Daily Market Outlook

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Powell Testimony In Focus

Frances Cheung, CFA
FX and Rates Strategy
FrancesCheung@ocbc.com

Christopher Wong
FX and Rates Strategy
ChristopherWong@ocbc.com

Global Markets Research and Strategy

- **USD rates**. USTs did a round-trip during NY session with yields ending little changed, with the bond market not reacting much further to tariff developments for now. Investors await Powell's testimony and January CPI release. The Monetary Policy Report dated 7 February which was submitted to congress had it that "inflation moderated a little further last year after having slowed notably in 2023" and "the labour market remains solid and appears to have stabilized after a period of easing" – these assessments are in line with recent FOMC documents, which suggest the Fed is in no hurry to cut. Therefore, market expectation on Powell is a narrative along this line. Thus far, the FOMC has commented little on potential impact of tariffs so it would be interesting to listen to Powell's answer to this expected question in congress. The UST curve has tended to flatten upon negative tariff headlines; in the absence of negative tariff news, we do not see much room for the curve to flatten further. First, the 10Y term premium has retraced by cumulative 36bps from its recent peak; near-term downside appears limited. Second, the breakeven curve has become more inverted, suggesting inflation impact of tariffs is partly in the price. Resistance for 10Y UST is at 4.40% in terms of yield; support sits at 4.52% and then 4.60%. On liquidity, there is net bills settlement of USD30bn and net coupon bond settlement of USD18.8bn this week; the amounts are moderate.

- **GBP rates**. BoE's Mann, who voted for a 50bp cut, was quoted in media reports saying she changed her mind because of a weakening job market and slowing consumer demand. She also opined that inflation is less of a concern as corporate pricing power weakens. We wrote last week that "between headline inflation risks and downside growth risks, we consider one 25bp cut per quarter as in line with a gradual and careful approach to the withdrawal of monetary policy restraint. Our base-case remains for additional 75bps of cuts for the rest of this year". GBP OIS have added mildly to rate cut expectations over recent days, to the latest 65bps for the rest of this years, which appears roughly fair to us. Bond/swap spreads may enter a period of consolidation upon the recent stabilization in Gilts, although a strong reversal in the spreads is not in sight yet.

- **DXY. *Powell's Testimony in Focus.*** USD is modestly firmer as Trump threatened that tariffs on metals can go higher. Trump has signed an executive order to impose 25% tariff on all steel and aluminium imports that will come into effect on 4 March. Focus next on reciprocal tariffs. There are little details, apart from saying that Trump is considering tariffs targeting automobiles among other measures. This action will affect "everyone" and is intended to "equalise" trade. Trump wants to hit any country that charges a duty on a US-made goods with "the same exact tariff." Apart from tariffs, the focus is also on US CPI tomorrow. A deceleration in core CPI may weigh on USD but tariff uncertainty may still keep USD broadly supported. DXY was last at 108.40 levels. Bearish momentum on daily chart faded while RSI rose. Rebound risk likely. Resistance here at 108.40 (21 DMA), 110.00/20 levels (previous high). Support at 107.80/90 levels (50 DMA, 23.6% fibo retracement of Oct low to Jan high), 107 levels. Focus is on Fed Chair Powell's semi-annual testimony to lawmakers today and tomorrow. We believe Powell may use this platform to reiterate there is no rush to cut rates amid a resilient economy and that Fed officials need time to assess the impacts of new policy measures in Trump administration.

- **EURUSD. *2-Way Trade.*** EUR remains under pressure on tariff concerns. Overnight, Lagarde said that disinflation is on track but global trade friction poses risks. Last week, Trump told the BBC that tariffs on EU goods imported into the US could happen "pretty soon". However, he did not give a timeline. His comments suggest that autos, goods and farm products are amongst some of the areas that may see US tariffs hit. EUR was last at 1.03 levels. Daily momentum turned bearish while RSI fell. Risks to the downside. Support at 1.0240, 1.0140/80 levels (recent low). Resistance at 1.0375 (21 DMA), 1.04 (50 DMA).

- **USDJPY. *Watching Out for Reciprocal Tariff.*** USDJPY remains supported amid reciprocal tariff uncertainty. Trump mentioned that tariffs will be applied on all nations, and Japan may not be spared. When it comes to automobiles, Japanese cars are amongst the top 5 most popular in US and Korean cars are on the top 10 list. On agricultural products, Japan has a high tariff rate of 204.3% for rice and 23.3% for meat. The risk is a direct tariff hit on Japanese goods and JPY may come under pressure in this scenario. USDJPY was last at 152 levels. Bearish momentum on daily chart intact while RSI is turning higher from near oversold conditions. Rebound risks likely in the interim. Resistance at 152.70/80 levels (100, 200 DMAs), 154.30 levels. Support at 151.50 (38.2% fibo retracement of Sep low to Jan high), 150 levels.

- **USDSGD. *Consolidation.*** USDSGD was little changed from yesterday's levels; last seen at 1.3565. Daily momentum turned flat while RSI rose. 2-way trades likely with risk to the upside. Resistance here at 1.3560/70 levels (21, 50 DMAs), 1.3630, and

1.3690 levels. Support at 1.3460, 1.3420 levels. S$NEER held steady; last seen around 0.86% above model-implied mid. Tariff uncertainty, Powell's testimony tonight and US CPI report should provide the directional cues for USDSGD in the near term.

- **SGD rates**. SGD OIS have remained soft despite some recent upticks in USD OIS, outperforming USD rates. Within the domestic market, SGD OIS also outperformed SGS; 2Y bond/swap spread (OIS – yield) last at -25bps appears supportive of the bond. Today brings auctions of 4W and 12W MAS bills; 1M and 3M implied SGD rates traded at around 2.78% and 2.82% this morning, which were similar to (1-2bps lower than) the levels around the last auction. 4W and 12W MAS bills cut-offs are expected at 3.02-3.08%. There is 6M T-bills auction on Thursday; 6M implied SGD rate traded at around 2.69% this morning, around 3bps lower than the level around the last auction. With relatively flush SGD liquidity, T-bill cut-off may come in a tad lower than the last 3.04% as per latest market level. Further out the curve, our view remains for SGD rates for most tenors to settle at the 2.50-2.65% area by year-end; i.e. our forecast profile is fairly flat.

GLOBAL MARKETS RESEARCH

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
mengteechin@ocbc.com

Co.Reg.no.: 193200032W