# GLOBAL MARKETS RESEARCH

## Daily Market Outlook

21 January 2025

## Trading Headlines

- **USD rates**. Market is choppy as headlines continue to come in. UST yields fell at Asia open by 6-9bps while ACGBs, NZGBs and UST futures gained in the absence of tariff imposition on inauguration day. Shortly after, Trump was quoted as saying he plans to enact tariffs of as much as 25% on Mexico and Canada by 1 February, with a window for negotiation before that. USTs pared back some of the early gains but nevertheless are still trading with yields softer. Granted, high uncertainty remains on US policy front, but given how market had been set up, the interim relief for the bond market may not be as short-lived given a potential approach of study/investigation/negotiation on trade policy despite the headlines threat. 10Y UST yield is approaching the 4.52% that we have seen as the next resistance for the bond, while upside to yield sits at 4.80%. Fed funds futures added mildly to rate cut expectation to a total of 43bps this year to 39bps previously priced. Investors may still be reluctant to add much to rate cut expectations until the next rate cut materialises.

- **DXY. *Unwinding of Consensus Trade.*** USD saw a sharp drop after Trump announced no immediate tariffs on China. USDCNH saw a sharp move below 7.26 overnight before rebounding. Subsequent headlines came by quoting Trump imposing a 1 February deadline and tariff of as much as 25% on Mexico and Canada. Not surprisingly, MXN and CAD came under pressure. An absence of immediate tariffs but a 1 February deadline suggests that this is a strong call for Mexicans and Canadians to come back to the negotiating table quickly. Nevertheless, this underscores the fluidity of tariff developments. Tariff uncertainty remains in terms of timing, magnitude and scope of products. And we continue to hold to the view that the implications on markets can be very much 2-way. On one hand, a longer delay on tariff announcement will continue to provide a breather for risk proxies while consensus trade (long USD) unwinds. On the other hand, a swift implementation of tariff would undermine sentiments and boost the USD. We do not expect a one-way trade in Trump regime. DXY was last at 108.30 levels. Daily momentum is bearish while RSI fell. Risks skewed to the downside. Support at 108, 107.50 (50DMA). Resistance at 108.75 (21 DMA), 110.10 levels. With Trump inauguration done and dusted, next few days will be closely watched with regards to executive orders, executive actions he will sign.


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Global Markets Research and Strategy


**USD Following a Similar Path of Trump 1.0?**


*Source: Bloomberg, OCBC Research*

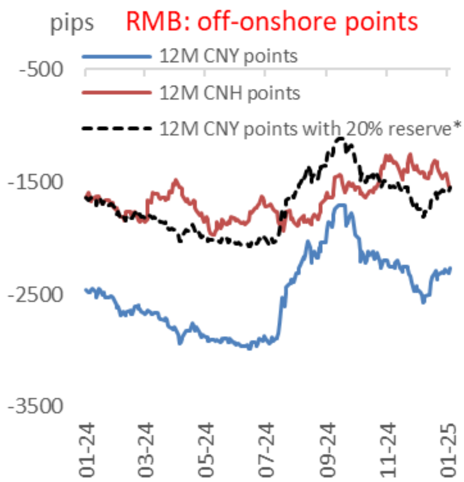
- **EURUSD. *Hunting for Stops.*** EUR jumped overnight on headlines that Trump is not planning to impose new tariffs yet. In the near term, we may see further unwinding of EUR shorts should Trump leave universal tariffs alone in the interim. EUR may even have a good chance of trading higher should ZEW survey expectations come in better than expected later today. EUR was last at 1.04 levels. Daily momentum is mild bullish while RSI rose. Risks remain skewed to the upside. Key resistance at 1.0440 (50 DMA). Break out exposes the pair to 1.05, 1.0570 levels (38.2% fibo retracement of Sep high to Jan low). Support at 1.0340 (21 DMA), 1.0240, 1.02 (recent low). Expect headlines to drive 2-way trades in the near term.

- **USDJPY. *Bears Regaining Control.*** USDJPY fell, tracking the gap lower in UST yields. Focus next on BoJ MPC (Fri). We are looking for 25bp hike on Friday. Economic data has been supportive. Jobless rate easing, trade unions calling for another 5-6% wage increase. Fast Retailing (Uniqlo) announced it will raise starting pay for new employees by 10% and 5% for other employees. Meiji Yasuda announced raising wages by an average of 5% for all 47k staff starting April. Elsewhere, JP CPI, PPI were all higher, paving the way for BoJ policy normalisation. Divergence in Fed-BoJ policies should bring about further narrowing of UST-JGB yield differentials and this should underpin the broader direction of travel for USDJPY to the downside. The risk is a dovish hike, as this may suggest that USDJPY's move lower may be more constrained. USDJPY last seen at 155 levels. Daily momentum is bearish while RSI fell. Risks skewed to the downside. Next support at 154.30 (23.6% fibo retracement of Sep low to Jan high) and 152.80 (200 DMA). Resistance at 157.15 (21 DMA), 158.80 (recent high).

- **USDSGD. *Tracking USD Moves.*** USDSGD fell, tracking the broad decline in UST yields and USD after Trump confirmed there was no immediate tariffs. The move lower was also in line with our technical observation for a bearish reversal. Decline hit a low of 1.3532; last at 1.3576. Daily momentum is mild bearish while RSI fell. Rising wedge pattern in play. This is typically associated with a bearish reversal. Bearish divergence also observed on RSI. Near term risks remain skewed towards the downside. Support at 1.3520/40 levels (50 DMA, 23.6% fibo retracement of Sep low to Jan high). Resistance at 1.3650 (21 DMA), 1.3750 (recent high). Focus this week on CPI (Thu) and upcoming MAS MPC (Fri). On the latter, we are looking for MAS to ease policy at the upcoming MPC by reducing the policy slope slightly but still maintain a mild appreciation stance. Given that the disinflation journey has made good progress, we believe MAS now has optionality to ease especially if it takes on a pre-emptive stance in the face of policy transmission lag. In terms of S$NEER outlook, a slight easing in the policy slope should see little impact on S$NEER as expectation is already priced in. S$NEER was last at 0.64% above model-implied mid.

- **USDCNH. *Consolidation after Breaking Out.*** USDCNH fell sharply below 7.26 at one point after Trump announced there was no immediate plans for tariffs and calls for further study. That said, tariff development remains highly uncertain in terms of timing, magnitude and scope of products, hence its implication on markets can be binary for now. A longer delay in tariff announcement may provide an extended breather for risk proxies, and USDCNH could trade lower. However, a swift implementation of tariff is expected to undermine sentiments and provide a boost to USDCNH. For now, it appears that Trump is in the midst of trying to cut a deal, threatening with 25% tariffs on Mexico and Canada today and setting a deadline of 1 Feb. For China, tariff concerns should restrain the offshore yuan from strengthening too much, though it's also unlikely to see CNH trade weaker until there's greater clarity on the US's trade policies. In the interim, stale CNH shorts could be forced to unwind if there is a longer delay in announcing tariffs on China. USDCNH was last seen at 7.2780 levels. Daily momentum is bearish bias while RSI fell. Risks are skewed to the downside. Support at 7.2755 (23.6% fibo retracement of Sep low to Dec high), 7.2540 and 7.22 levels. Resistance at 7.2950 (50 DMA), 7.33 (21 DMA)

- **CNY rates**. PBoC conducted 14-day reverse repos this morning, net injecting CNY201bn of liquidity into market; the use of 14-day reverse repos is in line with the usual practice ahead of long holidays. Before the new year holidays, there is still a total of CNY1.528trn of reverse repos maturing; we expect additional liquidity injection ideally including outright reverse repos of multi-month tenors.  Amid the recent liquidity tightness, the CGB curve has flattened meaningfully while the PBoC has been more concerned about long-end duration risks; hence, the tightness does not appear to have targeted the bond market. In offshore, short-end implied CNH rates have softened over the past two trading days as upward pressure on spot subsided; this has filtered through onto the back end as well. Offshore-onshore gap between 12M forward bonds has narrowed, in line with our expectations, to the latest 721pips, similar to what the full impact of 20% FX risk reserve would imply. Some further narrowing in the spread cannot be ruled out as not all transactions are subject to such 20% requirement.




*Source: Bloomberg, OCBC Research*

*estimation of full impact of 20% FX risk reserve

- **IndoGBs**. Today's conventional bond auction comprises the reopening of FR104 (2030 bond), FR103 (2035 bond), FR106 (2040 bond), FR107 (2045 bond), FR102 (2054 bond), FR105 (2064 bond), and bills. Indicative target is IDR26trn with a potential to be upsized to IDR39trn. Demand may improve from that at the previous conventional bond auction given a more constructive global bond market backdrop, with interest likely concentrating at the 5Y and 10Y benchmarks. We expect a small upsize if demand indeed comes in strong; the quarterly issuance target of IDR228trn is consistent with individual auction sizes of IDR26-28trn for conventional bonds and IDR10-12trn of sukuk. Last Friday, SRBI rates (average) came in at 6.850%, 6.914% and 6.983% for 6M, 9M and 12M tenors respectively; these rates were 21.4bps, 18.6bps and 25.0bps lower than those at the auction on 10 January, in line with the lower implied IDR rates upon lower US rates and lower forward points.

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