Monthly FX & Rates Strategy

Tariff-mania!

Friday, 04 April 2025

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
Senior Technical Strategist
Quek.SerLeang@uobgroup.com

- As a result of the punitive reciprocal tariffs announced on "Liberation Day', our macroeconomics team has downgraded US GDP growth forecast this year from 1.8% to 1.0%. The probability of a recession in the US is now raised to 40%, from 20 to 25% previously. Consequently, our macroeconomics team now see the Fed making 3 x 25 bps cuts this year (from 1 x 25 bps cut previously), dropping the Fed Funds Rate to 3.75% (upper) by the end of the year.

- The USD outlook in the G-10 FX space is largely driven by rate differentials rather than US trade policy. As a result of our updated view of 3 x 25 bps cuts from the Fed, the USD's rate advantage relative to its Major FX peers will narrow considerably as Fed rate expectations converge towards that of its peers.

- Consequently, we now expect a lower US Dollar Index (DXY) trajectory compared to our last review a month ago. Our updated DXY forecasts now lays out renewed weakness from 101.6 at end-2Q25 to 98.6 at end-1Q26. Overall, we see EUR/USD, GBP/USD, AUD/USD strengthening to 1.14, 1.36 and 0.65 respectively by end of the year. Similarly, USD/JPY is expected to drop to 142 by end of the year as well.

- As for Asia FX, the calm that we witnessed in the opening months of the year indeed did not last. By now, there is little doubt that most Asia FX looks set to begin its next phase of weakness after the Trump administration slapped punitive tariffs on various Asian economies. The potential for growth downgrade across the region will likely range between -0.4 and -1.0 ppts if there is no further improvement in the tariff situation. Sustained portfolio outflows on increased global recession worries are likely to exacerbate the regional currencies selloff.

- In all, we reiterate the view of further Asia FX weakness till 3Q25 before stabilising from 4Q25. Once again, CNY will lead the anticipated weakening of Asia FX and we forecast USD/CNY rising to 7.80 by 3Q25. Concurrently, USD/SGD, USD/MYR, USD/IDR, USD/THB and USD/VND are expected to rise to 1.39, 4.70, 17,200, 36.00 and 27,200 respectively by 3Q25.

- Monetary policy expectations remain the primary driver of our level forecast for money market rates and bond yields. In line with our expectations of 3 x 25 bps Fed cuts this year, we now see 3M compounded in arrears Sofr at around 3.77% by end 2025 (from 4.13% previously). For our base case, we forecast the 3M compounded in arrears Sora at 2.17% by end 2025 (from 2.61% previously). In constructing our Sora view, we have assumed ongoing uncertainty to favour domestic liquidity conditions as Singapore functions as a relative safe haven.

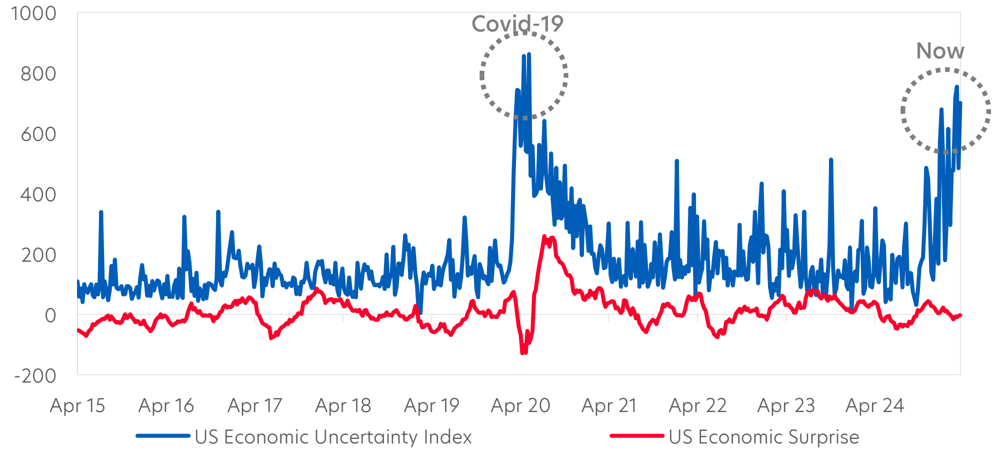
- In the back end, we now see 10Y UST yield ending 2025 at 3.90% (from 4.30% previously). A deeper collapse in 10Y UST yield to the low 3% region cannot be ruled out should recession expectations become mainstream. Similarly, we see 10Y SGS yield easing further to 2.50% by end 2025 (from 2.90% previously).

On Liberation Day, President Trump made good his campaign promise and announced a wide-ranging set of punitive reciprocal tariffs against key trading partners to the US. Economies like Singapore who have enduring trade deficits or run the least trade surplus with the US were not spared either and had 10% of baseline tariffs imposed.

Countries with much larger trade surplus with the US received punitive "Discounted Reciprocal Tariffs" which is simply the trade balance between both countries divided by import volume and "discounted" by half. As such, China received an additional 34% reciprocal tariff on top of the existing 20%. The European Union received a 20% reciprocal tariff. And various Asian and ASEAN economies who are key exporters to the US received outsized reciprocal tariffs as well, e.g. 46% for Vietnam, 36% for Thailand, 32% each for Indonesia and Taiwan etc. For more details, kindly refer to Macro Note: "US: "Liberation Day" tariffs very broad-based & material" dated 03 Apr 25.

Chart 1: Increasing uncertainty in US Economic Outlook

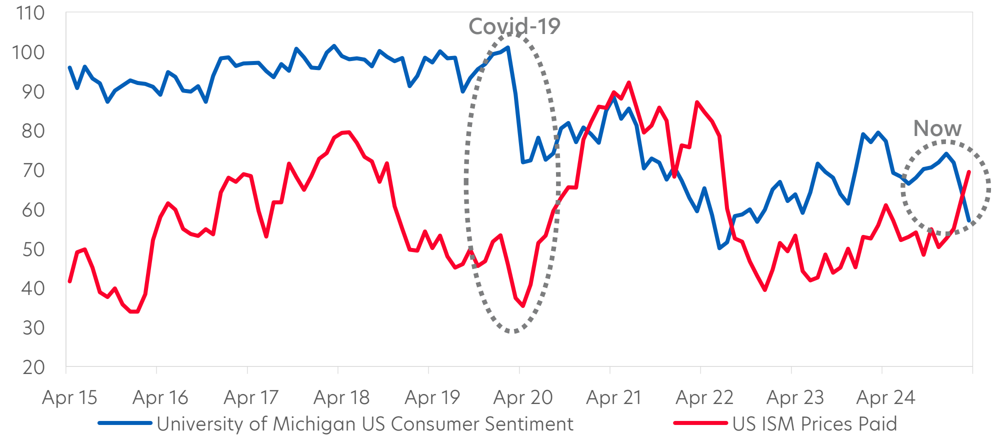
Source: Bloomberg, UOB Global Economics & Markets Research



Economic Uncertainty for the US is exceptionally high and various indices of Economic Uncertainty have spiked to previous highs last seen during the onset of Covid-19. Opinion is now very divided as to what will the precise impact be on the US economy. Will the US economy slip into a recession because of the jump in cost of goods across the board? Or will the US economy slump into a stagflationary cycle because of the concurrent rise in prices? How would the US Federal Reserve (Fed) respond? In fact, prior to Liberation Day, we have started to witness the deterioration of some US macro indicators. E.g. Consumer Sentiment has dropped while Prices Paid sub-index within the ISM manufacturing survey for Mar have increased to its highest since Jun 2022.

Chart 2: US consumer sentiment weakens as prices paid rise

Source: Bloomberg, UOB Global Economics & Markets Research



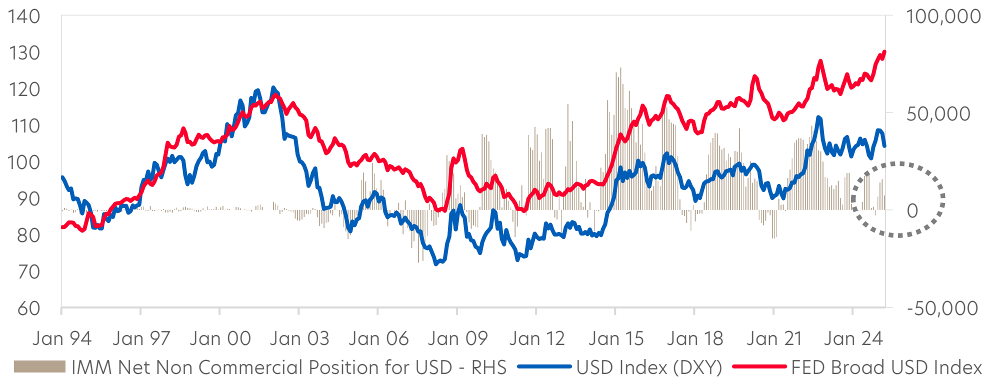
Our macroeconomic team's post "Liberation Day" assessment now warns that US GDP economic growth for this year will slump to just 1.0% (from the previous forecast of 1.8%) and with headline inflation potentially spiking to 4.0% (from the previous forecast of 2.5%). The team has also raised the probability of recession in the US to 40% (from 20 to 25% previously) with increasing risk of a technical recession (i.e. back-to-back sequential quarterly contractions).

In this case, despite the inflation spike, the Fed could justify the rate cuts by pointing to the fact that inflation was induced by supply side shocks rather than demand-driven price increases. In Fed Chair Jerome Powell's lingo, this means that the Fed may well look past the inflation spike and deem it transitory and focus on the hit and slowdown in growth. As a result, the team now expects a more intense 3 x 25 bps rate cuts across 2025, dropping the Fed Funds Rate to 3.75% (upper) by end 2025 (from previous forecast of only 1 x 25 bps cut in 2025).

As for Asia, there will definitely be negative implications for growth in 2025 and beyond given the high tariff rates and especially on export-oriented economies. The potential for growth downgrade will likely range between -0.4 and -1.0 ppts if no further improvements in the tariff situation. Macroeconomics team will finalize our growth forecasts as and when 1Q GDP data become available, starting with VN (6 Apr), CN (16 Apr), SG (likely 14 Apr), MY (18 Apr), SK (24 Apr), TW (30 Apr), ID (5 May), PH (8 May), TH (19 May).

Chart 3: USD positioning remains relatively benign near neutral

Source: Bloomberg, UOB Global Economics & Markets Research



Needless to say, market reaction was decidedly volatile following the reciprocal tariffs announcement by President Trump at the White House's Rose Garden. Treasuries and gold rallied hard on safe haven inflows. The USD started to show divergence by weakening against the Majors, while strengthening further against the CNY and other Asian FX. In particular, USD/CNY jumped from pre-announcement level of 7.27 to above 7.30 before settling down near 7.28. Similarly, USD/SGD spiked to 1.35 before pulling back to 1.3350. The volatility will likely be an enduring feature given that we can expect intense negotiations by various countries with the US to reduce the reciprocal tariffs. Will the tariffs be negative or positive for the USD? Will 10Y UST yield now drop below 4% as market start to price in renewed rate cuts from the Fed?

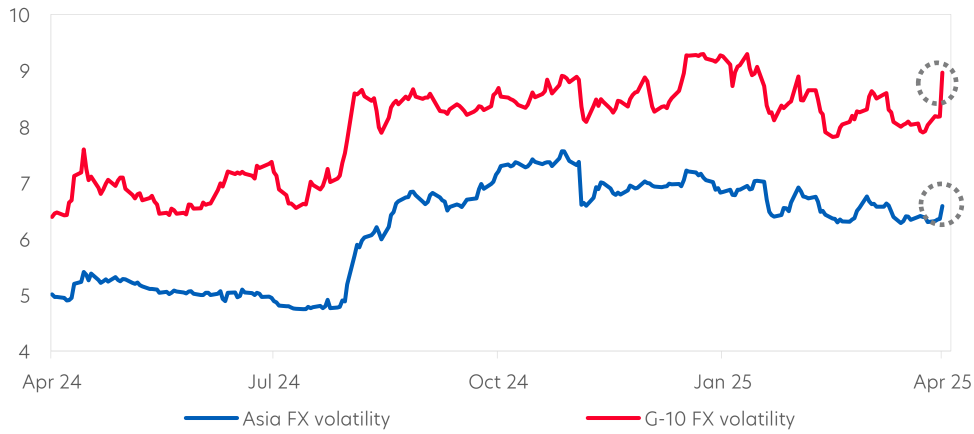
FX Strategy

Is Liberation Day a game-changer for USD?

The USD selloff since Jan has stabilised in Mar as markets braced for a barrage of "Liberation Day" tariffs and the inevitable inflation spillover which may constrain the extent of Fed's easing plan this year. A selloff in US stocks which posted the worst month (in Mar) and quarter since 2022 also put a safe haven bid in the USD. The brief stability in the US Dollar Index (DXY) was upended in early Apr after the Trump administration announced tougher than expected tariffs. US economic slowdown concerns intensified, prompting markets to price in more Fed rate cuts this year and the DXY tumbled to a six-month low. Has the USD begun a new phase of weakness and how would it shape our FX forecasts?

Chart 4: FX volatility is starting to rise again as trade war escalates further

Source: Bloomberg, UOB Global Economics & Markets Research



Most Asia FX fell against the USD in the past month on increasing concerns that some regional economies may be hit with reciprocal tariffs. Sustained outflows from most regional equity markets also weighed on currency sentiments. Now, with the brunt of Trump's latest "Liberation Day" tariffs directed at most Asian economies, the path of least resistance is likely for further Asia FX weakness as markets start to price in the economic cost on regional economies from the latest tariffs. Will Asia FX fall more than what we had previously expected? And will the CNY continue to stay calm and carry on after this latest round of trade escalation?

Right By You

Major FX Strategy

USD weighed by US growth slowdown concerns

The USD outlook in the G-10 FX space is largely driven by rate differentials rather than US trade policy alone, as we argued in previous publications. Markets are now pricing in more Fed rate cuts in 2025 (about 90 bps as of 3 Apr) as a broad-based hike in tariff rate is expected to weigh on goods trade, dent consumer spending and sentiment, and intensify US growth slowdown concerns.

In reaction, our macroeconomic team have downgraded 2025 US GDP forecast to 1.0% from 1.8% previously and tariff-induced inflation spike in the US is assumed to be "transitory" at the current juncture. With rising US growth risks (relative to inflation), the team also increased expectations of 2025 Fed rate cuts to 75 bps from 25 bps previously. As a result, the USD's rate advantage relative to its Major FX peers has narrowed considerably as Fed rate expectations converge towards that of its peers. For the rest of 2025, the macroeconomic team still expects the European Central Bank (ECB) to ease a further 50 bps while Bank of England (BOE), Reserve Bank of Australia (RBA) and Reserve Bank of New Zealand (RBNZ) may slash rates by 75 bps each.

Consequently, we now expect a lower US Dollar Index (DXY) trajectory compared to our last review a month ago during the Quarterly Global Outlook report dated 07 Mar 25. Our updated DXY forecasts now lays out renewed weakness from 101.6 at end-2Q25 to 98.6 at end-1Q26. That said, there is still upside risks to our USD forecasts which stem from tariff-induced inflation staying sticky which may trigger a hawkish Fed response, hence keeping USD bid. Also, volatility is likely to persist as markets digest potential tariff negotiations or retaliation which sets off contrasting reactions in the currency markets.

Chart 5: We expect further DXY weakness as we increased our expectations of 2025 Fed rate cuts to 75 bps from 25 bps previously

Source: Macrobond, UOB Global Economics & Markets Research

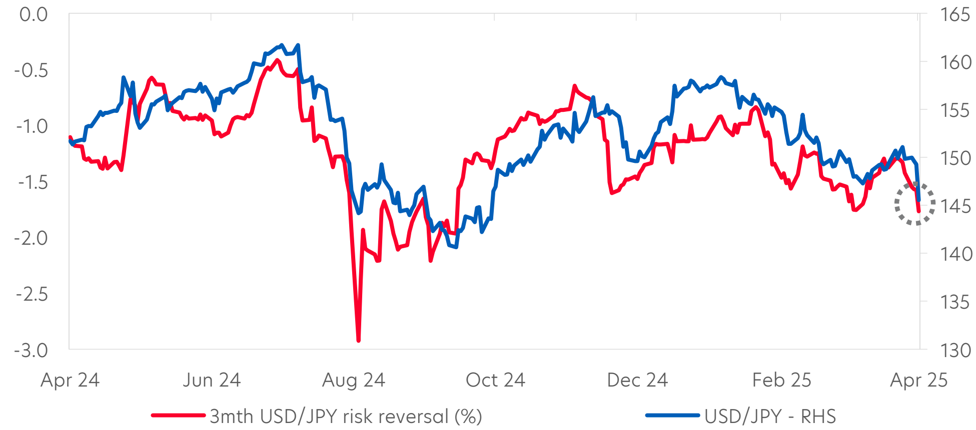
EUR/USD is still strongly bid after jumping 4.3% in Mar, the biggest monthly gain since Nov 2022, to about 1.08 owing to a multitude of important factors. The passing of Germany's EUR 500 bn infrastructure fund and aggressive fiscal stimulus have boosted Germany and Eurozone's growth prospects, invoking animal spirits of investing in European assets again. Portfolio flows helped support EUR/USD as US investors poured a record USD 10.6 bn into exchange-traded funds focused on European stocks in 1Q25. Such trends are likely to last awhile longer and is expected to underpin the EUR over the medium term. A narrowing of the EUR-USD rate differential is also a positive for EUR/USD. Despite the string of expected tailwinds for EUR/USD, volatility in the currency pair may stay elevated as the European Union vowed to respond with countermeasures to Trump's

20% tariffs if negotiations fail. Overall, our updated forecasts EUR/USD are 1.12 in 2Q25, 1.13 in 3Q25, 1.14 in 4Q25 and 1.15 in 1Q26.

GBP may turn out to be one of the most clear-cut beneficiaries in this new phase of USD weakness. Firstly, tariff-related spillover to the UK economy is likely measured given UK is prescribed only the minimum 10% universal tariff. Also, a narrowing of the GBP-USD rate differential is likely to underpin GBP/USD as well. Lastly, Apr's positive seasonality in GBP/USD may help the pair solidify a foothold above the key 1.30 level. Overall, our GBP/USD forecasts are 1.33 in 2Q25, 1.35 in 3Q25, 1.36 in 4Q25 and 1.37 in 1Q26.

Chart 6: Falling risk reversals indicate investors are now seeking downside protection in USD/JPY amidst global risk aversion

Source: Bloomberg, UOB Global Economics & Markets Research



Over the past month, USD/JPY traded lower to 147 from about 150, tracing a decline in the 10-yr US-Japan rate spread which has dipped to the lowest since Aug 2022. Ironically, the latest Liberation Day tariff (24%) against Japan is likely to be JPY-positive due to renewed safe haven demand, on top of the monetary policy divergence between Fed and Bank of Japan (BOJ) that is already underpinning the JPY. For now, we keep our Japan's growth and inflation outlook unchanged. Owing to yet another year of strong wage gains in the annual shunto wage negotiations, our BOJ rate hike expectation is kept intact at additional 50 bps for the rest of 2025, although there are risks that further uncertainty in the global trade environment may lead the BOJ to delay one of the hikes to 2026. Overall, we reiterate our view of a lower USD/JPY in the coming year with updated forecasts at 145 in 2Q25, 144 in 3Q25, 142 in 4Q25 and 140 in 1Q26.

Being a risk-sensitive currency, the AUD is weighed by increased global economic uncertainties and risk aversion. Its close correlation to the weakening CNY – as a result of escalating US-China trade tensions – is yet another headwind. As such, the AUD may not be able to take full advantage of the expected USD weakness against G-10 peers. Overall, our updated AUD/USD forecasts are 0.63 in 2Q25, 0.64 in 3Q25, 0.65 in 4Q25 and 1Q26.

Asia FX Strategy

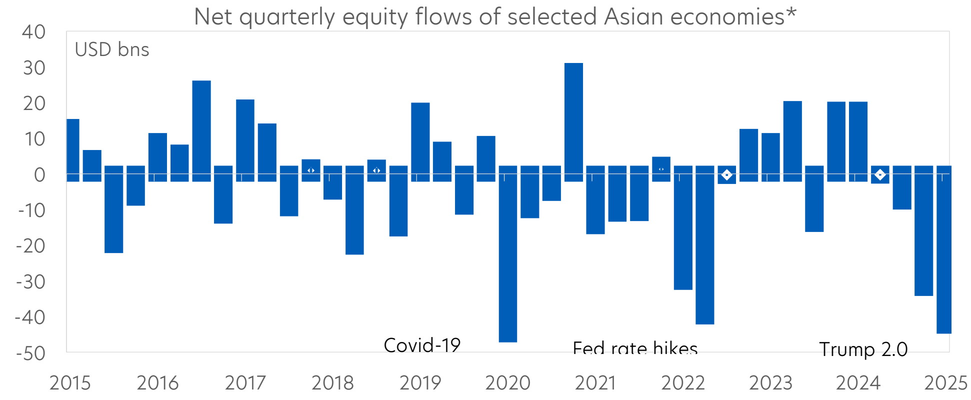
Reciprocal tariffs a key negative for Asia FX

In our last quarterly update in early Mar, we opined that the calm in Asia FX in 1Q25 is unlikely to persist. While Asia FX ended mixed in 1Q25, Asian economies ex-China endured steep outflows from their respective equity markets as investors trimmed emerging markets exposure amidst the constant tariff threats.

By now, there is little doubt that most Asia FX looks set to begin its next phase of weakness after the Trump administration slapped punitive tariffs on various Asian economies with up to a combined 54% high for China. Export volumes are almost certain to decline, dimming the growth and hence currency outlook of the respective regional economies. The potential for growth downgrade across the region will likely range between -0.4 and -1.0 ppts if there is no further improvement in the tariff situation, according to our macroeconomic team's estimates. Sustained portfolio outflows on increased global recession worries are likely to exacerbate the regional currencies selloff. In all, we reiterate the view of further Asia weakness till 3Q25 before stabilising from 4Q25. In addition, we are more bearish on selected Asia FX and have marked them proportionate to the reciprocal tariff they are being subjected.

Chart 7: Asia equity markets saw steep outflows in 1Q25

Source: Bloomberg, UOB Global Economics & Markets Research



* denotes Taiwan, India, South Korea, Philippines, Malaysia, Indonesia & Thailand

We do not expect the year-to-date consolidation of USD/CNY between 7.25 and 7.33 to persist much longer, especially where additional tariff rate on Chinese goods into US has escalated to a punitive combined tariff rate of 54%. Right after the Liberation Day tariffs were announced on 3 Apr, the People's Bank of China (PBOC) fixed the CNY weaker by the biggest margin (96 pips to 7.1889) since last Dec. This may be a signal that authorities are allowing the CNY to do the adjustment on behalf of the economy. Borrowing a page from the last trade war, CNY depreciation pressures will start to build if China retaliates with countermeasures, intensifying the vicious cycle of tit-for-tat tariff escalation.In addition, we expect volatility in USD/CNY to pick up further after the pair pushes above the psychological 7.35 level which had held USD gains since late 2022. To factor in the increased spillover of an outsized 54% tariff (from 20% previously), we have raised our USD/CNY forecasts, looking for a 7.80 peak in 3Q25 from 7.65 previously. Overall, our updated USD/CNY forecasts are at 7.55 in 2Q25, 7.80 in 3Q25, 7.60 in 4Q25 and 7.50 in 1Q26.

The SGD remained one of the outperformers within the Asia FX space, rising close to 2% to 1.34 /USD since the start of the year. Anchoring the SGD's resilience is a positive-sloping S$NEER and SGD's reputation as a regional safe-haven currency. In the coming Apr Monetary Authority of Singapore (MAS) policy meeting, we expect a "slight" reduction of the S$NEER slope to an estimated 0.5% p.a. from 1.0% p.a. currently. Risks of a complete flattening of the S$NEER slope later this year has risen significantly. Considering a "minimum" global tariff rate of 10% being applied on Singapore and increased external uncertainties, we mark USD/SGD modestly higher by 100 to 200 pips compared to the last review in early Mar. Overall, our updated USD/SGD forecasts are 1.37 in 2Q25, 1.39 in 3Q25, 1.38 in 4Q25 and 1.37 in 1Q26. For more details of the impact of reciprocal tariffs on Singapore's economy, kindly refer to Macro Note: "Singapore: Preliminary Assessment of Trump's Tariffs" dated 03 Apr 25.

Despite sound economic and financial fundamentals, the resilient MYR may start to weaken anew in line with the intensifying global trade war, especially after the Trump administration imposed a 24% reciprocal tariff on Malaysia's goods into US. Its close correlation to the CNY means that the MYR would inevitably feel the drag of a weaker CNY which we now expect may weaken to an 18-year low of 7.80 /USD by 3Q25. To reflect the impact of the latest reciprocal tariffs, we raise our USD/MYR forecasts by 500 pips across the next four quarters and they are now at 4.60 in 2Q25, 4.70 in 3Q25, 4.60 in 4Q25 and 4.55 in 1Q26. For more details of the impact of reciprocal tariffs on Malaysia's economy, kindly refer to Macro Note: "Malaysia: Weighing economic effects from US reciprocal tariffs" dated 04 Apr 25.

The IDR is Asia's worst performing currency year-to-date, falling 2.8% to 16,746 /USD, the lowest since the Asian Financial Crisis (AFC), on increasing concerns over the sustainability of Indonesia's economic policies in addition to global uncertainties. Adding to the currency woes is the net portfolio outflow of about USD 1bn from the country's stock and bond markets in 1Q25 amidst global risk aversion. Our expectation of 2x25bps rate cuts by the Bank Indonesia (BI), one each in 2Q25 and 3Q25 is likely to keep the pressure on the IDR in the near term. To temper with the depreciation pressures, BI continued to intervene in both the spot, domestic non-deliverable forwards and bond markets to stabilise the IDR. Going forth, the prohibitive 32% reciprocal tariff on Indonesian goods into US is yet another pressure point for the IDR. The path of least resistance is still for further IDR losses although we expect BI to double-down on efforts to smooth currency volatility as IDR approaches its AFC record low of 16,950 /USD. Our updated USD/IDR forecasts are higher at 16,900 in 2Q25, 17,200 in 3Q25, 17,000 in 4Q25 and 16,800 in 1Q26.

The THB is facing a multitude of headwinds which include an outsized 36% US reciprocal tariff on Thai goods, uncertain economic cost of the 28 Mar earthquake and persistent outflows from the local stock market. We now expect 2x25bps cuts from the Bank of Thailand (BOT) in Apr and Jun in order to bolster domestic demand and support growth. Similar to other Asian peers, we downgrade our THB forecasts predominantly due to the economic drag from Trump's reciprocal tariffs. Our updated USD/THB forecasts are 35.2 in 2Q25, 36.0 in 3Q25, 35.5 in 4Q25 and 35.0 in 1Q26. For more details of reciprocal tariffs on Thailand's economy, kindly refer to Macro Note: "Thailand: US reciprocal tariffs likely to have an impact on the Thai economy" dated 04 Apr 25

The VND weakened to a fresh record low of about 25,800 /USD in the aftermath of US' 46% tariff on Vietnamese goods which ranks one of the highest reciprocal rates the Trump administration has slapped on its global trading partners on 2 Apr. The prohibitive tax will make Vietnamese products lose its price competitiveness in the US which is Vietnam's largest export market. The latest trade action could significantly derail Vietnam's goal of achieving 8% GDP growth this year. As growth uncertainties grow, pressure on the VND will inevitably build. Overall, we reiterate our expectations of further VND weakness and updated USD/VND forecasts are 26,500 in 2Q25, 27,200 in 3Q25, 26,800 in 4Q25 and 26,500 in 1Q26.

Rates Strategy

Witnessing a new world order in global trade

Liberation Day and bond markets

Following the Liberation Day tariff announcement, the immediate reaction in the US bond market was a decline in Treasury yields, suggesting a flight to safety as investors assessed the potential economic ramifications of these tariffs. The short-term outlook for the US bond market points towards continued downward pressure on yields, driven by concerns over a slowdown in economic growth stemming from the tariffs.

Bond prices could potentially experience further gains as investors continue to seek the relative safety of government debt amidst the prevailing economic uncertainty. The bond market's initial response suggests that investors are currently more concerned about the potential negative consequences of the tariffs for economic growth than about an immediate and substantial surge in inflation. If the market anticipates a weakening economic outlook, the demand for safe-haven assets like US Treasuries will likely remain elevated, thereby keeping yields lower in the near term.

The longer-term outlook remains highly uncertain, contingent on the durability and broader impact of these tariffs on global trade, supply chains, and overall economic stability, with a notable risk of stagflationary pressures emerging. The US administration has signaled that it is open to negotiations, therefore future market states are also yet to be determined based off the subsequent horse trading that is due to occur next. Whether countries choose to go with a “tit for tat” approach which will raise the floor on prices or choose instead to go with conciliatory “less is more” stance to prevent prices from spiraling higher, remains to be seen.

Looking out further, several scenarios could unfold for bond markets. If the tariffs significantly impede economic growth over the long term, the demand for safe-haven assets like US Treasuries could remain high, potentially leading to continued low yields. Conversely, if the tariffs primarily result in sustained and dominant inflationary pressures without a corresponding hit to economic output, bond yields might rise to compensate investors for the eroding purchasing power of their fixed-income investments. The risk of stagflation presents the possibility of volatile bond market conditions, as investors grapple with the conflicting signals of weak growth and elevated inflation.

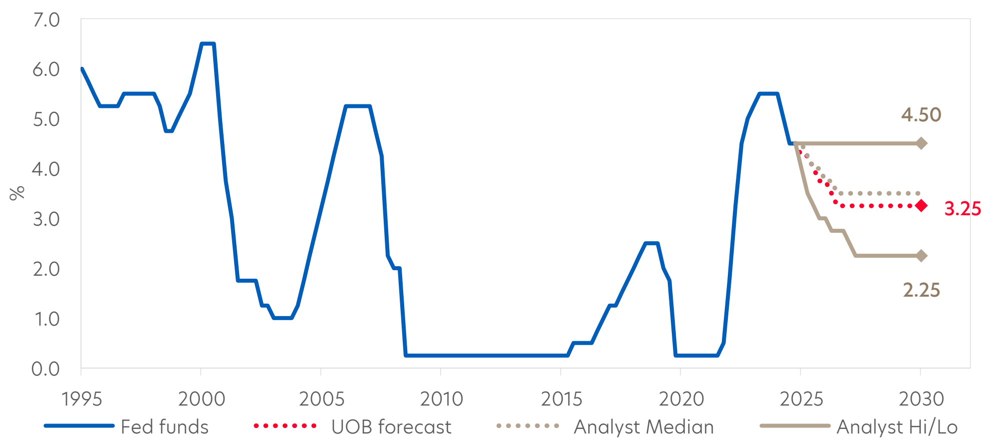
Our updated FOMC view: We now see 3 x 25 bps Fed cuts this year

After digesting liberation news, our US macroeconomic team has turned more pessimistic on growth and changed their Fed cut forecast from a “one and done” to “worthy of three” in 2025. Our base case is now every quarter this year is a live one for the Fed to cut. This will take Fed funds rate down to 3.75% (upper) by the end of the year. We continue to pencil in 2 more cuts in 2026, thus our easing cycle bottom for Fed funds parallel shifts lower by 50bps to 3.25% in 2H26.

The Fed will face a complex challenge in formulating its policy response to the tariffs, given the conflicting pressures of potentially higher inflation and slower economic growth. Depending on how these economic forces unfold, the Fed might find itself in a position where it needs to delay previously anticipated interest rate cuts if inflation remains stubbornly elevated (or accelerates) due to the tariffs. Conversely, if the tariffs lead to a significant weakening of economic growth, the Fed might be compelled to cut interest rates to provide support to the economy, even if inflation remains above its target. Investors will be hoping for a clearly articulated strategy from the Fed on how it intends to manage potential stagflationary pressures arising from the tariffs. This would be crucial in providing clarity and direction to bond market participants, but certainty is in short supply at the moment. Indeed, Chair Powell had previously indicated the Fed's base case is that tariffs will have a transitory impact on inflation but acknowledged significant uncertainty about this outcome.

Chart 8: US rate outlook

Source: Bloomberg, UOB Global Economics & Markets Research



For our base case, we forecast the 3M compounded in arrears Sofr at around 3.77% by end 2025. Further Sofr downside is expected into 2026 given that we see the Fed easing cycle ending in the middle of the year.

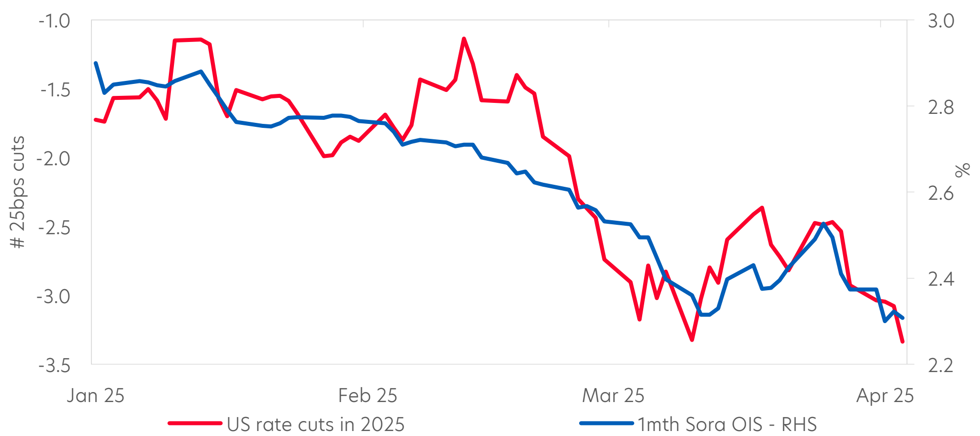
Our existing MAS view: We see slight S$NEER slope reduction

Following the lower-than-expected core CPI print in Feb, our macroeconomics team have reduced their full year 2025 core CPI forecast as well as turned more dovish on domestic monetary policy outlook. We now expect MAS to reduce the slope of the S$NEER policy band "slightly" (i.e. to an estimated 0.5% p.a. from 1.0% p.a.) in the upcoming Apr 2025 MPS. The balance of risk lies with the downside, and we cannot rule out a complete flattening of the S$NEER slope later this year should the core inflation momentum decelerate further, or growth risks become more pronounced.

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$NEER. To be clear, even after easing, we have the S$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 9: Sora responding to US policy expectations

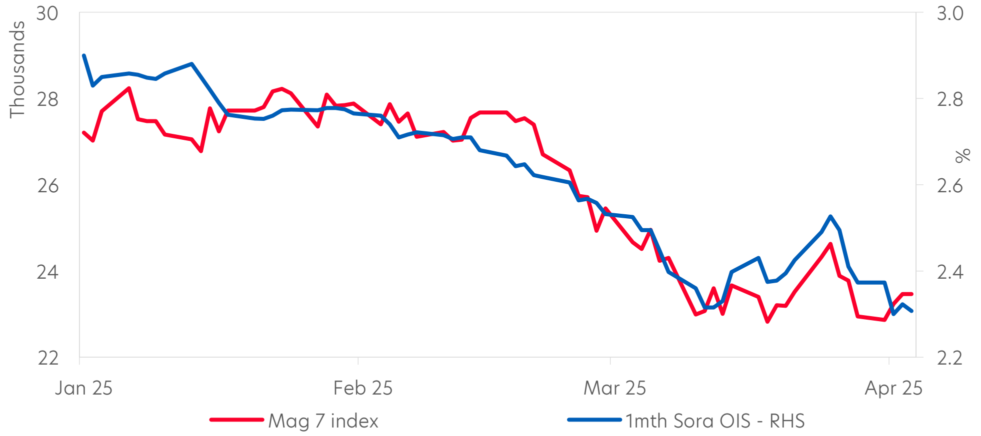
Source: Bloomberg, UOB Global Economics & Markets Research



Volatility in overnight Sora fixings was on display in Mar with a monthly high-low fix of 2.98% to 2.08%. The standard deviation of daily Sora changes for Mar came in at around the 82nd percentile compared to the 62nd percentile for Feb based on history going back to 2005. Year to date, Sora's direction of travel (proxied by the 1mth Sora OIS) has mapped well to both a monetary policy as well as a liquidity driven narrative. The surge in 1M MAS bills auction bid-to-cover to 2.14 times in 1Q 2025 from 1.80 times in 4Q 2024, is illustrative of better domestic liquidity conditions.

Chart 10: Sora also maps well to risk rebalancing narrative

Source: Bloomberg, UOB Global Economics & Markets Research



In addition, lower Sora rates have also overlapped with weakness in US equities (represented by the poster child Mag7 index), the latter has generally been linked to waning US exceptionalism rebalancing. Given that we remain hostage to US policy developments, a safe-haven premium could persist which will favour domestic SG liquidity conditions and a greater SG yield discount to US whilst it lasts.

For our base case, we forecast the 3M compounded in arrears Sora at 2.17% by end 2025. In constructing our Sora view, we have assumed ongoing uncertainty to favour domestic liquidity conditions as Singapore functions as a relative safe haven.

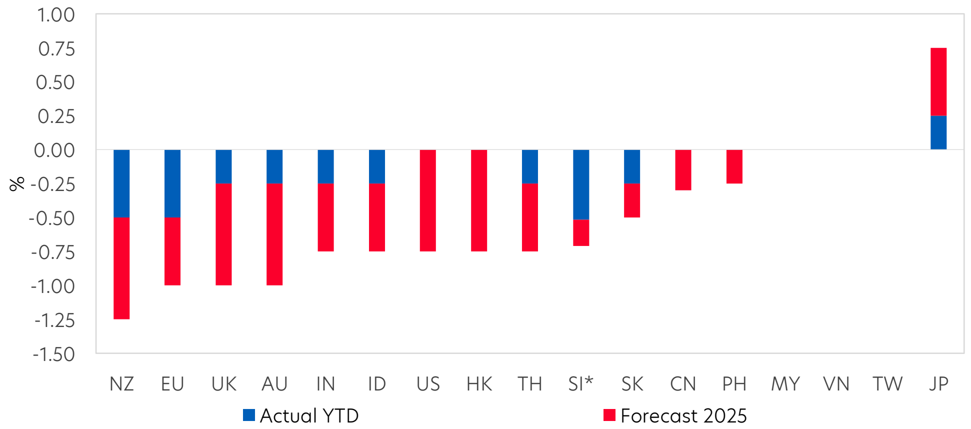
Our wider monetary policy views: Caution amidst uncertainties

Our monetary policy views on major developed markets (DM) and selected Asian economies sees central bankers positioned to continue cutting their own policy rates in 2025. Broadly speaking, we see reductions at a more measured pace of 25bps clips going forward.

Right By You

Chart 11: Policy rate expectations 2025

Source: Bloomberg, UOB Global Economics & Markets Research



Latest statements from ECB officials suggests that they are close to seeing the light at the end of the tunnel of this easing cycle. The Eurozone economy continues to face growth challenges, but downside risks have been trimmed given the prospects of increased defense/infrastructure spending, especially from Germany. Our view remains that the ECB will aim to reach a broadly neutral stance this year and another 50bps reduction to bring the ECB refi rate down to 2.15% seems like a reasonable bet for terminal value.

For the BOE, the latest vote outcome from the Mar monetary policy meeting and the accompanying statement have shifted towards being more cautious on the pace of future rate cuts. However, the UK economy is sluggish and in contrast to the Eurozone, fiscal policies will not be providing much tailwinds. We are mindful that UK's fiscal buffer is historically low; thus, the prospect of tighter spending and/or tax increases remains on the radar. Our base case is that the BOE will stick to a quarterly pace of cuts to bring the policy rate down to 3.00% by the second half of 2026.

The unfolding of external developments has also prompted the BOJ to signal caution in its monetary policy guidance. Nonetheless, firm inflation trend with strong wage growth provides the BOJ with the confidence to be the outlier in the central bank space and continue its hiking process. We forecast two more 25 bps hikes from the BOJ this year, lifting its benchmark rate higher to 1.0% by 4Q25. That said, there is a chance of delay if US tariffs proved to be more disruptive than expected.

With the OCR now much closer to neutral and the economy recovering slowly, the era of bold moves by RBNZ is over. We expect future adjustments will occur in clips of 25bps. For now, we anticipate policy continuity from Acting Governor Christian Hawkesby and we look for a further 75bps of rate cuts for the rest of this year, taking the OCR to 3.00% by 3Q25. This view will be reassessed after the appointment of a new Governor to see if it remains valid.

Across the Tasman, RBA cut its policy rate for the first time in more than four years in Feb. Their accompanying statement was more hawkish than expected, nonetheless we see monetary conditions shifting towards the accommodative spectrum to account for a turn lower in the business cycle. We currently pencil in a further of 75bps of easing in 2025, taking the cash rate target to a terminal level of 3.35%.

In the Asian region, although further easing from selected Asian central banks in 2025 remains our base case, inflation by and large has been contained which allows for the focus to be on getting ahead of negative growth shocks. One such risk comes in the form of secondary impact from a slowdown in the Chinese and Japanese economies.

We are cognizant that faced with the uncertainties around trade and tariff policies, Asian currencies have an increased potential to become more volatile and undershoot on the downside. As such, central banks in the more vulnerable Asian economies may have to tread more cautiously when it comes to future monetary policy easing.

Our Thai macro team now sees 2 more rate cuts from the BOT by the middle of the year to drop the policy rate down to 1.50%. Even before US tariffs, the sluggish Thai economy was already having to contend with demand retrenchment following the Myanmar earthquake in late Mar.

Our 10Y UST view: notwithstanding bouts of volatility; yields to stay rangebound
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 level forecast for bond yields.

While our current outlook suggests risk aversion to hold sway in the near term, which would be supportive of 10Y UST testing the 4% boundary, a deeper collapse in 10Y UST yield to the low 3% region will probably coincide with recession expectations becoming mainstream and Fed rate cut pricing doubling from prevailing levels at a minimum.

On the flipside, certain scenarios could disrupt this near-term dynamic and propel 10Y UST yield back up towards the 5% mark. As it stands, analysts' consensus paints a likelihood that tariff related price pressures could show up in 2H25. In addition, we could also see the US administration devoting more attention to its tax promises which will provide some counterbalance to negative growth sentiments. The US deficit situation is also not going away anytime soon and can add fuel to an upside yield shock scenario.

Chart 12: UOB vs Consensus Forecast (10Y UST)

Source: Bloomberg, UOB Global Economics & Markets Research

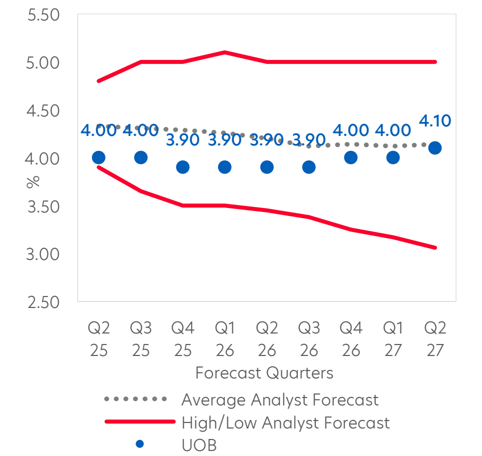
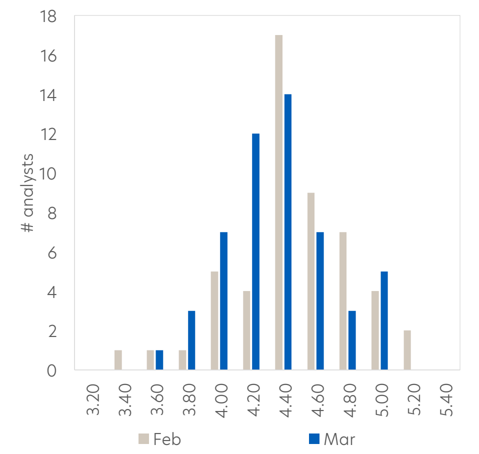


Chart 13: Distribution of end 2025 analysts 10Y UST forecast

Source: Bloomberg, UOB Global Economics & Markets Research



Our updated 10Y UST forecasts sits below analysts median as of end Mar, this is consistent with our base case Fed forecasts which are likewise below the median. The most common forecast for 10Y UST yield at the end of 2025 is between 4.20% to 4.40% at the end of Mar. We expect liberated analysts to to mark this lower in the April surveys.

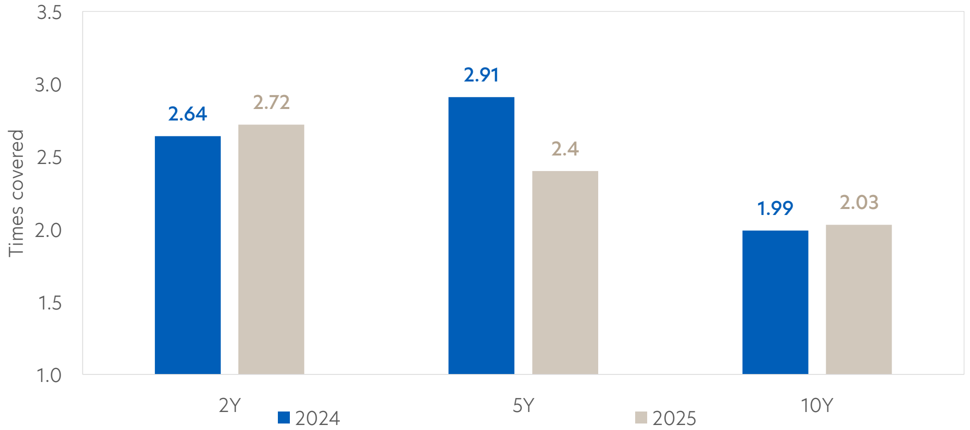
For our base case, we forecast the 10Y UST yield at 3.90% for end 2025. We see the bond market operating in a rangebound regime as investors wrestle between growth and inflation concerns.

Our 10Y SGS view: healthy demand and positive domestic dynamics to cap yield upside

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 has been healthy considering an easing MAS policy bias. Given that we still expect a Fed easing cycle in 2025 and extending into 2026, demand for SGS should remain supportive which will help keep a lid on domestic yields.

Chart 14: SGS auction bid-to-cover ratio

Source: Bloomberg, UOB Global Economics & Markets Research



This year's SGS auctions have not thrown up many surprises. Demand in the 10Y tenor remains steady with bid-to-cover ratios comparable to 2024's average despite increased supply. We see the 10Y SGS in a rangebound environment, and our base case forecast is for the bond yield to end 2025 at around 2.50%.

Summary table of rates forecasts

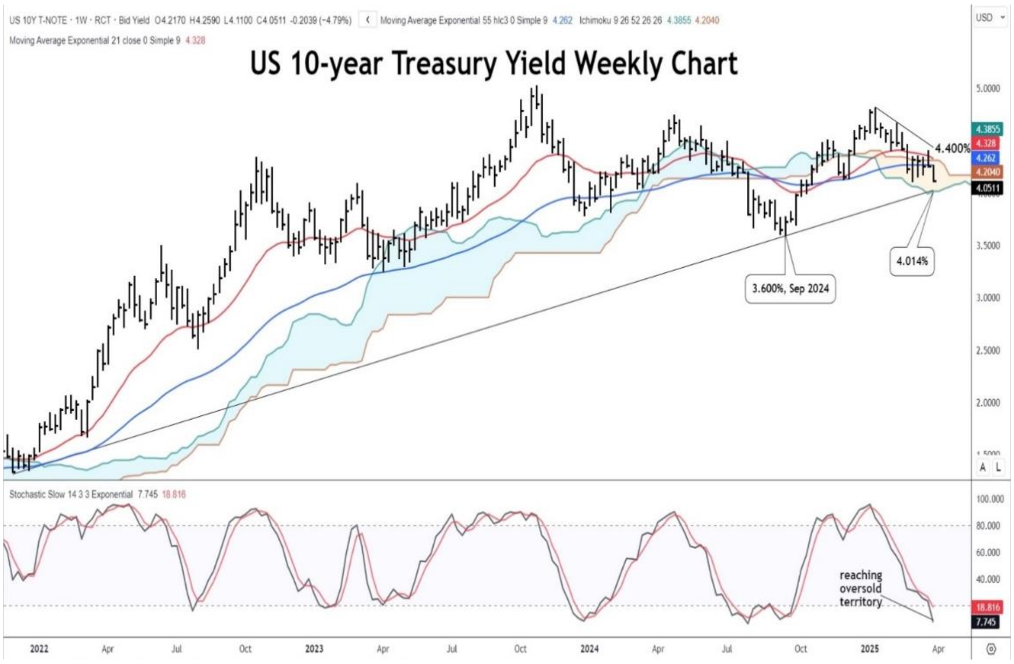
Rates	03 Apr 25	_	2Q25F	3Q25F	4Q25F	1Q26F
US Fed Funds Target	4.50	Current	4.25	4.00	3.75	3.75
		Previous	4.25	4.25	4.25	4.25
3M compounded SOFR	4.35	Current	4.28	4.02	3.77	3.64
		Previous	4.24	4.13	4.13	4.13
10Y UST	4.01	Current	4.00	4.00	3.90	3.90
		Previous	4.30	4.30	4.30	4.30
3M compounded SORA	2.54	Current	2.37	2.26	2.17	2.10
		Previous	2.60	2.61	2.61	2.60
10Y SGS	2.53	Current	2.50	2.50	2.50	2.50
		Previous	2.90	2.90	2.90	2.90

Source: UOB Global Economics & Markets Research

Right By You

FX Technical

US 10-Year Treasury Yield: 4.051%
Sharp increase in momentum suggests the 10-year yield could break 4.014%; it remains to be seen if the next key support will come into view in the next couple of months.



Source: LSEG Workspace, UOB Global Economics & Markets Research

Our previous Chart of the Day was from one month ago on 03 March 2025. At that time, when the US 10-year yield was at 4.148%, we titled our update: "**Downside call since January validated: strong momentum suggests 10-year yield could break below key support zone (3.980%-4.060%).** "

Subsequent to our update, the 10-year yield has been trading in a range until this week, when it plummeted abruptly. The decline is approaching the key support, which has now risen to 4.014%. Note that both the rising weekly trendline drawn from early 2022, and the bottom of the weekly Ichimoku cloud are near 4.014%. The sharp increase in momentum suggests a break of the key support level will not be surprising.

Looking ahead, the next key support below 4.014% is at 3.600%, last September's low. This level is quite a bit lower, and it remains to be seen if it will come into view in the next couple of months. To sustain the momentum, the 10-year yield must not break above 4.400%. In the near-term, 4.250% is already quite a notable resistance level.

FX, INTEREST RATES & COMMODITIES

Forecasts

FX	04 Apr	2Q25F	3Q25F	4Q25F	1Q26F
USD/JPY*	146	145	144	142	140
EUR/USD*	1.11	1.12	1.13	1.14	1.15
GBP/USD*	1.31	1.33	1.35	1.36	1.37
AUD/USD*	0.63	0.63	0.64	0.65	0.65
NZD/USD*	0.58	0.57	0.58	0.59	0.59
DXY*	101.8	101.6	100.6	99.6	98.6
USD/CNY*	7.28	7.55	7.80	7.60	7.50
USD/HKD	7.78	7.78	7.78	7.78	7.78
USD/TWD*	33.10	34.0	34.8	34.4	34.0
USD/KRW*	1,438	1,480	1,520	1,500	1,480
USD/PHP	56.92	58.5	59.5	59.0	58.5
USD/MYR*	4.42	4.60	4.70	4.60	4.55
USD/IDR*	16,560	16,900	17,200	17,000	16,800
USD/THB*	34.13	35.2	36.0	35.5	35.0
USD/VND*	25,803	26,500	27,200	26,800	26,500
USD/INR*	85.44	87.0	88.0	87.5	87.0
USD/SGD*	1.33	1.37	1.39	1.38	1.37
EUR/SGD*	1.48	1.53	1.57	1.57	1.58
GBP/SGD*	1.75	1.82	1.88	1.88	1.88
AUD/SGD*	0.84	0.86	0.89	0.90	0.89
SGD/MYR*	3.32	3.36	3.38	3.33	3.32
SGD/CNY*	5.46	5.51	5.61	5.51	5.47
JPY/SGDx100*	0.91	0.94	0.97	0.97	0.98

POLICY RATES	04 Apr	2Q25F	3Q25F	4Q25F	1Q26F
US Fed Funds Rate*	4.50	4.25	4.00	3.75	3.75
JPY Policy Rate	0.50	0.75	0.75	1.00	1.00
EUR Refinancing Rate	2.65	2.40	2.15	2.15	2.15
GBP Repo Rate	4.50	4.25	4.00	3.75	3.50
AUD Official Cash Rate	4.10	3.85	3.60	3.35	3.35
NZD Official Cash Rate	3.75	3.25	3.00	3.00	3.00
CNY 1Y Loan Prime Rate	3.10	2.90	2.80	2.80	2.80
HKD Base Rate*	4.75	4.50	4.25	4.00	4.00
TWD Official Discount Rate	2.00	2.00	2.00	2.00	2.00
KRW Base Rate	2.75	2.50	2.50	2.50	2.50
PHP O/N Reverse Repo	5.75	5.50	5.50	5.50	5.50
MYR O/N Policy Rate	3.00	3.00	3.00	3.00	3.00
IDR 7D Reverse Repo	5.75	5.50	5.25	5.25	5.25
THB 1D Repo*	2.00	1.50	1.50	1.50	1.50
VND Refinancing Rate	4.50	4.50	4.50	4.50	4.50
INR Repo Rate	6.25	5.75	5.75	5.75	5.75

INTEREST RATES	04 Apr	2Q25F	3Q25F	4Q25F	1Q26F
USD 3M SOFR (compounded)*	4.35	4.28	4.02	3.77	3.64
SGD 3M SORA (compounded)*	2.54	2.37	2.26	2.17	2.10
10Y US Treasuries Yield*	4.01	4.00	4.00	3.90	3.90
SGD 10Y SGS*	2.53	2.50	2.50	2.50	2.50

COMMODITIES	04 Apr	2Q25F	3Q25F	4Q25F	1Q26F
Gold (USD/oz)	3,108	2,900	3,000	3,100	3,200
Brent Crude Oil (USD/bbl)	70	70	70	65	65
Copper (USD/mt)	9,367	9,000	9,000	8,500	8,500

Updated as of 04 April 2025
* Forecasts updated as compared to previous report dated 07 March 2025
Source for spot rates: Bloomberg

Disclaimer

This publication is strictly for informational purposes only and shall not be transmitted, disclosed, copied or relied upon by any person for whatever purpose, and is also not intended for distribution to, or use by, any person in any country where such distribution or use would be contrary to its laws or regulations. This publication is not an offer, recommendation, solicitation or advice to buy or sell any investment product/securities/instruments. Nothing in this publication constitutes accounting, legal, regulatory, tax, financial or other advice. Please consult your own professional advisors about the suitability of any investment product/securities/ instruments for your investment objectives, financial situation and particular needs.

The information contained in this publication is based on certain assumptions and analysis of publicly available information and reflects prevailing conditions as of the date of the publication. Any opinions, projections and other forward-looking statements regarding future events or performance of, including but not limited to, countries, markets or companies are not necessarily indicative of, and may differ from actual events or results. The views expressed within this publication are solely those of the author's and are independent of the actual trading positions of United Overseas Bank Limited, its subsidiaries, affiliates, directors, officers and employees ("UOB Group"). Views expressed reflect the author's judgment as at the date of this publication and are subject to change.

UOB Group may have positions or other interests in, and may effect transactions in the securities/instruments mentioned in the publication. UOB Group may have also issued other reports, publications or documents expressing views which are different from those stated in this publication. Although every reasonable care has been taken to ensure the accuracy, completeness and objectivity of the information contained in this publication, UOB Group makes no representation or warranty, whether express or implied, as to its accuracy, completeness and objectivity and accept no responsibility or liability relating to any losses or damages howsoever suffered by any person arising from any reliance on the views expressed or information in this publication.