

Mar 06, 2025

## Three Take-Aways

- 1) **US ISM services index exceeded expectations to allow mild climb in UST yields.**
- 2) **Risk sentiments recovered on Trump's delay in tariffs for automakers. Even with ECB cut looming, EUR gained as EZ yields soared alongside seismic fiscal shift on military spending.**
- 3) **China's NPC allow higher fiscal deficit and maintained their around 5% growth target with focus on domestic consumption.**

## MACRO THEME: Whatever It Takes

- **US ISM Services surprised to the upside** as both new orders and employment showed a faster pace of expansion. Price paid also rose as the likes of accommodation and food services reporting that "tariff actions are creating chaos in information and pricing measures". US President Donald Trump had said that there will be a "little disturbance" from tariffs. UST yields rose to close slightly after the upside economic surprise.

- **Risk sentiments in the US also took a U-turn** with US President Donald Trump providing an **exemption** of one month for **automakers** affected by the Mexico and Canada tariffs. Given that a good majority of tariffs remain in place, it is certainly not surprising that **Canadian PM Justin Trudeau has said that their retaliatory tariffs will not be lifted**. Meanwhile, Trump's Agriculture Secretary has said that he is considering exemptions for certain commodities.

- **Comparatively, it is a seismic shift** across the **Atlantic** with yields soaring (**2Y Bund yields: +21bps**) as **Germany sought to embark on legislative changes to unleash fiscal spending on military and infrastructure**. Incoming Chancellor Merz has taken a **"whatever it takes"** approach on defence.

- Consequently, **Euro Stoxx 50 has outperformed** US counterparts and **EUR has surged** towards a staggering 1.08 even as **ECB is all set for a 25bps rate cut this evening**.

- Despite the incessant tariff threats, **markets have been reducing the odds of further rate cuts by the ECB** as markets are pricing in 70bps of cuts by end 2025 (inclusive of the 25bp tonight) which is lower than the 85bps a week ago. With **fiscal policy stepping up in the EZ**, this reflects a rebalancing of the on-going policy mix.

- While defence related stocks have soared recently, legislative hurdles in both Germany and the EU remain alongside challenges to re-ignite the defence industrial complex which will be a multi-year endeavour.

**Yields (2Y: +1.4bp; 10Y: +3.5bp; 30Y: +3.5bp)**

- UST yield curve displayed a mild bear steepener.

**Equities (Nasdaq: +1.5%; S&P500: +1.1%; Dow: +1.1%)**

- US equities claw back yesterday's losses but still 1.9% lower for the week.

## DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(CH) Caixin China PMI Svcs (Feb)	51.4	50.7	51.0
(SG) Retail Sales/Ex Auto YoY (Jan)	4.5%/4.8%	2.1%/--	-2.9%/-4%
(AU) GDP YoY/SA QoQ (4Q)	1.3%/0.6%	1.3%/0.6%	0.8%/0.3%
(KR) GDP YoY/SA QoQ (4Q P)	1.2%/0.1%	1.2%/0.1%	1.2%/0.1%
(PH) CPI YoY (Feb)	2.1%	2.6%	2.9%
(US) ADP Employment Change (Feb)	77k	140k	183k
<b>(US) ISM Svcs/Prices Paid (Feb)</b>	<b>53.5/62.6</b>	<b>52.5/60.4</b>	<b>52.8/60.4</b>
(US) Factory Orders (Jan)	1.7%	1.7%	-0.9%
(EZ) PPI YoY (Jan)	1.8%	1.3%	0.0%

Today	Actual	Exp.	Prior
(KR) CPI/Core YoY (Feb)	2.0%/1.8%	2.1%/1.9%	2.2%/1.9%
(AU) Building Approvals MoM (Jan)		0.0%	0.7%
(VN) CPI YoY (Feb)		3.2%	3.6%
(VN) Industrial Production YoY (Feb)		--	0.6%
(EZ) Retail Sales YoY (Jan)		2.0%	1.9%
(US) Initial Jobless Claims		233k	242k
<b>ECB Deposit Facility Rate</b>		<b>2.50%</b>	<b>2.75%</b>

## FX (DXY: -1.4%)

- Greenback plunged against most G10 peers except for the CHF as Swiss inflation slowing supports another SNB rate cut. USD/JPY weighed below 149 while the AUD rose towards 64 cents. In EM-Asia, USD/SGD has fallen to test 1.33 and regional peers will enjoy tailwinds. Nonetheless, the likes of KRW gains may be relatively more restrained as **lower CPI print this morning** allows the BoK to focus on growth.

## China: Targets

- China's NPC has set targets of "around 5% growth" and "around 2% inflation and a record high 4% of GDP fiscal deficit. Unsurprisingly, domestic consumption, food security and demographic issues were some of the key areas as the authorities announced focus on childcare policies and increase grain output to reduce external reliance amid a hostile external environment.

- While the size of planned issuance of special local government bonds were above our expectations, we retain the view that onshore rates will remain elevated amid heightened trade uncertainty and depreciation pressure on the yuan.

## Australia: Delayed, Not Derailed

- Australia's Q4 GDP growth came in at 1.3% YoY on the back of a **0.6% QoQ SA expansion** and was within market expectations. While the **GDP per capita expansion** is welcomed after several quarters of contraction, the **marginal 0.1% increase** is not a clear cause for optimism.

- Nonetheless, these **bumps will continue to justify the RBA's case for being cautious against further cuts** and validates their judgement that output gap was positive and is unlikely to close over the forecast period if the cash rate followed the market path. In short, this print **diminishes the prospects of another cut in April as the RBA is likely to hang onto prospects of a consumer turnaround**. That said, soft spots linger in the growth print which may reveal themselves over the course of Q2.

- On the external front, while net trade supported a third of the QoQ growth (0.2% pts). Nonetheless, net services **exports being a driver via intellectual property services may imply a lack of "real" economic activity given the tendency to skew towards license and royalty payments rather than actual production**. Furthermore, services imports declined via tightening of budgets from Australian residents choosing closer destinations affirms a still bleak household consumption picture.

- Admittedly, the consumer outlook has marginally improved in Q4 with higher spending on both essential and discretionary savings. The latter was boosted by sporting and music events. Meanwhile, a creep up in household savings ratio is also a silver lining. Looking ahead, the growth may face more undulations with China resource demand in Q1 and domestic elections in Q2 seemingly assisting a return to trend growth while trade reckoning may reveal in H2. On aggregate, the balance of risks point to a shallow normalisation cycle subject to fits and starts.

## FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	148.88	148.90	▼0.61%	147.50 - 151.00
EURUSD	1.0789	1.0794	+1.53%	1.0600 - 1.0840
GBPUSD	1.2895	1.2891	+0.78%	1.2680 - 1.2950
AUDUSD	0.6335	0.6337	+1.00%	0.6200 - 0.6380
DXY	104.3	--	▼1.39%	103.6 - 105.0
USDCNY	7.2369	--	▼0.37%	7.2300 - 7.3000
USDCNH	7.2366	7.2366	▼0.23%	7.2200 - 7.2900
USDHKD	7.7710	7.7709	▼0.01%	7.7600 - 7.7900
USDSGD	1.3313	1.3311	▼0.57%	1.3260 - 1.3450
USDKRW	1444	1445	+0.00%	1440 - 1470
USDTHW	32.83	--	▼0.29%	32.70 - 33.20
USDINR	86.97	--	▼0.35%	86.60 - 87.90
USDIDR	16313	--	▼0.80%	16200 - 16500
USDMYR	4.430	4.425	▼0.80%	4.400 - 4.480
USDPHP	57.35	--	▼0.72%	57.00 - 58.00
USDTHB	33.65	33.59	▼0.57%	33.3 - 34.0
USDVND	25512	25507	▼0.21%	25450 - 25700

\*Open is as at 8am HKT/SGT.

## MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.007	4.280	1.4	3.5
JGB (JP)	0.831	1.441	0.0	2.4
Bunds (GE)	2.245	2.792	21.2	29.9
Gilts (UK)	4.270	4.686	9.3	15.3
AGB (AU)	3.753	4.353	4.7	8.5
SGS (SG)	2.562	2.705	0.0	2.9
CGB (CN)	1.406	1.752	0.4	-0.4
KGB (KR)	2.783	2.653	3.5	1.4
SDL (IN)	6.709	6.559	1.1	0.0

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	160.63	160.72	+0.92%
GBP/JPY	191.988	191.947	+0.18%
JPY/SGD (100yen)	0.8941	0.894	+0.09%
JPY/HKD (100yen)	5.2192	5.2189	+0.62%
CNH/JPY	20.581	20.574	+0.27%
CNH/HKD	1.0738	1.0737	+0.36%
EUR/GBP	0.83669	0.83733	+0.76%
AUD/NZD	1.1063	1.1062	▼0.06%
EUR/CNH	7.808	7.8112	+1.31%
GBP/CNH	9.3323	9.3287	+0.56%

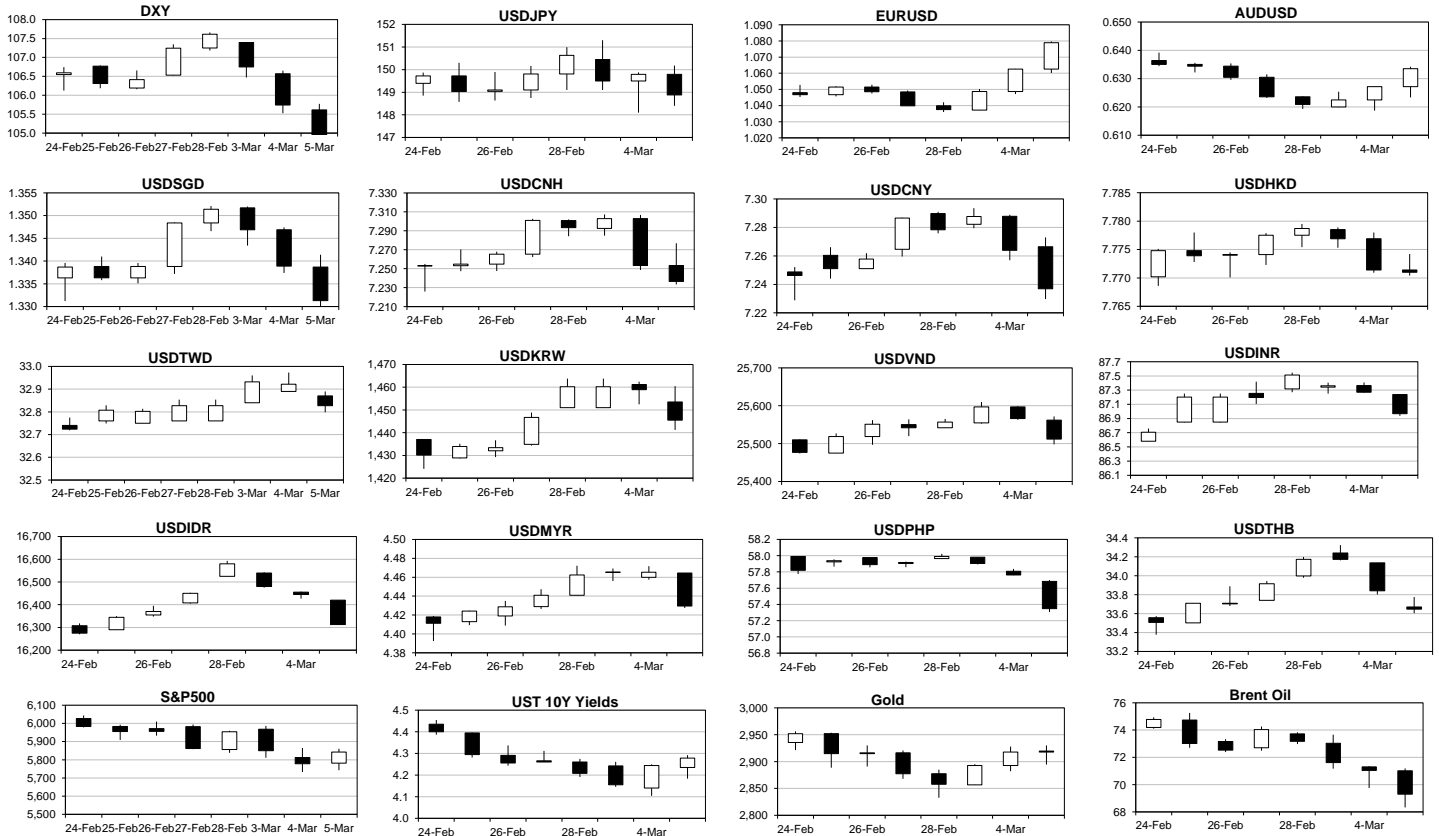
\*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5842.63	64.48	+1.12%
Nasdaq (US)	18552.73	267.57	+1.46%
DJIA (US)	43006.59	485.60	+1.14%
N225 (JP)	37418.24	87.06	+0.23%
STOXX50 (EU)	5489.12	101.81	+1.89%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4723.11	3.90	+0.08%
STI (SG)	3898.4	7.64	+0.20%
SHCOMP (CN)	3341.965	17.76	+0.53%
SZCOMP (CN)	2054.153	8.35	+0.41%
HSI (HK)	23594.21	652.44	+2.84%
SENSEX (IN)	73730.23	740.30	+1.01%
JSE (ID)	6531.399	151.00	+2.37%
KLSE (MY)	1564.42	8.76	+0.56%
PSE (PH)	6121.77	57.66	+0.95%
SET (TH)	1206.96	29.32	+2.49%
VNINDEX (VN)	1304.71	-0.01	▼0.55%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,586.92	258.53	+2.77%
IRON ORE (CN)	100.80	-6.29	▼1.05%
GOLD	2,919.39	1.50	+0.05%
SILVER	32.66	0.10	+2.30%
OIL (BRENT)	69.30	-1.74	▼2.45%
OIL (WTI)	66.31	-1.95	▼2.86%
NATURAL GAS	4.45	0.68	+2.12%

## CHARTS



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