Daily Market Outlook

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Trade War Hurts

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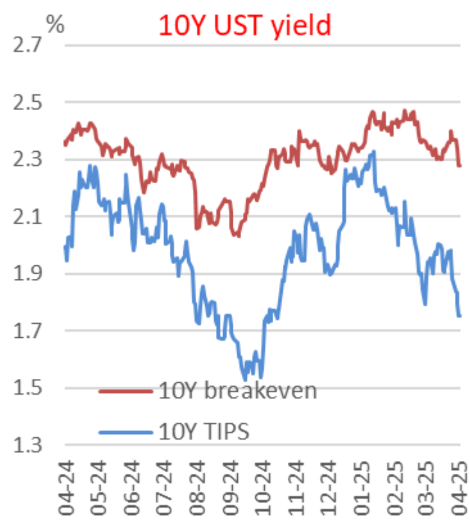
- **USD rates.** UST yields slid at Asia open as the risk sentiment soured with China's announcement of retaliation on Friday. Yields were down 9-16bps as of writing, compared to NY Thursday close; short-end bonds outperformed as market added to rate cuts expectation. Fed funds futures last priced 43bps of rate cuts by June FOMC meeting, with the chance of a 25bp cut at the May meeting seen at 54%; for the full year, a total of 114bps of cuts are in the price, i.e. a 55% chance of a fifth cut is seen. Our long-held base case for three 25bp cuts look fairly secured given the current information set of the economy and the market. On the data front, March non-farm payrolls printed a higher-than-expected 228K with gains mostly in the services sector, education & health services sector added 77K, leisure & hospitality added 43K; government added 19K, as we mentioned last week that some of the government layoffs would not be reflected. Under the household survey, the unemployment rate edged further up to 4.2%; average weekly hours were 34.2 hours, the same as the upwardly revised February number, which was a low level. 10Y yield was trading near the key resistance (for the bond) level of 3.88%. When 10Y UST yield fell to the low of 3.62% (day close) in September, breakeven was 2.09% and real yield was 1.53%. A combination of breakeven at 2.10-2.15% and real yield at 1.60-1.65% may be achievable at this juncture and the next level on the downside to watch is 3.80% while topside is at 4.06%.



Source: Bloomberg, OCBC Research

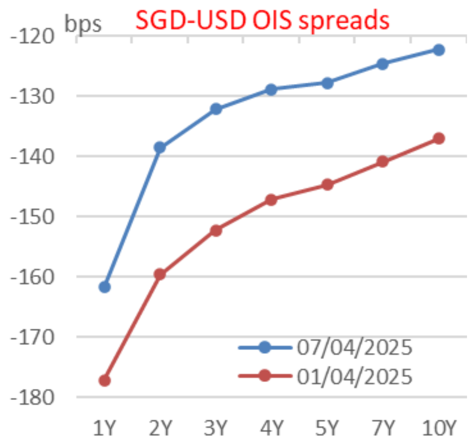
- **AxJ FX. *Under Pressure.*** US and China's tit-for-tat trade war brings back bad memories of the 2018 trade war. In response to the latest US tariffs, China announced a sharp retaliatory move, including a 34% parallel tariff on US imports and imposed rare earth export controls. Equities in Asia traded a lot weaker, with HK and TW leading losses (>9%). In FX, high-beta AUD, NZD and MYR led declines while CHF and JPY (safe haven proxies) were better bid. More broadly, we continue to expect a USD divergence thematic, with USD weaker against major FX, including EUR, CHF and JPY while USD is likely to maintain a bid vs. AxJ and antipodean FX, taking into consideration the potential implications of retaliatory trade responses on global growth as well as idiosyncratic drivers. We are tactically less optimistic on SGD, MYR, TWD, AUD, NZD and IDR. Potential sectoral-tariffs on pharmaceuticals and semiconductors may undermine tech and trade-dependent AxJ FX, including TWD, KRW, SGD, MYR and THB. For SGD, there is an additional risk that MAS may ease policy in due course. On G3 FX, risk-off trades typically can benefit USD but recent developments – US protectionist measures, fading US exceptionalism and ballooning US debt – are some catalysts that may question USD's status as a reserve currency, hence dimming USD's safe haven appeal to some extent. DXY fell, last at 103 levels. Daily momentum turned mild bearish while the rise in RSI moderated. 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). This week's focus on FOMC minutes, CPI (Thu) and PPI (Fri).

- **EURUSD. *Consolidate.*** EUR fell last Fri into NY close amid as risk-off trades after China retaliated with parallel tariffs after Asia close. For the morning so far, EUR is relatively steady in comparison to other FX. Last seen at 1.0940 levels. Daily momentum is flat while RSI eased lower from overbought conditions. Consolidation likely. Support at 1.0910 (23.6% fibo retracement of 2025 low to high), 1.0860 (21 DMA). Resistance at 1.1020, 1.1140 levels (recent high). EU retaliatory proposal on up to USD28bn of US imports is expected today with a vote on Wed. It is more likely than not to be approved unless in the unlikely event that a qualified majority of 15 EU members representing 65% of the EU's population oppose it. So far, members in EU have different stance. Ireland called for a "considered and measured" response while Italy questioned if EU should retaliate at all. On the other hand, France said EU should work on a package including non-tariff measures and suspension of investments in US until things are clarified.

- **USDJPY. *Heavy Bias.*** USDJPY continued to trade with a heavy bias amid safe-haven demand as trade conflict escalates. Pair was last at 146.30 levels after trading as low as 144.82 at one point this morning. Daily momentum is mild bearish while RSI fell. Risks remain skewed to the downside. Next support at 145.20, 144.10 (76.4% fibo). Resistance at 147 (61.8% fibo retracement of Sep low to Jan high), 148.80 (21 DMA). We continue to look for USDJPY to trend lower, premised on safe-haven flows, Fed-BoJ policy divergence (Fed rate cut cycle may play catch up 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 jumped, tracking moves in USDCNH. Escalation in US-China trade tensions have reignited concerns over global trade fragmentation and added a fresh layer of persistent uncertainty to the macroeconomic landscape. Highly uncertain trade environment complicates supply chains and dampens export sentiment, especially for open economies in the region. In the currency markets, procyclical FX such as the AUD, KRW, MYR, SGD and TWD may come under renewed depreciation pressure. Potential sectoral-tariffs on pharmaceuticals, semiconductors may undermine tech and trade-dependent FX such as SGD. Additionally, MAS may ease policy at its next MPC meeting next Monday, further constraining SGD strength. Pair was last at 1.3460 levels. Bullish momentum on daily chart intact but rise in RSI moderated. Range-bound trade likely. Resistance at 1.3480 (100 DMA), 1.3520 levels. Support at 1.3370 levels (21 DMA), 1.3335 (200 DMA). S$NEER was last seen at 0.44% above model-implied mid. Judging from our S$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**. Repo-IRS were offered down 5-8bps at open, while CGB yields were down as well, with market expectation for monetary easing to come soon. OCBC Economist expects easing to complement efforts to boost domestic demand, "starting with an RRR cut as early as April, followed by a policy rate cut in Q2". Even if outright easing is not materialising imminently, CGBs benefit from safe haven flows. The situation on the trade front and hence growth implications is very fluid. For 10Y CGB yield, we will watch if 1.6% is broken before eying the next range. NCD rates edged lower again, with 12M AAA NCD rate last at 1.8% level while 12M implied CNY rate was a tad below 1%. In offshore, front-end implied CNH rates rose further higher, with 1W last at 2.45% and 1M at 2.36%, as forward points were higher. We caution there may be further upticks at front-end points with spot under upward pressure.



Source: Bloomberg, OCBC Research

- **SGD rates**. SGD OIS underperformed USD OIS thus far this month, as the falls in USD rates intensified over the past few days. This resulted in less negative SGD-USD OIS spreads, as we opined earlier that those very negative spreads deviated from historical pattern. On the SORA OIS curve itself, the 2Y and 3Y rates have stayed as the lowest points, reflecting not only an extended period of flush liquidity condition, but also a lower-rate-view. Chasing these rates lower is not preferred. Should MAS further ease its policy via another slope reduction, there might be a mild upward pressure on short-end SGD rates, although the impact on rates appeared to have been minimal when MAS last reduced the slope in January.

5Y bond/swap spread (OIS – SGS yield) has fallen further to around -31bps, while 10Y bond/swap spread was last at -28bps. There may be room for SGS to play some catch-up with swaps.

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