition; and that "labour availability improved for many sectors and Districts". On prices, "several Districts reported an uptick in the pace of increase relative to the previous reporting period". Nevertheless, these changes in the assessment were not substantial. Fed Funds futures pared back rate cut expectation to 69bps this year – but again, market pricing was still more dovish than just weeks ago. Near-term range of 10Y UST yield is seen at 4.20-4.34% but a breakout may happen depending on payrolls and labour market statistics outcome on Friday.

- **EUR rates**. Bunds were sold off overnight by 20-30bps as markets reacted to the fiscal spending plan. EUR OIS pared back rate cut expectation to 70bps (from more than 80bps priced last week) for the rest of the year, which still appears a tad overly dovish to us. Our base-case is for 50bps of cuts including an expected 25bp cut later today. After this expected cut, market priced a 56% chance of another 25bp rate cut at April MPC meeting, while we see back-to-back rate cuts as unlikely. The key discussion at the ECB may be whether interest rates are still restrictive – "a higher r-star calls for careful monitoring of when monetary policy ceases to be restrictive", as Isabel Schnabel put it in her recent speech. We would be looking for less dovish remarks to further push market pricing to reflect fewer expected cuts. At the long end, the recent bond/swap moves helped lift pick-up for Bunds, offsetting the earlier upward move in EUR basis. This does not necessarily mean



Source: Bloomberg, OCBC Research

long end Bunds will find a support near-term with focus on fiscal, while the asset swap pick-up is still not particularly appealing.

- **EURUSD. *Awakening.*** EUR bulls continued to catch markets off-guard, rising by over 400pips in 4 days this week. A rare display of responsiveness and concerted willingness of European leaders agreeing to spend on defence is giving EUR a fresh boost. EU is proposing EUR150bn in loans to boost defence spending and is also planning to activate a mechanism that allow countries to use their national budgets to spend an additional EUR650bn on defence over 4 years without triggering budgetary penalties. Chancellor-in-waiting Friedrich Merz also indicated that Germany would amend the constitution to exempt defence and security outlays from limits on fiscal spending to do “whatever it takes” to defend the country. He added that the main center parties had also agreed to launch a €500 billion ($528 billion) infrastructure fund to invest in priorities such as transportation, energy grids and housing. This is about 11-12% of German GDP and is planned to be disbursed over 10 years. Alongside the planned defence spending bills, there can be potential upside risk to German growth. Today, EU leaders are meeting for a special summit to discuss continued support for Ukraine and European defence. We keep a look out if EU leaders continue to show political determination. Near term, the looming risk of US tariffs on Europe and upcoming ECB meeting (Thu) are some of the 2-way risks to watch for the EUR. Markets are likely to scrutinise the ECB meeting for signs of any slowdown in ECB easing cycle. Any hint of that should add to EUR recovery given that markets are still pricing about 70bps of cuts this year. On tariffs, it is still uncertain when the 25% tariff on European auto and other products will be effective. Confirmation of the tariffs may see EUR dip but the pullback may not translate into a larger decline. Instead, it could be seen as a chance to buy dips, considering the emergence of new positive factors: a potential Ukraine peace deal, expectations of defence spending, a chance that ECB easing may slow, Germans attempting to form a coalition government fast and likely to increase spending/ support growth, etc. EUR was last at 1.08 levels. Daily momentum is bullish but RSI enters into overbought conditions. Pace of rise may moderate. We look for dips to buy into. Support at 1.07, 1.0575 (38.2% fibo retracement of Sep high to Jan low). Resistance at 1.0820 (61.8% fibo), 1.0970 (76.4% fibo).

- **DXY. *Bearish but Oversold.*** USD fell sharply. The narrative of US exceptionalism continues to fade as markets are increasingly focused on how Trump policies are hurting the US economy. Overnight, Trump administration confirmed a 1-month delay for automakers from newly imposed tariffs on Mexico and Canada. USD moves so far have also somewhat mirrored the USD decline seen in 2017 post Trump 1.0. DXY broke below 200 DMA. Last at 104.30 levels. Daily momentum turned bearish but RSI fell to near

Source: Bloomberg, OCBC Research

oversold conditions. Pace of decline is likely to moderate while we also do not rule out intra-day bounce. Resistance at 105/105.20 (50% fibo, 200 DMA), 106.35 (38.2% fibo retracement of Oct low to Jan high). Support at 104 (61.8% fibo), 103.40 and 102.50 (76.4% fibo). On US data, today brings initial jobless claims before payrolls report tomorrow. Softer US data may continue to add to USD woes. Later on Fri night, Powell will give a speech at the Chicago Booth's US monetary policy forum. There will also be a Q&A session. It may be worth keeping a look out on any touchpoints he may have on US economic outlook or Fed policy, given the recent narrative on US facing stagflation risks.

- **GBP rates**. Gilt yields rose across the curve, taking cue from the Bunds market and probably also upon some remarks from the BoE which was seen as hawkish by some market participants. Greene was quoted as saying monetary policy needs to remain restrictive; but we have to put things into context, where such comment was made in the annual report to lawmakers' committee, and the stance remained a gradual one in cutting interest rates. Bailey, meanwhile, commented on the impact of tariffs, opining that impact on inflation can be ambiguous, but the risk to the UK and the world economy are substantial. Pills commented "bank rate from here is in a falling direction" but would "err on the side of caution on rates as the debate is about how intense disinflation forces are. On balance, one 25bp cut per quarter still appears to be an appropriate pace that is in line with a gradual approach, in our view.

- **USDJPY. Consolidation; *Wait to Sell Rallies.*** USDJPY traded range-bound. Pair was last at 149.20. Daily momentum is flat while RSI rose. Cautious of short term rebound risks but retain 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). Trump tariff threats (on reciprocal tariffs) and dividend seasonality trends may pose intermittent upside pressure for USDJPY. Sell rallies preferred, as growing Fed-BoJ policy divergence should continue to anchor the broad direction of travel of USDJPY to the downside.

- **USDSGD. *Consolidation; Sell Rallies.*** USDSGD fell further amid softer USD while EUR and RMB held up. Pair was last seen at 1.3320 levels. Mild bullish momentum on daily chart shows signs of fading while RSI turned lower. There are many cross currents - tariff uncertainties, fading US exceptionalism, Chinese tech stock re-rating, prospects of Ukraine peace dividend. Stronger EUR, steady RMB and softer USD, UST yields may continue to provide a breather for AxJs, including SGD. We still caution for 2-way trades this week but slight bias leans toward selling rallies. Resistance at 1.3390 (38.2% fibo retracement of Sep low to Jan high), 1.3430/50 levels (21, 100 DMAs). Key support at 1.3300/10 levels. Break puts next support at 1.3270 (50% fibo) and 1.32 levels. S$NEER was last seen at 1.25% above model-implied mid.

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