Daily Market Outlook

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Watching US CPI, Tariff News

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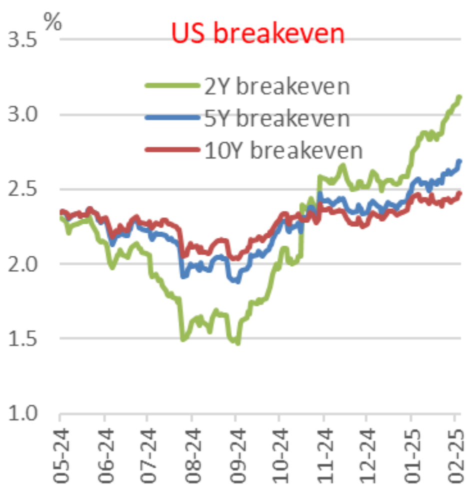
- **USD rates**. Most of the increases in UST yields happened before Powell's comments hit the wire, with the rhetoric fairly consistent in that the Fed is in no rush to cut rates. USTs did not react much further. Meanwhile, the 3Y coupon bond auction was well received, garnering a bid/cover ratio of 2.79x with indirect accepted higher at 74% versus 61% prior. Tonight brings the auction of USD42bn of 10Y note and Thursday's USD25bn of 30Y bond. Given constant auction sizes, the supply outlook is neutral for the coming months. On the data front, focus is on January CPI release, and core services versus core goods components; any surprise can be a trigger for a repricing of Fed funds rate pricing, which was last at 35bps of cuts this year. In-line CPI prints may be enough for breakevens to adjust mildly lower. 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 as short-end breakeven is elevated while near-term downside to the term premium appears limited. 10Y UST yield traded around the key level of 4.52% with a range of 4.40-4.60% seen for the near term.



Source: Bloomberg, OCBC Research

- **DXY. *CPI in Focus.*** USD traded subdued overnight in absence of fresh catalyst. In the semi-annual testimony to Senate Banking panel overnight, Fed Chair Powell signalled that the Fed was in no rush to cut which had been well priced by markets, hence impact on FX has been rather muted. The impact of Powell's comment was more felt on gold as a no rush to cut implies high for longer may remain. This also comes timely to keep gold's rise in check for now. On data, US CPI is top focus tonight (9:30pm SGT). A deceleration in core CPI may weigh on USD but tariff uncertainty may still imply that USD dips may be shallow. DXY was last at 108 levels. Daily momentum and RSI indicators are not showing a clear bias. Sideways trade likely for now. Support at 107.80/90 levels (50 DMA, 23.6% fibo retracement of Oct low to Jan high), 107 levels. Resistance at 108.40 (21 DMA), 110.00/20 levels (previous high). Later tonight, Powell will testify to the House Financial Services committee (11pm). He is not expected to deviate too much from his recent remarks. Elsewhere, we are also keeping a look out on details with regards to reciprocal tariffs.

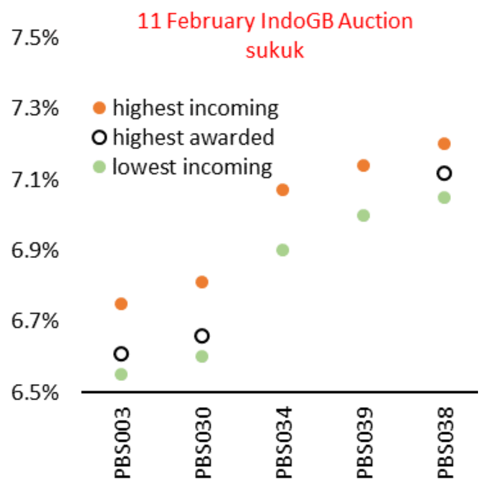
- **USDJPY. *Still Watching Out for Reciprocal Tariffs.*** USDJPY continued to trade higher, in line with our near-term caution about the reciprocal tariff uncertainty. USDJPY was last at 153.60

levels. Bearish momentum on daily chart intact but shows signs of fading while RSI is turning higher from near oversold conditions. Rebound risks likely in the interim. Resistance at 154.30, 155.20 levels (50 DMA). Support at 152.70/80 levels (100, 200 DMAs), 151.50 (38.2% fibo retracement of Sep low to Jan high), 150 levels. As a recap, Trump mentioned that reciprocal tariff will be applied on all nations, and we believe Japan may not be spared. When it comes to automobile, 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.

- **Gold. *Reality Check.*** Recent breakout in gold prices towards 2942 intra-day high was due to recent play-up on trade friction and central banks keeping up with their gold purchases (China for 3rd consecutive month). But near term, there is room for retracement. In a semi-annual testimony to Senate Banking panel overnight, Powell signalled no rush to cut rates. This implies that high for longer may remain and results in higher opportunity cost associated with holding gold. This comes in timely to keep gold's recent rise in check for now. Gold last seen at 2888 levels. Bullish momentum on daily chart intact while RSI eased lower from oversold conditions. Retracement lower is likely. Support at 2860, 2792 (21 DMA). Bias to buy dips. Resistance at 2942 (recent high), 2960 levels. We remain constructive on the outlook of gold amid ongoing global trade friction/ uncertainty. Potential ballooning in US debt may bring back de-dollarisation narrative, adding to demand for gold. Moreover, continued gold purchases by central banks is also another driver supportive of gold prices. Most central banks are still easing monetary policy, albeit at a slower pace. This remains marginally supportive of gold prices overall.

- **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.

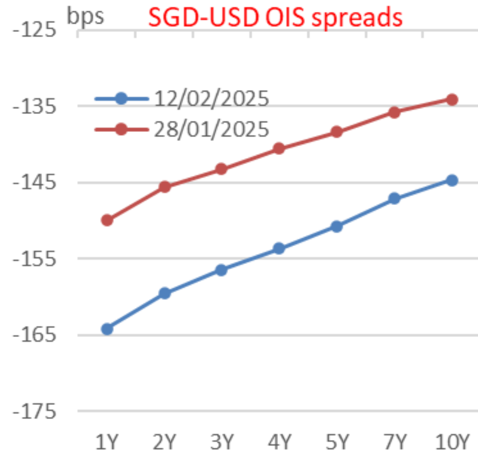
- **IndoGBs**. Tuesday's sukuk auction garnered a stronger incoming bid of IDR30.3trn, versus IDR20.5trn and IDR14.1trn in the previous two sukuk auctions. Still, MoF awarded IDR10trn of bonds as per indicative target with no upsizes; there was no award for PBS34 (2039 bond) and PBS39 (2041 bond) upon small amounts of bids. Most of the incoming bids went to PBS03 (2027 bond) and PBS30 (2028 bond) with their cut-offs near lowest incoming bid levels.



Source: DJPPR, OCBC Research

Funding position is comfortable with prefunding including the international sukuk issuances last November, and with proceeds from retail tranche. Percentage share of bonds held by retail investors have been increasing over the years, to the latest 9.06%. Foreign holdings stood at IDR887.5trn or 14.48% of total, as of 10 February, with net inflows of IDR7.1trn over the previous five trading days. IndoGBs have outperformed USTs recently; we earlier wrote 10Y IndoGB-UST spread at 245-250bps appears stable which provided "room for IndoGB yields to go lower upon any UST rally". Now that the spread has come in to around 229bps; further downside to 10Y IndoGB yield may be more limited before UST rally kicks in.

- **SGD rates**. 4W and 12W MAS bills cut off at 2.98% and 2.99% respectively, with the spreads over implied SGD rates having narrowed to around 18bps on relatively flush SGD liquidity. 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. SGD rates have outperformed USD rates over the last couple of weeks, with SGD-USD OIS spreads turning yet more negative – 1Y and 2Y spreads fell by a cumulative 13-14bps from late January levels. Current spread levels are constructive for entering pay SGD rates versus receive USD rates positions. Within the domestic market, SGD OIS have also broadly outperformed SGS. We wrote yesterday "2Y bond/swap spread (OIS-yield) last at -25bps appears supportive of the bond"; the spread moved slightly higher to -23bps and we see further room for SGS outperformance against swaps. Asset swap pick-up was at around SOFR+80bps (before bid/offer spreads) into 20Y SGS, and around SOFR+50bps into 10Y SGS. Pick-up has been maintained or improved despite the mildly higher SGD basis, thanks to bond/swap movements. Take the 20Y tenor as an example, the cost saved on the basis+swap side was 30bps+ since the recent high in mid-January; meanwhile, 20Y SGS yield fell by 9bps.



Source: MAS, Bloomberg, OCBC Research

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