Monthly FX & Rates Strategy

The new normal of constant tariff threats

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Global Economics & Markets Research
GlobalEcoMktResearch@uobgroup.com
www.uob.com.sg/research

Heng Koon How, CAIA
Head of Markets Strategy
Heng.KoonHow@uobgroup.com

Peter Chia
Senior FX Strategist
Peter.ChiaCS@uobgroup.com

Victor Yong
Rates Strategist
VictorYongTC@uobgroup.com

Quek Ser Leang
Markets Strategist
Quek.SerLeang@uobgroup.com

- The brief calm in late Jan following President Trump's inauguration was finally shattered in early Feb by renewed threats of punitive tariffs against Canada, Mexico and China. While at the moment of writing, both Canada and Mexico appear to have won a precious one month reprieve, the 10% tariffs against China appear to be going ahead with China announcing retaliatory measures.

- President Trump's brinksmanship tariff threats coupled with last minute negotiations against US trade partners may well be the new normal. Financial markets may be complacent in not acknowledging in full the macroeconomic effects of the tariff threats and pricing in an adequate "Tariff Risk Premium".

- Amidst the renewed rise in US inflation expectations, the US Dollar is the key beneficiary of this "Tariff Risk Premium". We see the USD Index (DXY) rising further to 112.6 by 2Q25.

- Our expectation of one 25-bps Fed rate cut this year now contrasts starkly with the anticipated 75 bps from European Central Bank (ECB) , 100 bps from Bank of England (BOE) and Reserve Bank of Australia (RBA) and 125 bps from Reserve Bank of New Zealand (RBNZ) for the rest of 2025.

- This widening rate differential will be a key tailwind for the USD against its Major FX peers, anchoring further USD strength in the first half of 2025. The EUR will of course face additional pressure from the on-going tariff threat from the US. We forecast EUR/USD leading the drop to 0.98 by 2Q25, followed by GBP/USD dropping to 1.20 and AUD/USD softer at 0.59 by 2Q25.

- As for the CNY, in-between China's growth slowdown and further escalation of tariffs to our Base Case expectation of 25%, further depreciation is a given. We maintain our forecast for USD/CNY to rise further to 7.65 by 3Q25. Other USD/Asia FX will follow suit with highs for USD/SGD, USD/MYR, USD/IDR, USD/THB and USD/VND to be registered in 3Q25 at 1.40, 4.65, 16,900, 35.40 and 26,000 respectively.

- With respect to front end rates, we project only one cut in 2025 to take Fed funds rate down to 4.25% as upside risk to inflation has firmed on the back of fiscal and trade policy proposals by the new US administration. As such, we see 3M compounded in arrears Sofr easing to 4.12% by 4Q25.

- As for 10Y US Treasuries yield, while the current outlook suggests a measured decline across 2025, certain scenarios could disrupt this trajectory and propel them towards the 5% mark. As it stands, the distribution of outcomes has not factored in a Fed re-pivot towards rate hikes. If this were to change because of a combination of inflation stickiness, surprise growth surge, or fiscal policy tailwinds then a 5% yield on 10-year US Treasuries in 2025 is certainly possible. For now, we see 10Y US Treasuries yield settling at 4.4% by 4Q25.

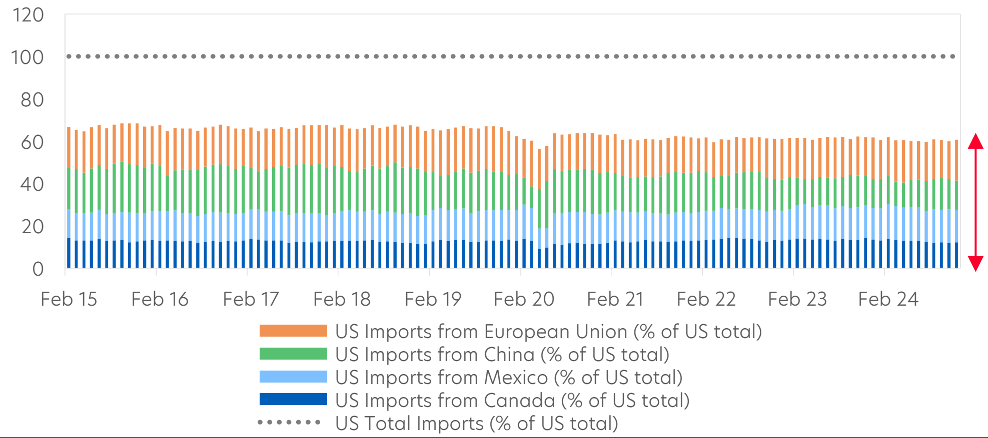
- Finally, we note that interesting developments on the bullion front, whereby the futures and LBMA price premiums against spot price has widened alongside the jump in physical gold delivery into COMEX. This confirms various industry news of outsized physical gold shipment from London and Europe into New York amidst the escalating trade tensions. This affirms the rising safe haven risk premium for gold and reinforces our positive outlook for USD 3,000 / oz by end 2025.

It has been a wild rollercoaster ride for financial markets since the start of Feb. US President Trump initially threatened to implement a punitive 25% trade tariffs on both Canada and Mexico on an immediate basis (with energy imports from Canada tariffed at a "preferential rate" of 10%), only to agree to delay them for a month pending further negotiations with both countries. Both sets of tariffs against Canada and Mexico if implemented to the fullest will have significant adverse impact on both economies. Consensus estimates suggest that both Canada and Mexico's economies will very likely slip into a recession as a result.

As for China, at the moment of writing, the World's second biggest economy appears to have responded with retaliatory tariffs against coal, liquified natural gas, crude oil and other goods originating from the US. In addition, China has also announced export curbs against various rare metals. This was after US signaled that it will proceed with the blanket 10% tariff against Chinese goods into the US.

Chart 1: Canada, Mexico, China and EU account for 60% of total imports into US

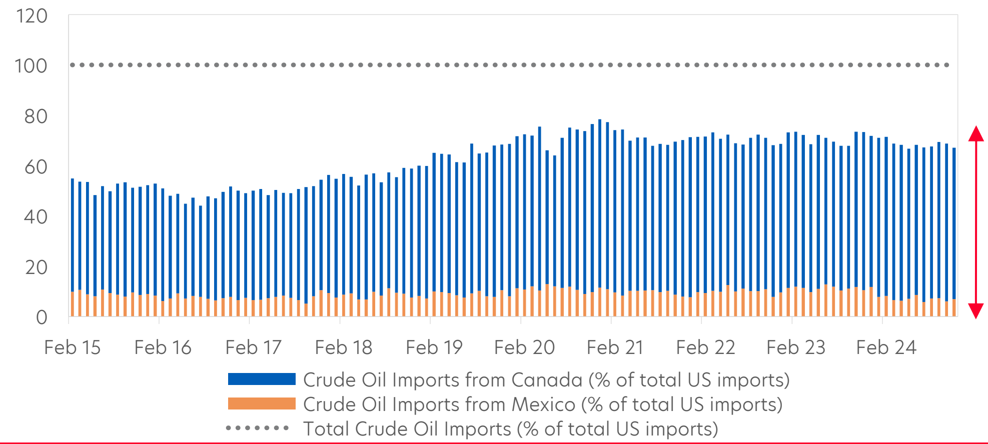
Source: Bloomberg, UOB Global Economics & Markets Research



It is important to note that, both Canada and Mexico accounted for a substantial 41% of total US imports. In the energy space, both Canada and Mexico supplied as much as 75% of crude oil imported by the US. As a rough rule of thumb, the consensus estimate suggests that against the baseline, the US economy will take a 1% GDP hit together with a 0.5% rise in inflation.

Chart 2: 2/3 of crude oil imported into US comes from Canada and Mexico

Source: Bloomberg, UOB Global Economics & Markets Research



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While both Canada and Mexico may have won a temporary month-long reprieve, in our scenario analysis, our Base Case (with 55% probability) assumes that tariffs may eventually be imposed across the year till 1H26, on imports from both countries at 25% (although we also note the non-negligible probability that tariffs may be rolled back or not be imposed if both countries accede to the demands of President Trump), including 25% tariffs on China as well. Given these assumptions, we reiterate our Base Case scenario for US GDP growth to slow to 1.8% this year and CPI inflation to rise by 0.4% point to 2.5% and China's GDP growth to slow to 4.3%.

However, the risks to the global economy and financial markets does not stop there. There is an increasing and constant risk that US President Trump may well impose tariffs against the European Union or raise tariff threats anew against key trading partners like Canada, Mexico and China. On a worst case basis, he may impose a substantial universal blanket tariff on all imports into the US.

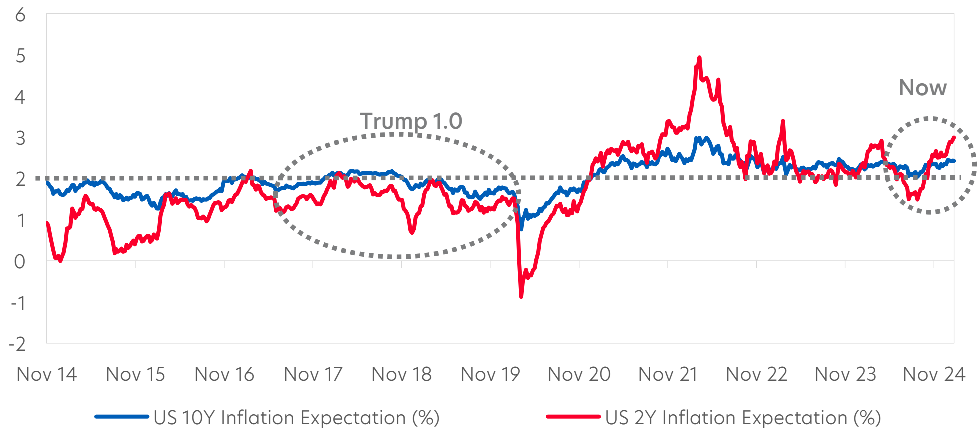
This is captured in our Pessimistic Case (with 40% probability) assumption that tariffs may increase further against Mexico and Canada with China landing at a materially higher 60% and rest of world enduring a potential blanket universal tariff of about 10% to 20%. In such a scenario, US GDP growth is estimated to slow to just 1%, with inflation jumping a full 1% point from baseline to 3.1%. China's GDP growth will likely slow further to just 3.5% this year.

For more details of our updated Tariff Scenarios for Trump 2.0, kindly refer to Macro Note: "US: China strikes back as Trump launches first wave of Chinese tariffs" dated 04 Feb 2025.

Going forward, financial markets and global investors will likely need to live with the constant threat of tariffs and last-minute brinksmanship negotiations in the months ahead. Such uncertainty and intra-day whipsaw are likely to be the new normal and it begs the question whether financial markets have priced in the on-going tariff threats in the form of a "Tariff Risk Premium".

Chart 3: US inflation expectation has started to pick-up

Source: Bloomberg, UOB Global Economics & Markets Research

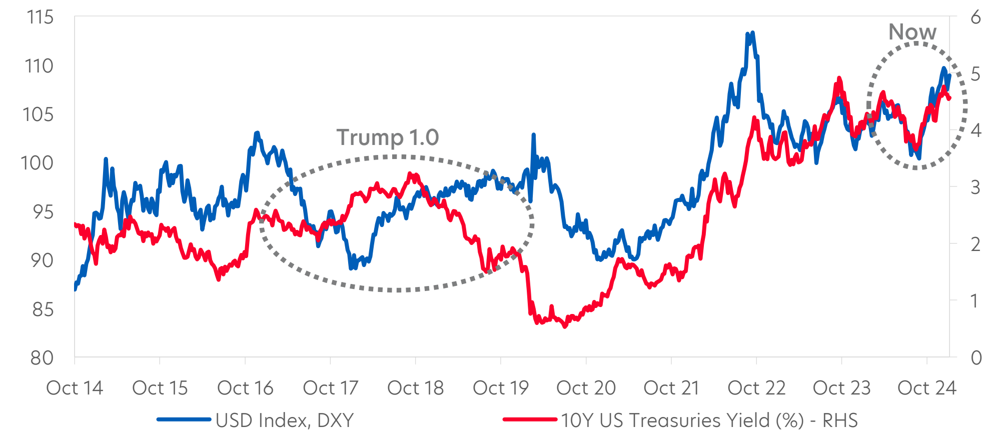


The immediate consequence of this increasing "Tariff Risk Premium" is the renewed rise in inflation expectations for the US. As a result, Fed Fund Futures have started to fade expectations of further rate cuts going forward, with various Federal Reserve officials now reiterating the prudent "wait and see" stance for now.

Needless to say, the US Dollar is the key beneficiary of this "Tariff Risk Premium" and the accompanying renewed rise in US inflation expectations. In particular, 2Y US inflation expectation has doubled from 1.5% last Nov to current level of about 3.0%. Overall, the USD Index has now risen about 9% from its low of 100 before the US President election last Nov to current level of about 109. Our Base Case assumes that by 3Q25, DXY will rise further towards 112.6 by 2Q25 accompanied by EUR/USD falling below parity and USD/CNY rising to 7.65 by 3Q25. In our Pessimistic Case scenario, the risk is that DXY will jump to 115 and USD/CNY may well rally towards 8.0. It would not be prudent to fight this trend of USD strength, at least until later this year when we can have a better gauge of the breath and scope of the tariffs and the corresponding impact on the US economy.

Chart 4: Both USD Index and 10Y Treasuries yield are higher since last Sep

Source: Bloomberg, UOB Global Economics & Markets Research



As for rates, as discussed earlier, risk is that over the near term, rates will stay sticky with the Fed opting to stay prudently on hold. Long term Treasury yield have been relatively stable for now, supported on the downside by renewed inflation expectations and capped on the upside by growth slowdown fears. Specifically, under our Base Case, monetary policy path uncertainty and constant trade tariff threats will keep term premium elevated with chance of overshoot. End 2025 10Y UST yield is likely to range around 4.30% to 4.80%. As for our Pessimistic Case, the stagflation scenario comes to the fore, leading to front end repricing for Fed rate hikes while the back end of the curve contends with likelihood of slower economic growth. End 2025 10Y UST yield will then test the 5% resistance with a possible trading range of 4.70% to 5.20%.

Amidst this rise of "Tariff Risk Premium" reinforcing the strong USD and sticky rates backdrop, this monthly report provides a more detailed analysis of our various forecasts and views for the respective currency and rates that we cover.

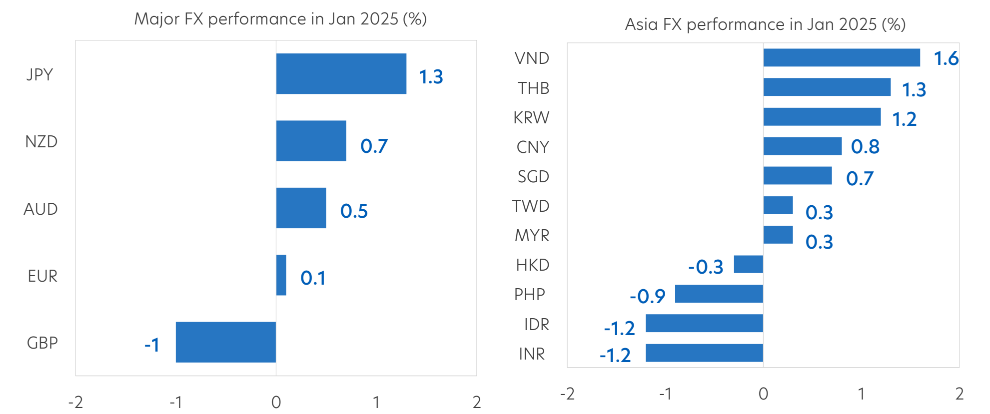
FX Strategy

USD to strengthen further following the start of tariffs escalation

The USD pulled back for the first time in four months in Jan as President Trump stopped short of swift tariff action after he was sworn in on 20 Jan. As markets previously bought up the USD in anticipation of day-one tariff action against key trade partners such as Canda, Mexico and China, the reprieve spurred some profit taking in the US Dollar Index (DXY) which had risen to two-year highs in early Jan. The brief calm in financial markets was shattered when President Trump signed off the first tariffs in his new term against Mexico, Canada and China on 1 Feb, before agreeing to delay tariffs on Mexico and Canada by one month. However, at the moment of writing, it appears that additional tariffs against China are going ahead with China responding in kind as well. How do we navigate through this fluid tariff war? And will the USD strengthen further after stabilising in Jan?

Chart 5: Most Major and Asia FX rebounded against the USD in Jan

Source: Bloomberg, UOB Global Economics & Markets Research



Most Asia FX had a positive start to 2025 as the much-feared day-one Trump tariffs against China did not materialise. Even as President Trump eventually announced 10% tariffs on China goods on 1 Feb, China's toned-down response relative to Canada and Mexico means that the frontlines of the new trade war may be with US' immediate neighbours, a key departure from the 2018 US-China trade war. Will this translate to lesser spillover to the CNY and other Asia FX? Or is there room for further tariff escalation with China?

Major FX Strategy

EUR to underperform as Trump likely to target EU soon for tariffs

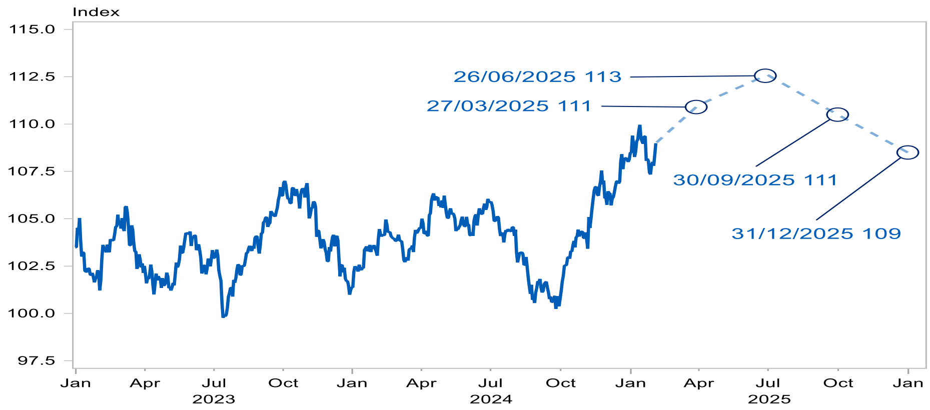
Unlike its Asian counterparts, Major FX (with the exception of CAD) is likely more sensitive to widening rate differentials, rather than negative impact from trade tariffs. Under Trump 2.0, the Fed is likely more sensitive to inflationary spillover from Trump's potential trade policies in addition to the strong US growth and resilient labour market backdrop. As such, we have pared back expectation of 2025 Fed rate cuts to just one 25-bps cut in 2Q 2025 (from 3 cuts previously). For more details, pls refer to Macro Note published 13 Jan 2025 here. In the recently concluded Jan FOMC, the Fed has signaled that it is in no rush to reduce interest rates further.

Our expectation of one 25-bps Fed rate cut this year now contrasts starkly with the anticipated 75 bps from European Central Bank (ECB) , 100 bps from Bank of England (BOE) and Reserve Bank of Australia (RBA) and 125 bps from Reserve Bank of New Zealand (RBNZ) for the rest of 2025.

We argue that the widening rate differential will be a key tailwind for the USD against its Major FX peers, anchoring further USD strength in the first half of 2025. In the second half, USD strength may start to moderate as most of the repricing for Trump's tariffs may have already been done and our anticipated downward trajectory in US rates could start to exert downward pressure on the USD. Overall, we expect the DXY to rise to 112.6 by mid-2025 before easing off to 108.5 by end-2025. We also expect FX volatility to stay elevated as investors digest incoming tariff headlines and the ensuing Fed response.

Chart 6: Our latest DXY forecasts are about 1% higher compared to the previous monthly review on 3 Jan

Source: Macrobond, UOB Global Economics & Markets Research



EUR/USD fell to a two-year low of 1.0178 before rebounding to close little changed at 1.0362 in Jan. However, the currency stability is likely short-lived as the wide monetary policy divergence between the Fed and the ECB would keep EUR/USD tilted towards its downside. In contrast to the Fed's wait-and-see approach, the ECB, at its Jan meeting, kept its door open to further policy easing as concerns over lacklustre economic growth supersede worries about persistent inflation. The 2% rate advantage (implied from 2-yr rate spread) the USD commands over the EUR will likely keep the EUR/USD biased to the downside. Furthermore, the risk of US imposing tariffs on EU goods in the near term could yet be another headwind against the EUR. In all, we reiterate our bearish view of EUR/USD and we lower our forecasts by 100 pips across the next four quarters to reflect to new tariff risks. Our updated forecasts are 1.00 in 1Q25, 0.98 in 2Q25, 1.00 in 3Q25 and 1.02 in 4Q25.

While the UK was not singled out in Trump's initial list of tariff action, GBP/USD was not spared from the spillover effect, falling back towards 1.22 from a high of 1.2523 late Jan. With renewed broad-based USD strength, it is inevitable that GBP/USD would retest Jan's low of 1.21 in the coming months, especially with an expected BOE rate cut in Feb and likely dovish guidance to follow. Overall, our GBP/USD forecasts are 1.22 in 1Q25, 1.20 in 2Q25, 1.23 in 3Q25 and 1.25 in 4Q25, unchanged from the early Jan review.

The outlook for USD/JPY is less clear cut compared to other Major FX peers. On one hand, sticky US yields may keep USD/JPY anchored higher. On the other hand, the USD/JPY may be weighed by safe haven demand for the JPY due to escalating trade tensions as well as updated expectations for the BOJ to make two more 25 bps hikes across the year. After the 25 bps BOJ rate hike in Jan, we have updated our view and expect BOJ to hike its policy rate another two times, by 25-bps to 0.75% in the 30 Apr/1 May MPM, and another 25 bps in 29/30 Oct MPM to 1.00% which we believe will be the terminal rate. For more details, pls refer to Macro Note published 24 Jan 2025 here. As such, compared to our previous forecast made in early Jan, we now see lesser headroom for USD/JPY upside. Our updated USD/JPY forecasts are 157 in 1Q25, 158 in 2Q25, 155 in 3Q25 and 152 in 4Q25.

Sensitive to global risk sentiment and closely correlated to the CNY, the AUD is likely to underperform within the Major FX space if trade tensions escalate further. RBA's first rate cut in over four years in Feb is likely to exacerbate AUD's woes. Likely to weigh on the AUD as well is the renewed softening of rent inflation in Australia, which had been stubbornly sticky up until late last year. Unless China's outlook improves, the risk is still firmly skewed to the downside in AUD/USD. Overall, our AUD/USD forecasts are 0.61 in 1Q25, 0.59 in 2Q25, 0.61 in 3Q25 and 0.63 in 4Q25, unchanged from the early Jan review.

Asia FX Strategy

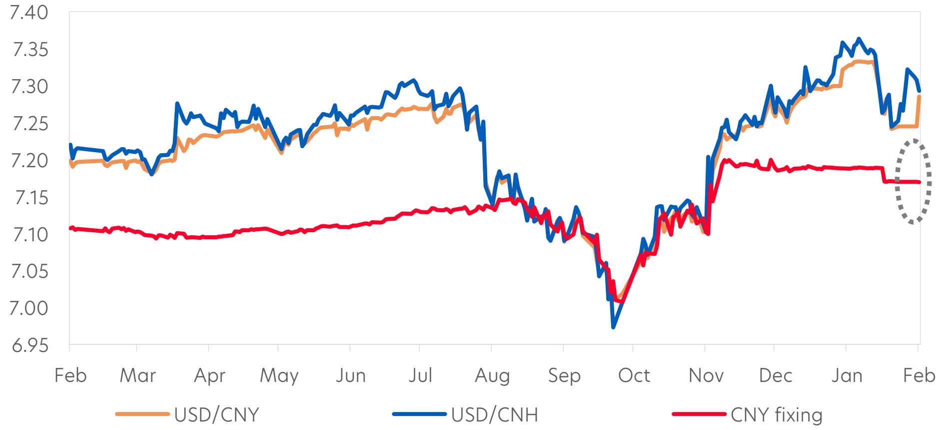
Brace for further Asia FX losses as we expect further ramp up in Trump's tariffs against China

While President Trump had imposed a modest 10% tariff on Chinese imports, we think the risk of future tariff action remains high. The Office of the US Trade Representative (USTR) has announced on 24 Jan a review of the "Economic and Trade Agreement" between US and China to determine whether China is acting in accordance with the commitments it made in the agreement. This may be the precursor of any tariff recommendation made to the president. Furthermore, US Treasury Secretary Scott Bessent is reported to push for new universal tariffs on US imports to start at 2.5% and rise gradually while Commerce Secretary nominee Howard Lutnick is said to be a strong advocate for higher tariffs. There is also increasing concern that the US may well ultimately revoke China's "most favoured nation" trade status.

That said, China's responses so far has been measured and that President Trump is staging a multi-pronged extended tariff fight probably means that the immediate spillover to the CNY and rest of Asia FX may be more measured. Although we expect further tariffs on China upon completion of the USTR investigation, our pessimistic case of 60% tariffs is unlikely to materialize yet. For now, we are also keeping to the 4.3% 2025 China GDP outlook, assuming our base case of a further increase of tariffs on China imports to 25% from 10%. A significant China stimulus package this year may also help to cushion economic growth and lessen the extent of the CNY adjustment required. For now, we are keeping to our existing USD/CNY forecasts which are at 7.40 in 1Q25, 7.55 in 2Q25, 7.65 in 3Q25 and 7.50 in 4Q25 which were premised on our existing base case of 25% tariff on Chinese imports to US. However, in the event of 60% tariff, it would be difficult for People's Bank of China (PBOC) to reign back more extended CNY weakness and we reiterate our view that USD/CNY may rise above the psychological 8.0 level, last seen in 2006.

Chart 7: The CNY fixing remained stable at around 7.17 after China returned from the LNY holidays on 5 Feb, keeping immediate RMB depreciation pressures in check

Source: Bloomberg, UOB Global Economics & Markets Research



After falling since early Oct, the S$NEER has rebounded in Jan and the gentler S$NEER slope (est at 1.0% p.a.) following MAS easing at the recent Jan 2025 MPS should continue to guide a modest appreciation of the SGD on a trade-weighted basis. For more details of the MAS easing, pls refer to Macro Note published 24 Jan 2025 here. Given its extensive reliance on trade as a small and open economy, Singapore and the SGD will inevitably be exposed to collateral risk in the increasing global trade uncertainties due to Trump's latest tariff actions. However, a positive-sloping S$NEER may help to buffer the SGD against external headwinds, as it had during the last trade war in 2018. Furthermore, SGD's reputation as a regional safe-haven currency may indicate a sustainable rebound in the S$NEER going forward. Overall, our updated USD/SGD forecasts are 1.38 in 1Q25, 1.39 in 2Q25, 1.40 in 3Q25 and 1.38 in 4Q25, unchanged from the early Jan review.

The MYR was largely flat year-to-date at 4.45 /USD as of 4 Feb after being crowned the best performing Asia FX in 2024. Despite sound economic and financial fundamentals, the MYR is still vulnerable to external developments going forward, especially Trump tariffs which is expected to weigh on Asia FX as a whole. The MYR which is closely correlated to the CNY is likely to feel the spillover of a weaker CNY across most part of 2025 as Trump's tariff plan takes shape. Overall, in line with our expectations for higher USD/Asia in first three quarters of next year, our USD/MYR forecasts are at 4.53 in 1Q25, 4.60 in 2Q25, 4.65 in 3Q25 and 4.55 in 4Q25, unchanged from the early Jan review.

Weighed by uncertainties about Trump's tariff policy and narrower rate differentials, the IDR fell 2% year-to-date to 16,448/USD as of early Feb, one of the laggards in the region. An unexpected Bank Indonesia (BI) rate cut in Jan and prospects of a slower and shallower Fed rate cut cycle in 2025 spark portfolio outflow concerns. To temper with the depreciation pressures, BI continued to intervene in both the spot and domestic non-deliverable forwards. The government's plans to require exporters to keep their proceeds onshore for at least a year are expected to boost Indonesia's FX reserves and lend support to the IDR. While further USD strength is the likely path of least resistance, BI's emphasis on rupiah stability may slow USD/IDR's ascent. Overall, our updated USD/IDR forecasts are higher at 16,600 in 1Q25, 16,800 in 2Q25, 16,900 in 3Q25 and 16,700 in 4Q25.

The THB was largely flat on the year at 33.85 /USD, trading within recent ranges. That said, the THB is unlikely to be spared from the spillover of a weaker CNY as trade tensions ratchet up. In the near term, the THB may feel the drag of a potential Bank of Thailand (BOT) 25 bps rate cut in Feb which we expect to be a pre-emptive move to bolster domestic demand and support growth. For more details, pls refer to Macro Note published 3 Feb 2025 here. Overall, our updated USD/THB forecasts are 34.8 in 1Q25, 35.2 in 2Q25, 35.4 in 3Q25 and 35.0 in 4Q25, unchanged from the early Jan review.

There was some reprieve for the VND in Jan as President Trump did not impose the much-feared day-one Trump tariffs against China. Consequently, USD/VND pulled back from its record high near 25,500 to about 25,100 across Jan. The brief calm was punctured after Trump announced tariffs against Mexico, Canada and China in early Feb, sending USD/VND back higher towards 25,300. A more cautious Fed when it comes to rate cuts in 2025, tariff and China uncertainties will likely keep USD/VND anchored to the upside. Overall, our updated USD/VND forecasts are 25,600 in 1Q25, 25,800 in 2Q25, 26,000 in 3Q25 and 25,800 in 4Q25.

Rates Strategy

Cautious cuts amidst geopolitical cross currents

Opening salvos of Trump 2.0 trade war

President Trump's announcement of 25% tariffs on goods from Mexico and Canada, alongside 10% tariffs on Chinese imports, and a possible widening of the tariff net to the EU, has introduced significant uncertainty for monetary policy and bond markets. These measures are expected to exacerbate inflationary pressures and complicate the Fed's decision-making, while bond markets already reflect heightened anxiety about fiscal risks.

Tariffs act as a tax on imports, likely raising prices for US consumers and businesses in sectors reliant on foreign goods, such as automotive, electronics, and agriculture. This could stall progress toward the Fed's 2% inflation target, forcing policymakers to maintain higher interest rates for longer. Although Fed officials have indeed referenced a traditional approach of "looking through" tariff-driven price shocks as transient events, but this stance is now under intense scrutiny amid new economic realities. While Chair Powell acknowledged at the 29th Jan post FOMC press conference that "one-time price shifts like tariffs can be overlooked" in theory, the central bank faces mounting challenges in maintaining this position.

A couple of developments could complicate the "look through" strategy. First, consumer surveys show households are pre-emptively adjusting spending patterns in anticipation of tariff-driven price hikes, with University of Michigan data revealing long-term inflation expectations rising to 3.2%. These behavioural shift risks transforming temporary price spikes into persistent inflation.

Second, Powell noted that modern supply chain realignments and reduced reliance on Chinese manufacturing could alter traditional tariff impact models. Unlike the 2018-2019 trade wars where businesses absorbed costs, current conditions especially after the disruptive Covid-19 supply chain crisis, showed that companies are more willing to pass tariff expenses to consumers, representing a structural economic change.

In addition to tariffs scenarios, investors also need to contend with policy trade-offs based on President Trump's simultaneous push for tax cuts, deregulation, and immigration restrictions risks overheating the economy. Debt concerns remain in the background with the Congressional Budget Office projecting the deficit to swell from USD 19tn to USD 27tn by 2030, even before new stimulus. Higher Treasury issuance could further pressure bond yields. Demand for bonds cannot be taken for granted accounting for the US treatment of its allies, which may cause foreign investors, wary of U.S. trade policies conduct, to reduce demand for Treasuries, exacerbating yield increases.

What does this mean going forward? We see the following possible yield scenarios in no particular order.

Scenario	Stagflation risk	Policy reversal	Growth optimism
Description	If tariffs persist and inflation remains sticky, the Fed could face a 1970s-style dilemma: raising rates to combat inflation while risking recession.	Short-lived tariffs (e.g., if Mexico/Canada negotiate immigration concessions) might allow the Fed to resume rate cuts later in 2025.	A best-case scenario involves tariffs spurring domestic production and deregulation boosting productivity, offsetting inflationary pressures.
Yield impact	This scenario would see prolonged high bond yields.	Bond markets could stabilize, though yields would remain elevated compared to pre-tariff levels.	Bond yields might rise modestly, reflecting confidence in long-term growth.

Source: UOB Global Economics & Markets Research

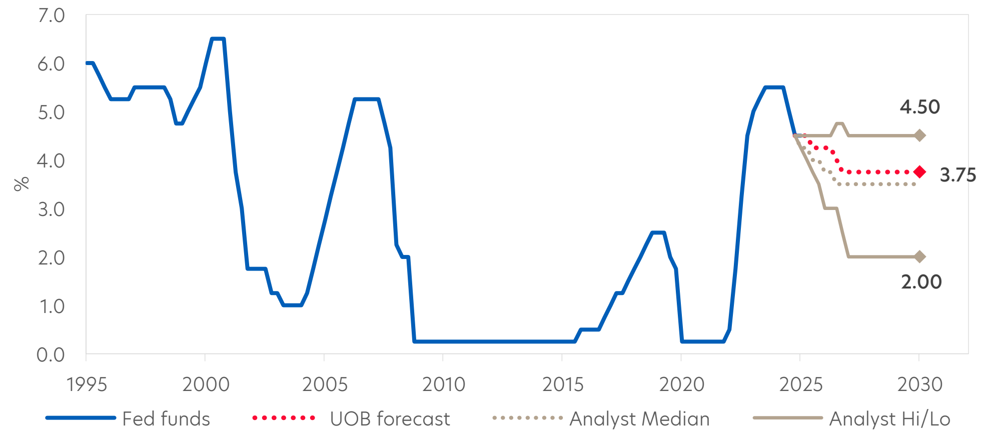
Our updated FOMC view

Following our latest assessment in early Jan, we project only one cut in 2025 to take Fed funds rate down to 4.25%. This is in acknowledgement that upside risk to inflation has firmed on the back of fiscal and trade policy proposals by the new US administration. The Fed will not be able to ignore this which accounts for our truncated easing cycle.

Extending the horizon into 2026, our base case assumption is that the policy rate still has some room to adjust lower towards more neutral settings. This move towards neutral is warranted since we expect that US economic growth cycle is in its advanced stage and may continue to soften over time. Therefore, we have penciled in 50bps of rate cuts across 2026 which will translate to an easing cycle bottom of 3.75% for the Fed funds rate.

Chart 8: US rate outlook

Source: Bloomberg, UOB Global Economics & Markets Research



Our Fed funds rate forecasts tracks hawkish relative to Bloomberg's analyst consensus for rate cuts over 2025 but converges down towards the consensus by end 2026. The median forecast from our peer group has 2 rate cuts penciled this year, while the futures market as of Jan month end close is priced for 1 to 2 cuts. We see 2025 as "one and done" given that the known unknowns require time to play out.

The current distribution of analysts' Fed funds rate forecasts for end 2025 is skewed to the right, i.e. exhibits a bias towards a higher end state or less rate cuts. It is also notable that a 2025 rate hike scenario has not yet presented itself in the latest Jan survey, which in any case we would argue to be premature at this stage given the lack of clarity on fiscal policy implementation. Corroborating the view that "hikes are premature", text sentiment readings from the FOMC minutes are close to neutral levels after the recent uptick.

Chart 9: Distribution of end 2025 analysts Fed Funds forecasts (Jan)

Source: Bloomberg, UOB Global Economics & Markets Research

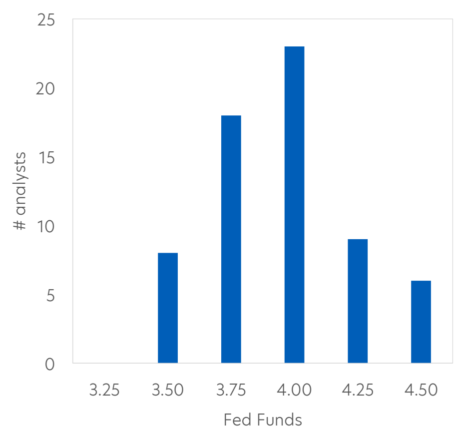


Chart 10: Fed minutes Hawk-Dove ratio

Source: Bloomberg, UOB Global Economics & Markets Research

In our base case for end 1Q25, we forecast the 3M compounded in arrears Sofr at 4.37%. Thereafter, short term rates are expected to drift lower across 2025 in tune with our expectations of a further 25bps rate cuts from the US Federal Reserve. Eventually the 3M compounded in arrears Sofr could drop to 4.12% by 4Q25.

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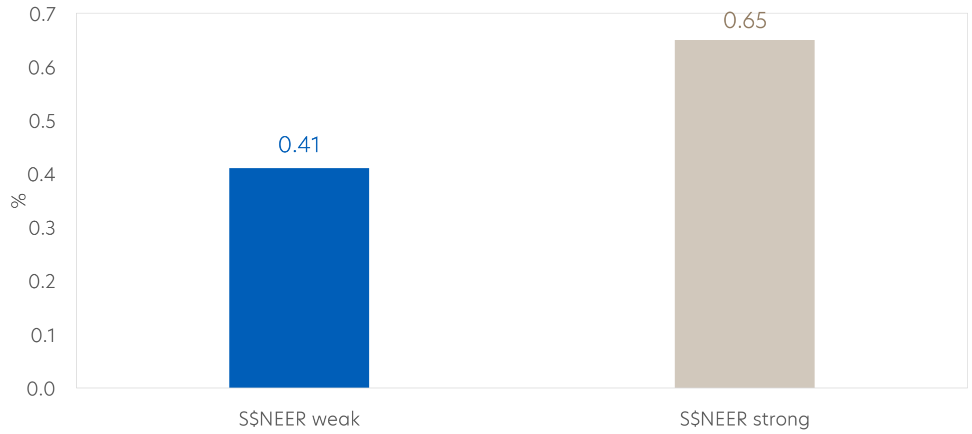
Our updated MAS view

MAS eased monetary policy via a slope reduction in Jan. We do not expect any further adjustments to the prevailing S$NEER slope settings for the rest of 2025. Risk to our extended hold base case lies to the downside, because economic growth outcomes are buffeted by considerable headwinds stemming from both US "America First" policy directives as well as from lackluster Chinese economic momentum.

Incorporating our MAS expectation, we anticipate that short term SG yields will track lower alongside an expected decline in the US Fed funds rate. However, the pass through into SG yields may be smaller when we account for a more modest appreciation path in the S$NEEER. To be clear, even after easing, we have the S$NEER policy slope still staying positive in 2025. This means that divergence scenarios (i.e. US rates down but SG rates up) are primarily consigned to tail events.

Chart 11: Passthrough into SG from change in US yield (2006 to 2024)

Source: Bloomberg, UOB Global Economics & Markets Research



In our base case for end 1Q25, we forecast the 3M compounded in arrears Sora at 2.88%. Thereafter, short term rates are then expected to drift lower across 2025 but to a lesser extent than declines in US yields. Eventually the 3M compounded in arrears Sora could drop to 2.61% by 4Q25.

Our wider monetary policy views

Our monetary policy views on major developed markets (DM) sees central bankers there positioned to continue cutting their own policy rates led by the RBNZ. The ECB is likely to continue its rate cuts in 2025, given the more favorable inflation outlook and weaker economic growth. The ECB has delivered its fifth rate cut this cycle in Jan (25 bps) and is expected to continue gradually cutting rates in 2025, potentially delivering another 75 bps of reduction to drive down policy rate to 2.0% by the middle of the year. The BOE may be more cautious in its rate cuts, given the slightly higher inflation outlook, and may take until the end of 2025 to deliver on the 100bps of cuts that we expect. Going against the grain, the BOJ will continue its path towards policy normalization in 2025, likely with another two rate hikes, if inflation remains above target and wage growth continues.

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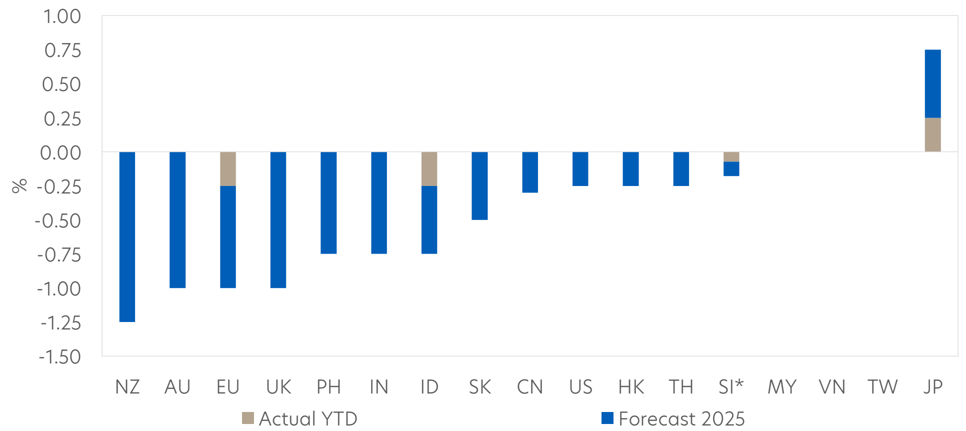
Chart 12: Expected change in policy rates 2025

Source: Bloomberg, UOB Global Economics & Markets Research



In the Asian region, further easing from selected Asian central banks in 2025 remains our base case. We are cognizant that faced with the prospect of less cuts in Fed funds rates as well as the uncertainties around trade and tariff policies, Asian currencies have an increased potential to become more volatile. As such, Asian central banks may decide to tread more cautiously when it comes to future monetary policy easing.

Further changes in policy rates (UOB forecast %) - Developed Markets

	2025	2026
New Zealand	-1.25	0.00
Australia	-1.00	0.00
United Kingdom	-1.00	-0.75
Eurozone	-0.75	0.00
United States	-0.25	-0.50
Japan	0.50	0.00

Source: UOB Global Economics & Markets Research

Further changes in policy rates (UOB forecast %) - Asia

	2025	2026
Philippines	-0.75	0.00
India	-0.75	0.00
Indonesia	-0.50	-0.50
South Korea	-0.50	0.00
China	-0.30	0.00
Hong Kong	-0.25	-0.50
Thailand	-0.25	0.00
Singapore*	-0.11	-0.20
Taiwan	0.00	0.00
Malaysia	0.00	0.00
Vietnam	0.00	0.00

* Represented by the change in 3M OIS rate
Source: UOB Global Economics & Markets Research

Our updated 10Y UST view

Our base case forecasts for 10Y UST retains a higher end state term premium estimate as well as incorporates a more front-loaded adjustment path to this end state. That said, monetary policy expectations remain the primary driver of our directional forecast for bond yields.

While the current outlook suggests a measured decline in 10-year US Treasury yields for 2025, certain scenarios could disrupt this trajectory and propel them towards the 5% mark. As it stands, the distribution of outcomes from analysts' consensus has not factored in a Fed re-pivot towards rate hikes. If this were to change because of a combination of inflation stickiness, surprise growth surge, or fiscal policy tailwinds then a 5% yield on 10-year US Treasuries in 2025 is certainly within the realm of possibility.

Chart 13: UOB vs Consensus Forecast (10Y UST)

Source: Bloomberg, UOB Global Economics & Markets Research

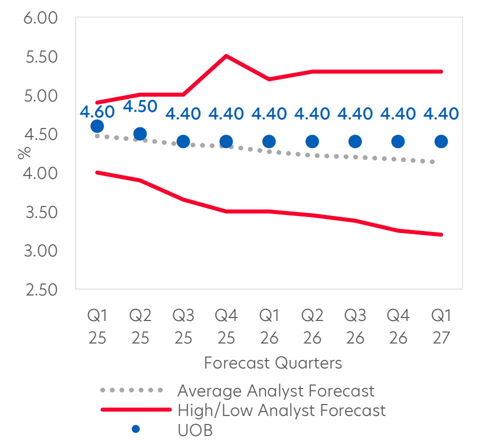
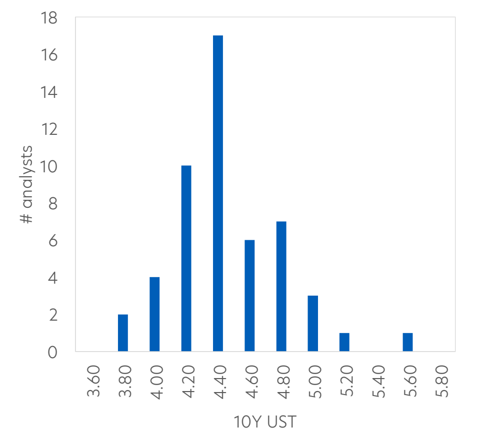


Chart 14: Distribution of end 2025 analysts 10Y UST forecast (Jan)

Source: Bloomberg, UOB Global Economics & Markets Research



In our base case for end 1Q25, we forecast the 10Y UST at 4.60%. Thereafter, 10Y yield is expected to drift slightly lower in tune with our expectations of possible rate cuts from the US Federal Reserve in 2026. Eventually the 10Y UST could settle at 4.40% by 4Q25.

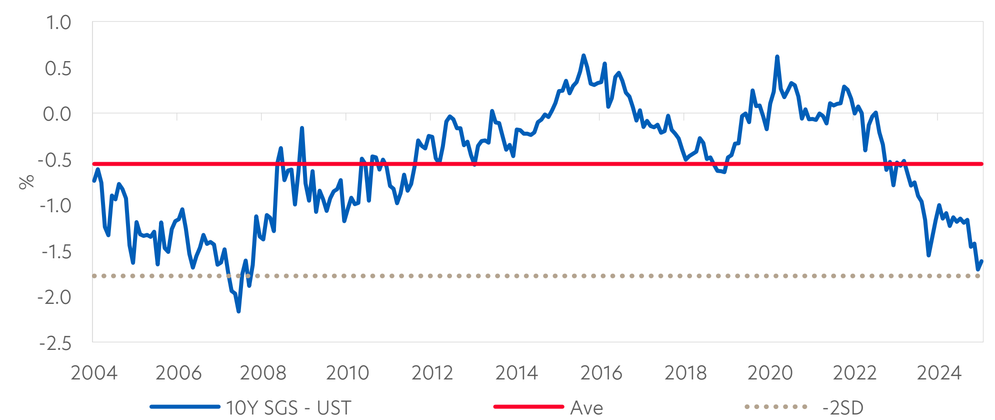
Our updated 10Y SGS view

As UST goes so goes the SGS. But we think that the yield upside for domestic bond yields will be more limited for two reasons. Firstly, part of the uplift in 10Y UST is due to cyclical fiscal deficit fears. This feature does not apply to the SGS market. Secondly, demand for SGS overall in 2024 has been healthy. To wit, there has been a more muted increase in 10Y SGS yield during the run higher in 10Y UST yields over 4Q24 despite our S$NEER model dipping into the weak half of the policy band. In addition, SGS auction bid-to-cover ratios this year has been above their five-year average (except for the 50Y tenor). Given that we still expect a Fed easing cycle in 2025, demand for SGS should remain supportive which will help keep a lid on domestic yields.

That said, the prevailing 10Y SGS yield discount to 10Y UST is fairly substantial and is residing close to 2 standard deviations from its 20 years historical mean. Taking into consideration our base case outlooks for the US Fed as well as MAS, there is room for the discount to narrow if US deficit fears were to abate.

Chart 15: 20 year history of SGS-UST spread

Source: Bloomberg, UOB Global Economics & Markets Research



In our base case for end 1Q25, we forecast the 10Y SGS at 3.00%. Thereafter, 10Y yield is expected to drift slightly lower to settle at 2.80% by 4Q25.

Summary table of rates forecasts

Rates	05 Feb 25		1Q25F	2Q25F	3Q25F	4Q25F
US Fed Funds Target	4.50	Current	4.50	4.25	4.25	4.25
		Previous	4.50	4.25	4.25	4.25
3M compounded SOFR	4.49	Current	4.42	4.25	4.12	4.12
		Previous	4.47	4.24	4.11	4.11
10Y UST	4.51	Current	4.60	4.50	4.40	4.40
		Previous	4.70	4.60	4.60	4.50
3M compounded SORA	2.89	Current	2.88	2.78	2.61	2.61
		Previous	2.90	2.81	2.66	2.68
10Y SGS	2.87	Current	3.00	2.90	2.80	2.80
		Previous	3.00	2.90	2.90	2.80

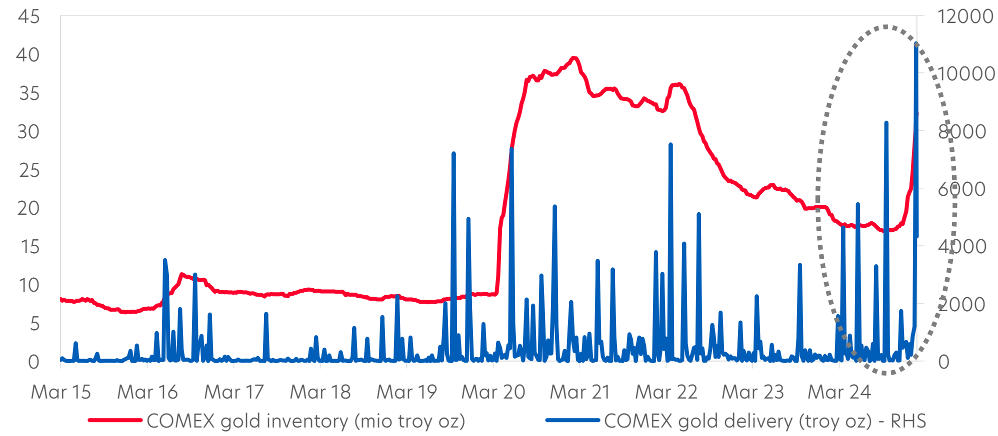
Source: UOB Global Economics & Markets Research

Commodity Strategy

Rising safe haven demand for physical gold bolsters positive outlook for USD 3,000 / oz

Chart 16: COMEX gold inventory has spiked alongside jump in delivery

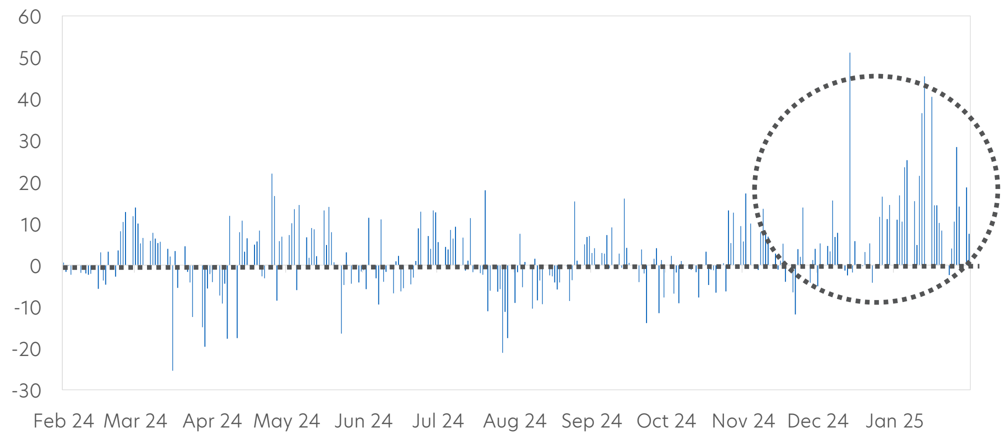
Source: Bloomberg, UOB Global Economics & Markets Research



Something interesting is happening in the bullion market. Since the start of the year, there has been an outsized spike in gold futures delivery into COMEX, coupled with a strong jump in physical gold inventory on COMEX. There are also tell-tale signs of widening in price premium for both front month gold futures and LBMA price against spot price. Various industry reports also suggest that there is increased delivery of physical gold from London, Europe and various parts of Asia into New York. Putting all these together, these latest developments suggest there is elevated demand for physical gold in the US amidst escalating the trade conflict between US and its major trading partners.

Chart 17: Front month premium in gold futures against spot price has jumped

Source: Bloomberg, UOB Global Economics & Markets Research

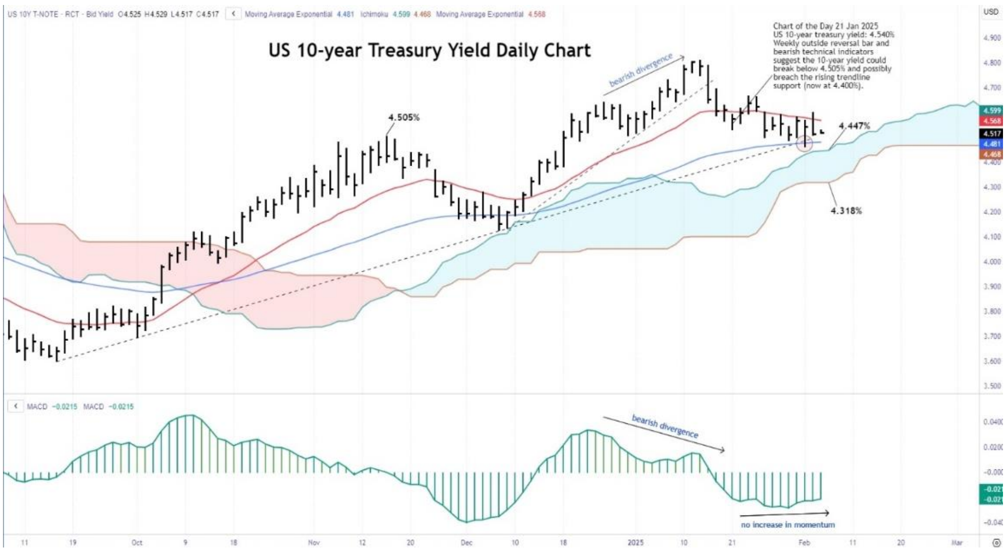


This latest development reinforces our existing view of rising safe haven demand for gold, not just from central banks for increased reserve allocation, but also from retail investors across the world as well for gold jewellry. More importantly, this rising safe haven demand for gold is also helping gold deflect away the negative pressure from the stronger USD.

As such, extending from last year's strong rally, gold has risen further year-to-date, from USD 2,650 / oz in early Jan to a new record high of USD 2,820 / oz. The latest signs of elevated safe haven demand for gold reinforces our positive outlook for gold and we reiterate our USD 3,000 / oz forecast by end 2025.

FX Technical

US 10-Year Treasury Yield: 4.521%
Risk for the 10-year yield remains on the downside; there is a chance for it decline into the daily Ichimoku cloud, currently between 4.318% and 4.447%.



Source: LSEG Workspace, UOB Global Economics & Markets Research

When we published our [Chart of the Day] on 21 January 2025, with the US 10-year yield at 4.540%, the title read: "*Weekly outside reversal bar and bearish technical indicators suggest the 10-year yield could break below 4.505% and possibly breach the rising trendline support (now at 4.400%).*"

Two days ago on 03 February 2025, the 10-year yield dipped slightly below the trendline support. The break of the support level lacked conviction, and there has been no further increase in downward momentum. However, the risk for the 10-year yield remains on the downside, and there is a chance for it to decline into the daily Ichimoku cloud, currently between 4.318% and 4.447%. Note that the daily cloud support is set to move higher over the coming days.

Looking ahead, a break below the bottom of the daily cloud could potentially trigger sharp losses. Conversely, if the 10-year breaks above 4.690%, it would suggest that it is likely to trade in a range instead of with a downward bias.

FX, INTEREST RATES & COMMODITIES

Forecasts

FX	05 Feb	1Q25F	2Q25F	3Q25F	4Q25F
USD/JPY*	153	157	158	155	152
EUR/USD*	1.04	1.00	0.98	1.00	1.02
GBP/USD	1.25	1.22	1.20	1.23	1.25
AUD/USD	0.63	0.61	0.59	0.61	0.63
NZD/USD	0.57	0.55	0.53	0.55	0.57
DXY*	107.86	111.0	112.6	110.5	108.5
USD/CNY	7.28	7.40	7.55	7.65	7.50
USD/HKD	7.79	7.80	7.80	7.80	7.80
USD/TWD*	32.88	33.5	34.0	34.5	33.8
USD/KRW	1,449	1,490	1,510	1,530	1,510
USD/PHP	58.12	59.5	60.0	60.5	60.0
USD/MYR	4.43	4.53	4.60	4.65	4.55
USD/IDR*	16,300	16,600	16,800	16,900	16,700
USD/THB	33.67	34.8	35.2	35.4	35.0
USD/VND*	25,181	25,600	25,800	26,000	25,800
USD/INR*	87.08	88.0	89.0	90.0	88.5
USD/SGD	1.35	1.38	1.39	1.40	1.38
EUR/SGD*	1.40	1.38	1.36	1.40	1.41
GBP/SGD	1.69	1.68	1.67	1.72	1.73
AUD/SGD	0.85	0.84	0.82	0.85	0.87
SGD/MYR	3.28	3.28	3.31	3.32	3.30
SGD/CNY	5.39	5.36	5.43	5.46	5.43
JPY/SGDx100*	0.88	0.88	0.88	0.90	0.91

POLICY RATES	05 Feb	1Q25F	2Q25F	3Q25F	4Q25F
US Fed Funds Rate	4.50	4.50	4.25	4.25	4.25
JPY Policy Rate	0.50	0.50	0.75	0.75	1.00
EUR Refinancing Rate	2.90	2.65	2.15	2.15	2.15
GBP Repo Rate	4.75	4.50	4.25	4.00	3.75
AUD Official Cash Rate	4.35	4.10	3.85	3.60	3.35
NZD Official Cash Rate	4.25	4.00	3.50	3.00	3.00
CNY 1Y Loan Prime Rate	3.10	2.90	2.80	2.80	2.80
HKD Base Rate	4.75	4.75	4.50	4.50	4.50
TWD Official Discount Rate	2.00	2.00	2.00	2.00	2.00
KRW Base Rate	3.00	2.75	2.50	2.50	2.50
PHP O/N Reverse Repo	5.75	5.50	5.00	5.00	5.00
MYR O/N Policy Rate	3.00	3.00	3.00	3.00	3.00
IDR 7D Reverse Repo	5.75	5.75	5.50	5.25	5.25
THB 1D Repo	2.25	2.00	2.00	2.00	2.00
VND Refinancing Rate	4.50	4.50	4.50	4.50	4.50
INR Repo Rate	6.50	6.25	5.75	5.75	5.75

INTEREST RATES	05 Feb	1Q25F	2Q25F	3Q25F	4Q25F
USD 3M SOFR (compounded)*	4.49	4.42	4.25	4.12	4.12
SGD 3M SORA (compounded)*	2.89	2.88	2.78	2.61	2.61
10Y US Treasuries Yield*	4.51	4.60	4.50	4.40	4.40
SGD 10Y SGS*	2.87	3.00	2.90	2.80	2.80

COMMODITIES	05 Feb	1Q25F	2Q25F	3Q25F	4Q25F
Gold (USD/oz)	2,849	2,700	2,800	2,900	3,000
Brent Crude Oil (USD/bbl)	76	75	75	70	70
Copper (USD/mt)	9,151	8,000	8,000	7,500	7,500

Updated as of 05 Febuary 2025
* Forecasts updated as compared to previous report dated 03 January 2025
Source for spot rates: Bloomberg

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