Monthly FX & Rates Strategy

"Waiting for Trump and his incoming trade tariffs"

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- With the US Dollar Index (DXY) trading at two-year highs near 109, markets have priced in some form of trade tariffs will be imposed on US trade partners across 2025. We reiterate our Base Case - at 55% probability – that sees additional 25% tariffs imposed on China and 10% universal tariffs imposed on economies that have increase in trade surplus with US due to trade diversion from China.

- Across 2025, compared to the US Federal Reserve (Fed), we see more rate cuts from the European Central Bank (ECB), Reserve Bank of Australia (RBA) and the Reserve Bank of New Zealand (RBNZ). As such, this widening rate differential acts in favor of the USD and is likely to anchor further USD strength in the first half of 2025.

- In 2H25, USD strength may start to moderate as most of the repricing for Trump's tariffs may have already taken place and our anticipated downward trajectory in US rates could start to exert downward pressure on the USD. In short, we expect the DXY to rise to 111.9 by mid-2025 before easing off to 107.90 by end-2025. We also expect FX volatility to stay elevated as investors digest incoming tariff headlines and the ensuing Fed response.

- Against the Majors, we see potentially a peak in USD strength by middle of 2025, with EUR/USD, GBP/USD, AUD/USD and NZD/USD dropping to lows of 0.99, 1.20, 0.59 and 0.53 respectively by 2Q25. Concurrently, USD/JPY may well test 160 across the same time frame, but a potential further hike by the Bank Of Japan (BOJ) at the Mar or Apr MPM may temper further JPY weakness.

- We reiterate the view that most Asia FX are likely to weaken alongside the CNY for the first three quarters of 2025 before rebounding only in 4Q25. In the event that our Pessimistic Case scenario comes to pass where 60% (instead of 25% in base case) tariffs are imposed on Chinese goods export to the US, the fallout on Asia FX is likely to be considerably more intense compared to the Base Case.

- Under our Base Case analysis, we see a potential high by 3Q25 for USD/CNY, USD/KRW, USD/THB, USD/MYR, USD/IDR, USD/VND and USD/SGD at 7.65, 1,530, 35.40, 4.65, 16,800, 26,200 and 1.40 respectively. Under our Pessimistic Case scenario, USD/CNY could potentially test the psychological 8.00 level although countercyclical policies to prevent one-sided speculative moves can be expected. USD/SGD can trade above 1.40 as well.

- As for our rates outlook, monetary policy easing is broadly expected to continue into 2025, but balance of risk leans towards possibility of less cuts for the US. A litany of known unknowns awaits resolution which will have an impact on monetary policy decisions. In our Base Case 1Q25, we forecast the 3M compounded in arrears Sofr drifting lower across 2025 to 3.61% by 4Q25, in tune with our expectations of a further 75bps rate cuts from the Fed by 3Q25. Similarly, 3M compounded in arrears Sora could drop to 2.27% by 4Q25.

- Similarly, for our Base Case forecast for 10Y UST yield, we see a gradual drift lower from 4.30% in 1Q25 to 4.10% in 4Q25. While the current outlook suggests a measured decline in 10Y UST yield for 2025, certain scenarios could disrupt this trajectory and propel the rate 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.

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There is a growing list of risk factors for global economies and financial markets in 2025. These include various fiscal policy uncertainties in the US, yet another replay of the long-standing US debt ceiling crisis, a further scaling back of rate cut ambitions by the US Federal Reserve (Fed), worst still a reversal of the disinflation trend and a destabilizing intensification of US-China conflict etc.

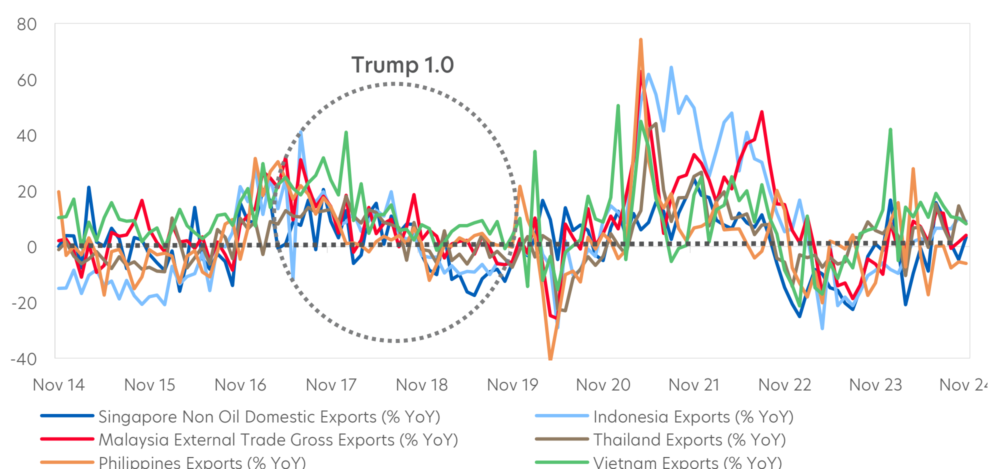
At the risk of oversimplifying all these risks, there is one singular common denominator amongst all of these risk factors, i.e. the return of Trump and the multitude of policy uncertainties that he will implement during his second administration from 20 Jan. Chief among all these policy uncertainties is of course the range and intensity of trade tariffs that he plans to impose, not just on China, but on Canada, Mexico, European Union and other economies in the world that run a substantial trade surplus against the US.

Much has been discussed about the implications for the incoming trade tariffs on the economic and financial landscape for 2025. In our Quarterly Global Outlook 1Q25, titled "Implications of Trump 2.0" published on 28 Nov 2024, we have discussed various scenarios of how the incoming tariffs will play out. Our Base Case with 55% probability assumes staggered implementation of tariffs from 2Q25. Likely to start with List 4b for mostly consumer goods with full implementation by 1H26. This Base Case sees a moderate rise in US CPI inflation for 2025: +0.3ppt to 2.4% and assumes a softening of growth outlook, with global economy, US and China GDP dropping to 3.1%, 1.8% and 4.3% respectively for 2025.

Under this Base Case scenario, the US Dollar is expected to stay strong across much of 2025, with 10Y Treasuries yield staying sticky above 4.0% throughout 2025. Our Pessimistic Case scenario of 40% probability sees an accelerated implementation of trade tariffs almost immediately upon Trump's return to office accompanied by a more substantial rise in US inflation and a more acute jump in the US Dollar. Under such a negative scenario, USD/CNY could potentially test the psychological 8.00 level although countercyclical policies to prevent one-sided speculative moves can be expected. USD/SGD can potentially trade above 1.40 as well.

Chart 1: ASEAN exports at risk of repeating Trump 1.0's tariff induced slowdown

Source: Bloomberg, UOB Global Economics & Markets Research



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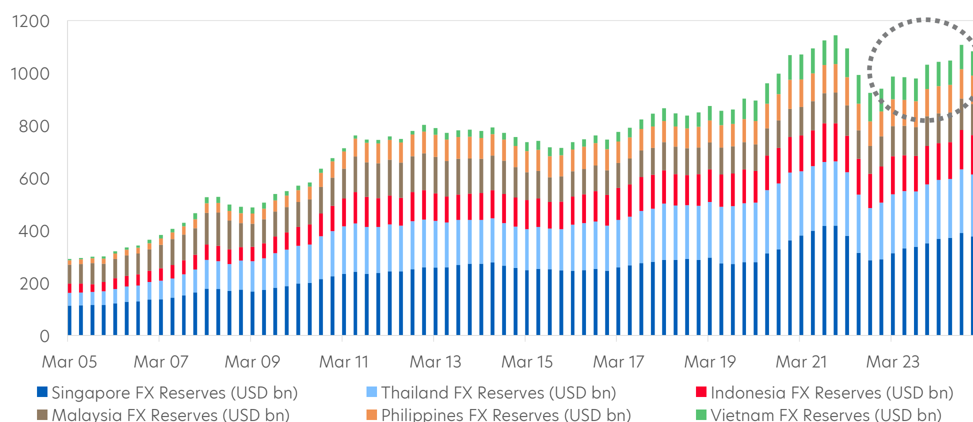
Relating to the incoming trade tariffs under Trump 2.0, there are increasing concerns as well for our region in ASEAN that trade tariffs may well be imposed on various economies that run significant trade surpluses against the US. As a baseline, ASEAN export outlook is likely to weaken across 2025 and potentially repeat the softening across the Trump 1.0 years of 2018 and 2019 when the trade tariffs were first imposed against China. Crossing into 2025, under various metrics, ASEAN economies such as Vietnam, Thailand and Malaysia appear to run elevated trade surpluses against the US and seemed to have benefited the most from the diversion of trade from China under the "China + 1" realignment of supply chains since the first Trump administration (i.e. Trump 1.0). For more details on the analysis of these risks, kindly refer to Macro Note: "Singapore: Jan 2025 MPS Preview – Tariff risks under Trump 2.0" dated 30 Dec 2024.

Lest we worry too much about the negative impact on ASEAN trade and export from the incoming tariffs, there are many other positives for our region as well that bear highlighting. Firstly, China's on-going economic slowdown can be seen in a positive light for ASEAN economies. This will reinforce and intensify global FDI inflows into our region. Chinese firms will also need to invest more in our region as they look for new growth opportunities away from China's slowing domestic economy.

Chart 2: ASEAN FX Reserves are back near post-Covid record high

Source: Bloomberg, UOB Global Economics & Markets Research



Secondly, ASEAN is firmly and clearly THE safe haven economic region amidst a more uncertain world. ASEAN has strong substantial intra-regional trade that is growing in prominence compared to inter-regional trade outside of the region. ASEAN is also a key tourism hub and has robust domestic spending. Unlike the European Union's rather limited options, ASEAN's fiscal and monetary policy options are relatively more abundant should trade tariffs come in fast and hard and trigger an economic slowdown. Key countries in ASEAN, like Malaysia and Singapore, will also see positive spillovers into 2025 from the strong GDP growth trajectory in the second half of 2024. Finally, ASEAN's FX reserves are now back to post-Covid highs as well, lending an important buffer to the risk of further domestic currency weakness in the face of slowing trade and the stronger US Dollar backdrop.

Amidst the further rise in US Dollar and 10Y Treasuries yield in the final month of 2024, the debate currently at the start of 2025 is how much negative impact the trade tariffs will affect China and ASEAN economies and just how strong the US Dollar will get and how much higher 10Y Treasuries yield will rise across 2025? In this latest FX and Rates Monthly report, we provide further details of our strong US Dollar and sticky rates views as well as more analysis into ASEAN FX and policy rates movements.

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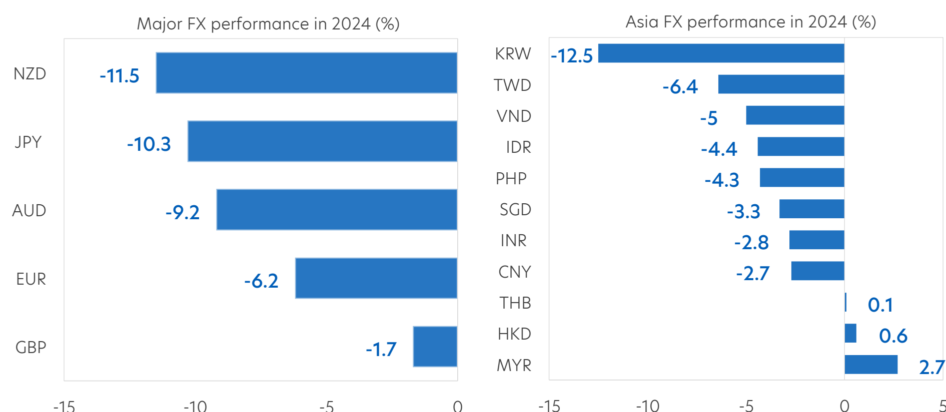
FX Strategy

USD to build on strong gains and strengthen further in 2025

The USD strengthened further in Dec, adding to gains on the year as the Fed signaled a slower pace of rate cuts in 2025. Risks of Trump signing off trade tariffs after he is inaugurated in Jan will likely keep the USD bid in the near term. We had previously forecast USD to strengthen further against Major FX in 1H25 before moderating in 2H25. Is this view still intact?

Chart 3: Most Major and Asia FX fell against the USD in 2024

Source: Bloomberg, UOB Global Economics & Markets Research



Most Asia FX fell against the USD in Dec, weighed by China slowdown concerns and worries of a US-China trade war 2.0. The Asia Dollar Index has fallen for a fourth straight year in 2024 and in our last update, we expect further Asia FX weakness till at least 3Q25 before rebounding. Has that view changed and how would this upcoming trade war play out compared to the last?

Major FX Strategy

USD to strengthen further on rate differentials

With the US Dollar Index (DXY) trading at two-year highs near 109, markets have priced in that some form of trade tariffs will be threatened or imposed on US trade partners in 2025.

We reiterate our base case - at 55% probability – which sees additional 25% tariffs imposed on China and 10% tariffs imposed on economies that increased in trade surplus with US due to trade diversion from China. We also assume China will retaliate by imposing similar tariffs on US goods but limited retaliatory responses from other economies.

Unlike its Asian counterparts, Major FX is likely less affected directly by the trade channel but rather from widening rate differentials. With Trump's tariffs potentially spurring renewed inflation particularly in the US, the Fed has turned more cautious in considering further rate cuts in 2025. In the recently concluded Dec FOMC, some policymakers have incorporated the impact of the new administration's policies in their forecasts. The latest Fed's dot plot implied 50 bps of rate cuts in 2025, down from 100 bps in the Sep review. While we are still holding onto the view of 75 bps of Fed rate cuts in 2025, it is still less than the 100 bps each we expect from European Central Bank (ECB) and Bank of England (BOE), the 110 bps from Reserve Bank of Australia (RBA) and the 125 bps from Reserve Bank of New Zealand (RBNZ).

The widening rate differential acts in favour of the USD and is likely to anchor 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 (base case) 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 111.9 by mid-2025 before easing off to 107.9 by end-2025. We also expect FX volatility to stay elevated as investors digest incoming tariff headlines and the ensuing Fed response.

Chart 4: We expect DXY to rise in 1H25 before pulling back in 2H25

Source: Macrobond, UOB Global Economics & Markets Research

EUR/USD fell for a third straight month in Dec, by 1.5% to about 1.04, the lowest levels in two years. Underscoring the weakness was the wide monetary policy divergence between the Fed and the ECB. While markets scaled back expectations for Fed rate cuts due to the inflation spillover of Trump's tariff policy, interest rate swaps indicate more aggressive easing (120 bps of rate cuts in 2025, as of 31 Dec) from the ECB to bolster the region's economy. A 25-bps reduction is fully priced for the ECB's next meeting later in Jan while the Fed is expected to stay pat. Political crises in Germany and France exacerbate the manufacturing slowdown in both of Eurozone's largest economies and will also weigh down further on the EUR. The multitude of headwinds acting against the EUR is likely to persist in the near term and it seems inevitable that EUR/USD would test the well-watched parity level in the coming months. Overall, we reiterate our bearish view of EUR/USD and our updated forecasts are 1.01 in 1Q25, 0.99 in 2Q25, 1.01 in 3Q25 and 1.03 in 4Q25.

While GBP/USD has slumped to a 7-month low of 1.25, price action showed the GBP standing out as one of the most resilient currencies within the G-10 space in 2024. The GBP/USD fell a modest 1.7% while other Major FX fell in excess of 6% against the USD. Going forth, the GBP is likely to face lesser headwinds compared to other Major FX peers such as the EUR. Most importantly, the monetary policy gap between the Fed and the BOE remains reasonably small. We expect both central banks to guide rates lower to a similar 3.75% by end-2025. Futures traders also kept to a modest net long GBP/USD position amidst the pullback in spot. Taken together, while the path of least resistance is likely for a lower GBP/USD, further losses from here may be limited. Overall, our updated GBP/USD forecasts are 1.22 in 1Q25, 1.20 in 2Q25, 1.23 in 3Q25 and 1.25 in 4Q25.

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USD/JPY rose to a 5-month high of about 158 amidst a broad USD resurgence and recovering USD yield differential as markets slashed Fed rate-cut expectations in a Trump 2.0 scenario. While the USD may be underpinned by tariff uncertainties in the near term, further gains in USD/JPY may be held back by the persistent monetary policy divergence between the Fed (easing bias) and the Bank of Japan (BOJ) which we still forecast the next move to be a rate hike in the Mar 2025 MPM (but there is a sizeable risk that the hike could be delayed further till Apr or even later). Traders may also turn cautious ahead of previous intervention levels near 161 by Japanese authorities. Overall, our updated USD/JPY forecasts are 159 in 1Q25, 160 in 2Q25, 157 in 3Q25 and 154 in 4Q25.

AUD was amongst the worst performing currencies amongst G-10 in 4Q24, falling over 10% to 0.6188, the biggest quarterly drop since 1Q20 when Covid-19 pandemic struck. Going forth, AUD's close correlation to the CNY meant that a potential repeat of the 2018-2020 US-China trade war may see AUD underperform within the G-10 FX space, as it did during the first year of trade war in 2018. While the RBA has not cut rates in 2024 unlike other central banks, a subsequent catch up in 2025 (we forecast 110 bps of RBA rate cuts in 2025) may weigh further on the AUD. Unless the China's rhetoric improves, the risk is still skewed to further downside in AUD/USD. Overall, our updated AUD/USD forecasts are 0.61 in 1Q25, 0.59 in 2Q25, 0.61 in 3Q25 and 0.63 in 4Q25.

Asia FX Strategy

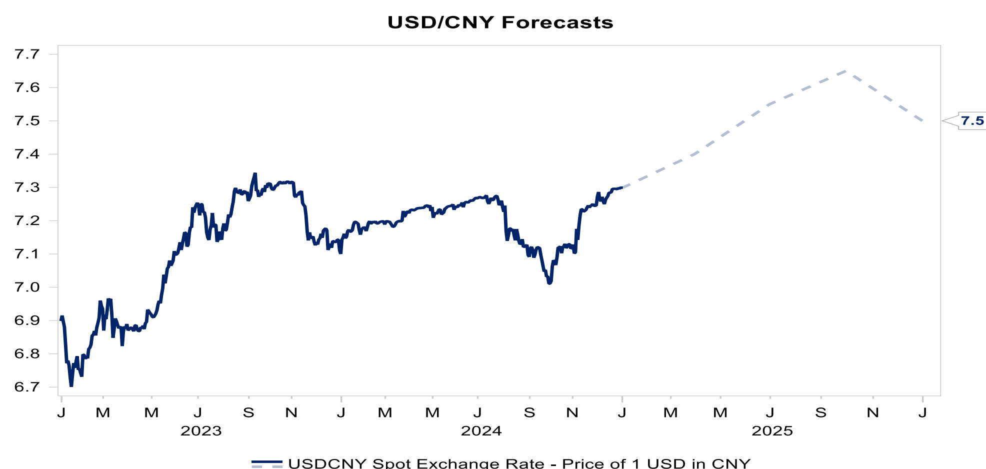
Trump's tariffs to weigh on Asia FX in 2025

Most Asia FX closed 2024 in the red after steep losses incurred in 4Q24 as market sentiment soured in the face of looming trade tariffs threatened on Chinese goods in 2025. Losses in the region were led by North Asia currencies such as KRW (-12.5%) and TWD (-6.4%). The CNY spent the year on the weak side of 7.00 /USD and fell 2.7% in 2024 to 7.30 /USD as China slowdown concerns and subsequent Trump's tariffs weighed. Only MYR (+2.7%), HKD (+0.6%) and THB (+0.1%) bucked the regional trend and closed the year modestly higher against the USD.

Going forth, we reiterate the view that most Asia FX are likely to weaken alongside the CNY for the first three quarters of 2025 before rebounding in 4Q25. In the event that the pessimistic scenario comes to pass where 60% (instead of 25% in base case) tariffs are imposed on Chinese goods export to the US, the fallout on Asia FX is likely to be considerably larger and more intense compared to the base case.

Chart 5: USD/CNY is expected to begin a new trading range above previous highs at 7.35

Source: Macrobond, UOB Global Economics & Markets Research



It is likely to be yet another challenging year for the CNY in 2025. Trump's tariffs are likely to exacerbate the existing concerns about China's economic slowdown. In the 1Q25 quarterly report published late Nov, our macroeconomic team has downgraded 2025 GDP growth forecast to 4.3% from 4.6% as we factor in some tariffs on Chinese goods to become effective as early as 2Q25 while full implementation could take more than a year. On top of a weaker domestic growth outlook, the CNY may be dragged by a shift in monetary policy stance (announced in Dec's CEWC) to "moderately loose" from the previous "prudent" approach. Externally, the USD may also draw strength from a shorter and shallower Fed rate-cut cycle.

At the moment of writing, USD/CNY spot is already testing the 7.30 psychological headline level. We think it is inevitable that USD/CNY will test recent key highs of 7.35 in the coming months as tariffs uncertainties build. A pickup of USD hedging demand upon the breach of 7.35 may lead to USD/CNY beginning a new trading range above that level. Overall, we expect USD/CNY to trade higher in the coming few quarters and our updated USD/CNY forecasts are 7.40 in 1Q25, 7.55 in 2Q25, 7.65 in 3Q25 and 7.50 in 4Q25. The risk is skewed to further downside for CNY if larger or sooner tariffs are implemented compared to our base case.

Elsewhere in North Asia, the KRW had a very rough fourth quarter of last year tumbling from 1,350 to 1,470 against the USD to become the worst performing Asian currency for 2024 with a fall of about 12.5%. The political uncertainty that gripped South Korea in the final month of the year added fuel to the strong USD backdrop against the KRW. With this latest round of sell-off, the KRW has now fallen past the early 2022 low of about 1,450 against the USD. The Bank of Korea (BOK) has of course implemented various measures to help keep local borrowing rates stable and reduce the volatility of the KRW. Prior to this latest round of political crisis for South Korea, the BOK had made two back-to-back cuts to its 7 day reverse repo rate to 3.0%. We expect two 25 bps cuts hereafter in 1Q25 and 2Q25, dropping the benchmark rate further to 2.5%. Risk is that further easing by a reluctant BOK is needed should the political crisis drag on and have a larger impact on growth. South Korea's Finance Ministry has just cut its growth forecast for this year below 2.0% to 1.8%, from last year's growth rate of 2.1%. Overall, our updated USD/KRW forecasts are 1,490 in 1Q25, 1,510 in 2Q25, 1,530 in 3Q25 and 1,510 in 4Q25.

Compared to other ASEAN economies, Singapore is less susceptible to direct tariff risks as it runs a consistent trade deficit against the US and is the only economy within ASEAN-6 that has a long standing bilateral Free Trade Agreement (FTA) in force with the US, now into its 21st year. However, the Singapore economy is unlikely to be shielded from spillover effects of a negative shock to the global trade environment, given its extensive reliance on trade as a small and open economy. In addition, a positive-sloping S$NEER may help to buffer the SGD against external headwinds, as it had during the last trade war in 2018. Notwithstanding a "slight" reduction to the slope expected in the coming Jan 2025 MPS, a still-positive S$NEER slope may underpin SGD-crosses. Also, volatility of USD/SGD is likely to be checked by the SGD's reputation as a regional safe-haven currency. Overall, our updated USD/SGD forecasts are 1.38 in 1Q25, 1.39 in 2Q25, 1.40 in 3Q25 and 1.38 in 4Q25.

The MYR was the best performing Asia FX in 2024, holding onto a 2.7% gain against the resurgent USD even as other regional peers tumbled. 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 now at 4.53 in 1Q25, 4.60 in 2Q25, 4.65 in 3Q25 and 4.55 in 4Q25.

The THB ended 2024 marginally positive on the year at 34.35 /USD as a 12% surge in 3Q24 - the biggest quarterly gain since 1998 – helped offset losses in 4Q24 after USD rebounded following the US Presidential election. Going forward, the THB is likely to weaken alongside the CNY and regional peers as Trump's tariff policy takes shape in the coming months. That said, favourable factors such as Thailand's current account surplus, low inflation and a stable benchmark rate outlook may reduce THB's relative currency fluctuation. Our updated USD/THB forecasts are 34.8 in 1Q25, 35.2 in 2Q25, 35.4 in 3Q25 and 35.0 in 4Q25.

The IDR fell 4.4% to 16,132 /USD in 2024, weighed by uncertainties about Trump's tariff and prospects of a slower and shallower Fed rate cut cycle in 2025. To temper with the depreciation pressures, Bank Indonesia (BI) has intervened in both the spot and domestic non-deliverable forwards in Nov and Dec. Going forth, 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 16,400 in 1Q25, 16,600 in 2Q25, 16,800 in 3Q25 and 16,500 in 4Q25.

Tracing losses in other regional peers, the VND slumped 5% to a record weakness of 25,485 /USD in 2024. Despite strong growth outlook (we forecast 2025 GDP at 6.6%, up from 6.4% in 2024), the VND remains vulnerable to external factors such as the Fed policy. Markets have repriced for fewer Fed rate cuts in a Trump 2.0 era which helped to boost the USD. Going forth, the VND is likely to take direction from Trump's tariff policy and the CNY. Given the external headwinds are not likely to dissipate in the near term, the VND looks set for further losses against the USD. Overall, our updated USD/VND forecasts are 25,800 in 1Q25, 26,000 in 2Q25, 26,200 in 3Q25 and 26,000 in 4Q25.

Rates Strategy

Easing cycle extends into 2025

Known unknowns of 2025

While a gradual decline in US interest rates is expected in 2025, significant uncertainties could alter this forecast, impacting both the level of rates and the shape of the yield curve. These uncertainties arise from interconnected macroeconomic factors and policy decisions. The path is fraught with enough uncertainties to give even the most seasoned analyst an acute touch of heartburn.

Inflation, that perennial economic headache, remains a formidable wildcard. If it persists above the Fed's 2% target, it could lead to fewer rate cuts or even a pause in the easing cycle. Unexpected events like supply chain disruptions or rising commodity prices could re-accelerate inflation, potentially forcing the Fed to reconsider slowing down further its easing path and even hike rates. Economic growth also presents a conundrum. Will it be robust, potentially fueling inflation and limiting the Fed's room to maneuver? Or will it falter, prompting a more aggressive easing cycle?

Adding to the intrigue is the fiscal policy landscape, now under the stewardship of the incoming Trump administration. Heavy tariffs on imported goods could stoke inflation, potentially leading to a slower pace of rate cuts or even rate hikes. Tax cuts, while potentially stimulating growth, may exacerbate the budget deficit and put upward pressure on interest rates. Changes in government spending, particularly potential spending cuts, could weigh down economic growth and influence the Fed's rate decisions.

The shape of the US Treasury yield curve will be influenced by these uncertainties. Stronger economic growth or higher inflation expectations could lead to a steeper yield curve, with long-term rates rising faster than short-term rates. This steepening could be further exacerbated by the potential for increased government deficits and a larger supply of bonds. Conversely, concerns about economic weakness or a more aggressive Fed easing cycle could lead to a flattening yield curve as investors lock in high yields whilst stocks last.

Our FOMC view for 2025

We project three cuts in 2025 for an easing cycle bottom in Fed funds of 3.75% by 3Q25. Underlying our Fed funds base case is an assumption that the policy rate still has some room to adjust lower towards more neutral settings. This move towards neutral is warranted on the basis of our expectation that US economic growth may continue to soften in the near term. We also acknowledge that upside risk to inflation has firmed on the back of fiscal and trade policy proposals by the incoming US administration. The Fed will not be able to ignore this which accounts for our truncated easing cycle and higher cycle bottom in the Fed funds rate.

Chart 6: US rate outlook

Source: Bloomberg, UOB Global Economics & Markets Research

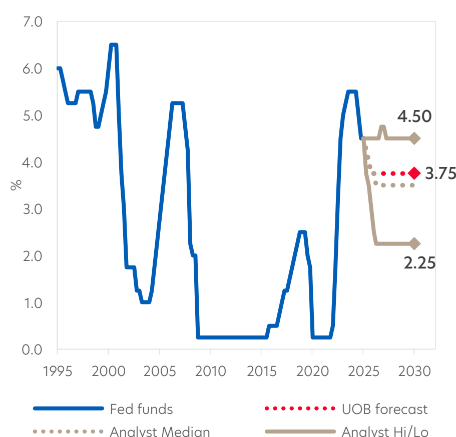
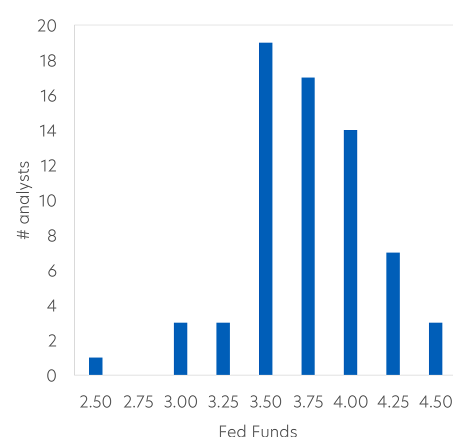


Chart 7: Distribution of end 2025 Fed Funds forecasts

Source: Bloomberg, UOB Global Economics & Markets Research



Our current Fed funds forecasts tracks in line with Fed analyst consensus for rate cuts over the first 3 quarters of 2025. Thereafter, we hold a more hawkish end cycle Fed funds projection of 3.75% compared to the consensus median of between 3.25% to 3.50% by end of 2025. The Fed funds futures market (as of 31 Dec close) is even more hawkishly placed, pricing in a monetary policy easing bottom that is around 25bps shallower at 4.00%.

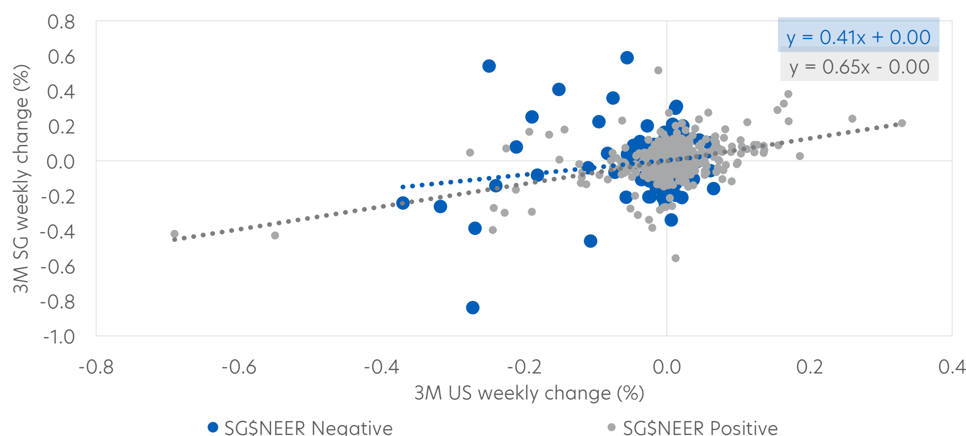
The current distribution of analysts' Fed funds forecasts for end 2025 is skewed to the right, i.e. exhibits a bias towards a higher end-state or less rate cuts. This is understandable given the shift from economic growth concerns back towards inflation worries in 4Q24. It is also notable that a 2025 rate hike scenario has not yet presented itself in the latest survey, which in any case we would argue to be premature at this stage given the lack of clarity on fiscal policy implementation.

In our base case for end 1Q25, we forecast the 3M compounded in arrears Sofr at 4.34%. Thereafter, short term rates are then expected to drift lower across 2025 in tune with our expectations of a further 75bps rate cuts from the US Federal Reserve. Eventually the 3M compounded in arrears Sofr could drop to 3.61% by 4Q25.

Our MAS view for 2025

We have the MAS easing monetary policy via a slope reduction in early 2025. Our base case sees Singapore's economic growth, measured via the output gap, hugging to its potential next year thus offering room for a gentler currency appreciation path. Singapore's latest string of inflation prints also imparts greater confidence over the durability of the disinflation progress (less broad based, slowing core momentum) although the extent of disinflation may have been limited by the lagged catch up of prices to earlier cost hikes.

Chart 8: 2006 to 2024



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 scenarios of divergence (i.e. US rates down but SG rates up) are primarily consigned to tail events and are not our base case. Accounting for uncertainty of policy measures in the US, we will not be surprised if MAS decides to keep the S$NEER parameters unchanged and prefers to allow markets to "steer" the S$NEER lower within the existing band parameters. This is tantamount to a de facto easing of monetary conditions.

In our base case for end 1Q25, we forecast the 3M compounded in arrears Sora at 2.71%. 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 2.27% by 4Q25.

Our wider monetary policy views for 2025

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. In 2025, both the ECB and the BOE are expected to cut interest rates, albeit for slightly different reasons and at potentially different paces. The ECB is likely to continue its rate-cutting cycle due to a favorable softer inflation outlook, with projections showing inflation moving closer to its 2% target, modest economic growth forecasts, and a well-progressing disinflationary process. Global economic uncertainties, including potential protectionist policies from a new U.S. administration and weak eurozone growth, may further prompt the ECB to maintain an accommodative stance.

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The BOE, while also expected to cut rates, may adopt a more cautious approach due to persistent inflation concerns, with expectations of inflation rising to 2.8% by the third quarter of 2025 before easing. However, factors such as moderating wage growth, and global economic considerations could still support rate cuts. On the other end, BOJ was the exception to the easing trend in 2024. While we still believe that the BOJ is not done with rate hikes, the timing is now expected to be heavily influenced by this year's wage growth developments and clarity about Trump's policies. That means a Jan BOJ rate hike (while not entirely ruled out) is now seen as a low probability event. For now, we expect BOJ to hike its policy rate by 25-bps to 0.5% in the Mar 2025 MPM, which we believe will be the terminal rate. However, there is a sizeable risk that the hike could be delayed till Apr or even later.

In the Asian region, the brief virtuous cycle of currency appreciation and foreign inflows came to a halt as we approached the US elections. We've seen a few central banks utilizing this window to lower their policy rate. Although 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.

Please refer to full page infographics on "Global and Asian Central Bank Policy Rate Trajectory 2025" after this Rates Strategy section of this monthly report.

Our 10Y UST view for 2025

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

Chart 9: UOB vs Consensus Forecast (10Y UST)

Source: Bloomberg, UOB Global Economics & Markets Research

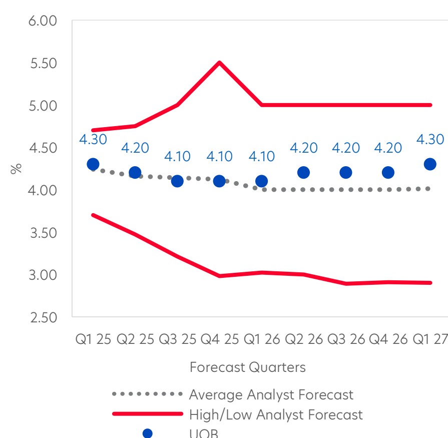
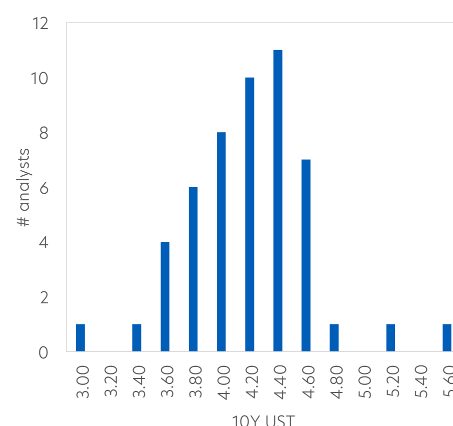


Chart 10: Distribution of end 2025 10Y UST forecast

Source: Bloomberg, UOB Global Economics & Markets Research



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 higher instead 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.

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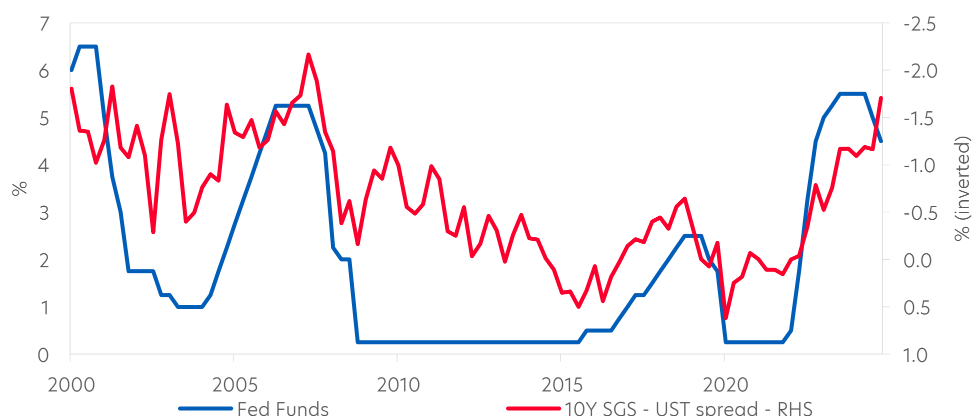
In our base case for end 1Q25, we forecast the 10Y UST at 4.30%. Thereafter, 10Y yield is expected to drift slightly lower in tune with our expectations of a further 75bps rate cuts from the US Federal Reserve. Eventually the 10Y UST could settle at 4.10% by 4Q25.

Our 10Y SGS view for 2025

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. With Singapore's robust and disciplined budget prudence, this feature certainly does not apply to the SGS market. Secondly, demand for SGS overall in 2024 has been healthy. One indication has been the more limited 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.

Chart 11: SGS yield discount vs UST to narrow as Fed cuts

Source: Bloomberg, UOB Global Economics & Markets Research



That said, the prevailing 10Y SGS yield discount to 10Y UST is already fairly substantial. 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.

In our base case for end 1Q25, we forecast the 10Y SGS at 2.90%. Thereafter, 10Y yield is expected to drift slightly lower to settle at 2.70% by 4Q25.

Summary table of rates forecasts

Rates	02 Jan 25	_	1Q25F	2Q25F	3Q25F	4Q25F
US Fed Funds Target	4.50	**Current**	**4.25**	**4.00**	**3.75**	**3.75**
		Previous	4.25	4.00	3.75	3.75
3M compounded SOFR	4.68	**Current**	**4.34**	**3.99**	**3.74**	**3.61**
		Previous	4.35	3.99	3.74	3.61
10Y UST	4.56	**Current**	**4.30**	**4.20**	**4.10**	**4.10**
		Previous	4.20	4.10	4.10	4.10
3M compounded SORA	3.02	**Current**	**2.71**	**2.51**	**2.34**	**2.27**
		Previous	2.77	2.41	2.29	2.23
10Y SGS	2.87	**Current**	**2.90**	**2.80**	**2.70**	**2.70**
		Previous	2.80	2.70	2.70	2.70

Source: UOB Global Economics & Markets Research

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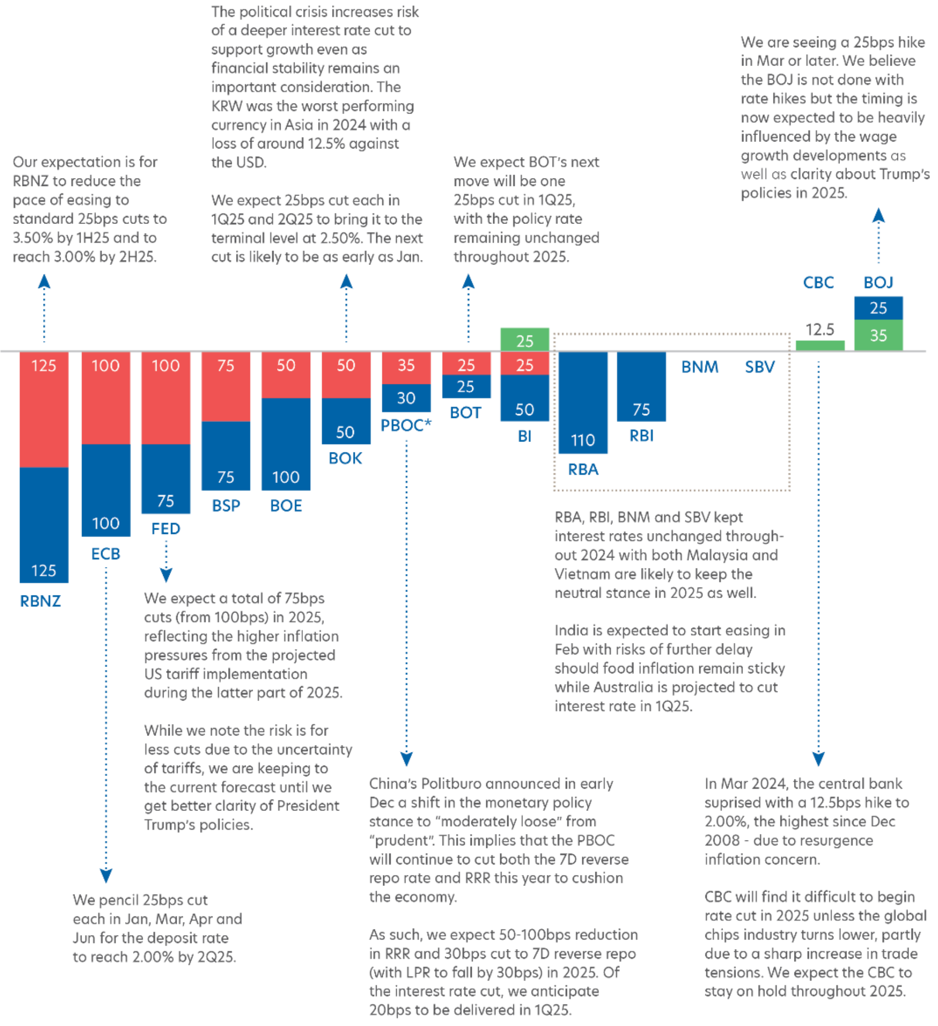
Global and Asian Central Bank Policy Rates Trajectory 2025



* refers to 1Y Loan Prime Rate (LPR)

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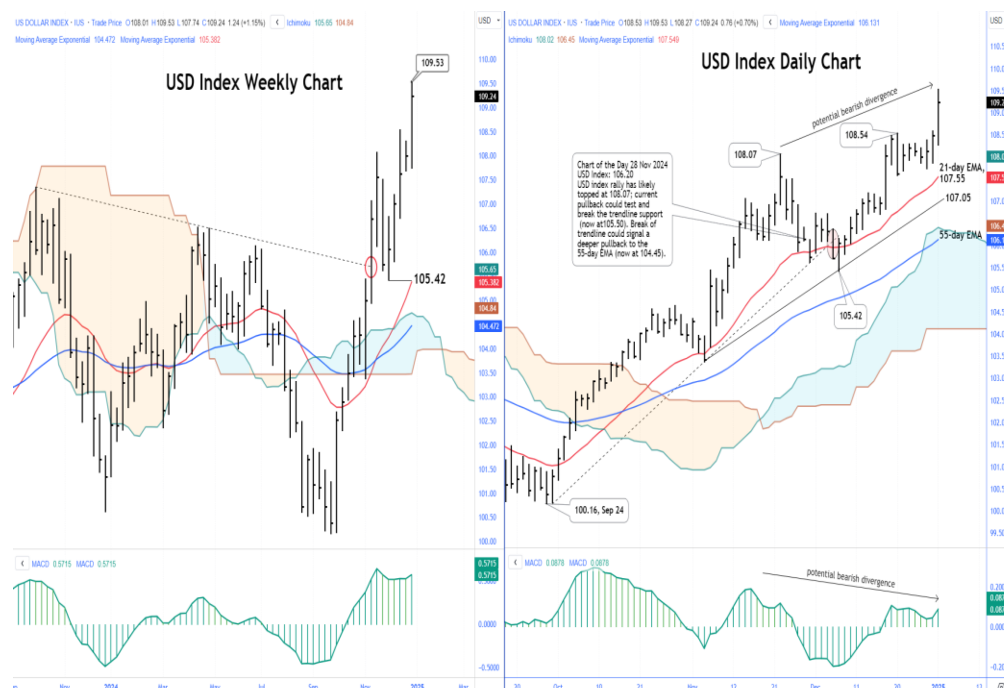
FX Technical

USD index: 109.25
Weekly MACD is holding well in positive territory; there is scope for USD index to rise to 110.00 and 110.85 thereafter.



Source: LSEG Workspace, UOB Global Economics & Markets Research

Our previous Chart of the Day was on 28 November 2024, when USD index was at 106.20. At that time, we were of the view that "USD index rally has likely topped out at 108.07." We expected "the index to pull back further and test the rising trendline support, currently at 105.50." We indicated that "a clear break of the trendline support would signal the potential for a deeper and more extended pullback towards the 55-day EMA, now at 104.45."

The index broke below the trendline support a few days later, but instead of pulling back further to the 55-day EMA, it soared from a low of 105.42, reaching a high of 108.54 in mid-December. After trading sideways for a few weeks, the index soared yesterday (02 January 2025), reaching its highest level in more than two years, 109.53.

Although there is a potential bearish divergence forming on the daily MACD, with the weekly MACD holding well in positive territory, there is scope for the index to rise further. The level to monitor is the round-number resistance of 110.00. Above this level, the next resistance is at 110.85. The current upside pressure will remain intact, provided that the ascending trendline support, now at 107.05, is not breached. On a shorter-term note, the 21-day EMA (now at 107.55) is expected to provide support as well.

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FX, INTEREST RATES & COMMODITIES

Forecasts

FX	02 Jan	1Q25F	2Q25F	3Q25F	4Q25F
USD/JPY*	157	159	160	157	154
EUR/USD*	1.03	1.01	0.99	1.01	1.03
GBP/USD*	1.24	1.22	1.20	1.23	1.25
AUD/USD*	0.62	0.61	0.59	0.61	0.63
NZD/USD*	0.56	0.55	0.53	0.55	0.57
DXY*	109.17	110.3	111.9	109.9	107.9
USD/CNY*	7.30	7.40	7.55	7.65	7.50
USD/HKD	7.78	7.80	7.80	7.80	7.80
USD/TWD*	32.89	33.2	33.6	34.0	33.5
USD/KRW*	1,466	1,490	1,510	1,530	1,510
USD/PHP	58.18	59.5	60.0	60.5	60.0
USD/MYR	4.49	4.53	4.60	4.65	4.55
USD/IDR*	16,223	16,400	16,600	16,800	16,500
USD/THB*	34.43	34.8	35.2	35.4	35.0
USD/VND	25,457	25,800	26,000	26,200	26,000
USD/INR*	85.76	86.5	87.0	87.5	87.0
USD/SGD*	1.37	1.38	1.39	1.40	1.38
EUR/SGD*	1.40	1.39	1.38	1.41	1.42
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*	5.34	5.36	5.43	5.46	5.43
JPY/SGDx100*	0.87	0.87	0.87	0.89	0.90

POLICY RATES	02 Jan	1Q25F	2Q25F	3Q25F	4Q25F
US Fed Funds Rate	4.50	4.25	4.00	3.75	3.75
JPY Policy Rate	0.25	0.50	0.50	0.50	0.50
EUR Refinancing Rate*	3.15	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	4.00	3.75	3.50	3.25
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	4.50	4.25	4.00	4.00
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	6.00	6.00	6.00	5.75	5.50
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	02 Jan	1Q25F	2Q25F	3Q25F	4Q25F
USD 3M SOFR (compounded)*	4.68	4.34	3.99	3.74	3.61
SGD 3M SORA (compounded)*	3.02	2.71	2.51	2.34	2.27
10Y US Treasuries Yield*	4.56	4.30	4.20	4.10	4.10
SGD 10Y SGS*	2.87	2.90	2.80	2.70	2.70

COMMODITIES	02 Jan	1Q25F	2Q25F	3Q25F	4Q25F
Gold (USD/oz)	2,659	2,700	2,800	2,900	3,000
Brent Crude Oil (USD/bbl)	76	75	75	70	70
Copper (USD/mt)	8,803	8,000	8,000	7,500	7,500

Updated as of 03 January 2025
* Forecasts updated as compared to previous report dated 28 November 2024
Source for spot rates: Bloomberg

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