

Daily Market Outlook

13 February 2025

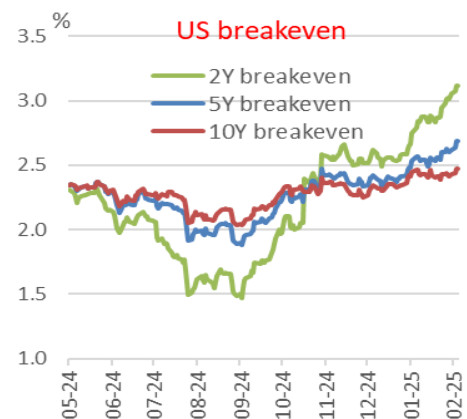
Inflation Threat

- USD rates.** UST yields jumped on the higher-than-expected CPI prints, and market re-priced Fed funds rate trajectory higher. Drivers for higher UST yields were different at the short-end versus long-end. 2Y breakeven rose further by almost 6bps to 3.17%, while 10Y real yield that rose by almost 9bps was the main driver for higher 10Y nominal yield with 10Y breakeven somewhat stable. These are in line with **our view that 1/inflation worries will be more reflected at the short end; and 2/ upside to 10Y yield remains likely driven by real yield.** Next level on the upside to 10Y yield is at 4.80% while downside is at 4.52%. With the FOMC in a wait and see mode, even if February CPI printed softer, the Committee would be reluctant to react with another rate cut at the March meeting. Further ahead, we continue see room for the Fed to deliver additional rate cuts in view of the less-tight labour market vis-à-vis the current level of Fed funds rate, and in view of the growth impact of tariffs; the higher US yields are also doing part of the job of policy restraint. For now, market is convinced that there is very limited room for the Fed to ease; Fed funds futures trimmed rate cut expectation to 29bps for this year, with the chance of a 25bp cut priced at 78% by September and at 94% by October. Powell’s reaction to the January CPI print was somewhat neutral, sticking to the narrative that the Fed has made progress on inflation but is not there yet”. Powell added that “we don’t get excited about one or two good readings, and we don’t get excited about one or two bad readings”. With not much monetary easing in the price, we see value in 2Y UST. Overnight’s 10Y coupon bond auction went well, although tailing by around 1bp; bid/cover ratio of 2.48x was around recent average, and indirect accepted was higher at 71.5% versus 61.4% reflecting end-user demand. Next to watch are the January PPI and 30Y coupon bond sales tonight.
- DXY. PPI Next.** USD traded choppy overnight, rising initially after CPI surprised to the upside but gains were erased on headlines that Trump and Putin agreed to Ukraine talks. That said, focus remains on reciprocal tariffs which Trump indicated is a work in progress. There are little details at this point, but Trump indicated that this action would affect “everyone” and is intended to “equalise” trade. Trump wants to hit any country that charges a duty on a US-made good with “the same exact tariff”. Our

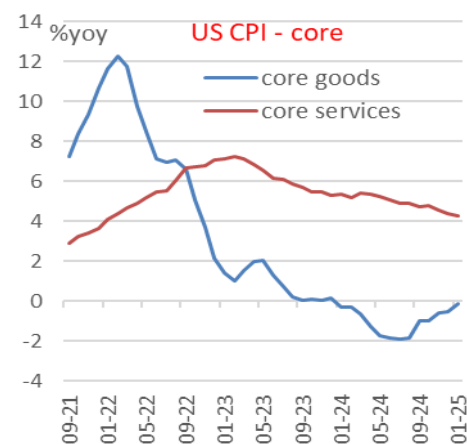
Frances Cheung, CFA
 FX and Rates Strategy
FrancesCheung@ocbc.com

Christopher Wong
 FX and Rates Strategy
ChristopherWong@ocbc.com

Global Markets Research and Strategy



Source: Bloomberg, OCBC Research



Source: CEIC, OCBC Research

preliminary assessment based on existing weighted tariffs (2022 data from WITS) shows that Korea, India, Thailand and Japan imposed a higher tariff rate than the US does on these countries. Reciprocal tariff rate adjustment by US may potentially impact these countries more. If FX were to be reactive to tariff announcements, KRW, INR, THB and JPY may potentially be subjected to higher volatility. Furthermore, Australia and UK are likely to be relatively safer since Australia's average weighted tariff rate on US is zero and UK imposed a lower average weighted tariff rate than US. That said, we cannot rule out Trump using reciprocal tariffs as a bargaining chip to unlock other agenda. DXY was last at 107.80 levels. Daily momentum is not showing a clear bias while RSI fell. Slight risk to the downside. Support here at 107.80 (23.6% fibo retracement of Oct low to Jan high), 107 levels. Resistance at 108.00/10 (21, 50 DMAs), 110.00/20 levels (previous high).

- **EURUSD. *Peace Dividend.*** EUR went bid on news that Trump and Putin held a phone call to agree to start negotiating an end to the war in Ukraine. Trump said their teams would start negotiations immediately and later told reporters in the Oval Office that he'll probably meet Putin in Saudi Arabia in the "not-too-distant future." This remains in early stages and the call had not involved Ukraine or Europe. While the negotiation process is not likely to be smooth, we believe progress on this front is a positive start. It can even be a strong positive factor that overwhelms other EUR-negative factors, which were more or less in the price (stagnant economy, dovish ECB), depending on how the peace deal takes its form. We are turning neutral on the EUR outlook (from bearish), looking to initiate buy on dips (at better levels). Pair was last at 1.04 levels. Daily momentum does not indicate a clear bias while RSI rose. Immediate resistance at 1.0420 (23.6% fibo retracement of Sep high to Jan low), 1.05, 1.0570 levels (38.2% fibo, 100 DMA). Support at 1.0380 (21, 50 DMAs), 1.0260 levels.
- **USDJPY. *Still Watching Out for Reciprocal Tariff.*** USDJPY rose, driven by US inflation upside surprise while still cautious about the reciprocal tariffs. As a recap, Trump mentioned that reciprocal tariffs will be applied on all nations and we believe that Japan may not be spared. When it comes to automobiles, Japanese cars are amongst the top 5 most popular in US and Korean cars make it to 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 154.20 levels. Bearish momentum on daily chart faded while RSI rose. 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.

- **USDSGD. Consolidation.** USDSGD slipped, riding on EUR's momentum. Pair was last seen at 1.3505. Daily momentum is flat but RSI fell. 2-way trades likely with risks now slightly skewed to the downside. Support at 1.3460, 1.3420 levels. Resistance at 1.3560/70 levels (21, 50 DMAs), 1.3630, and 1.3690 levels. S\$NEER strengthened; last seen around 1.1% above model-implied mid.
- **CNY rates.** PBoC continued with post-holiday liquidity withdrawals which was as expected. Repo rates have retraced from previous peaks but stayed at the high end of range compared to OMO rate and to short-end IRS. The relatively high repo rates – e.g. DR07 at 1.85%, FR007 at 1.9% - are preventing short-end repo IRS from falling more rapidly. There may be room for short-end IRS to adjust lower upon an interest rate cut which is yet to come. Offshore is busy with RMB bond/bill issuances over the coming days. RMB40bn of 3M offshore PBoC bills and RMB20bn of 12M offshore PBoC bills are to be tendered on 14 February, representing upsizes of RMB10bn and RMB5bn respectively versus maturing amounts. The reopening of 10Y RMB HK Government Bond will be auctioned on Thursday; the bond was last quoted at 2.588/2.516%. Next week, a total of RMB12.5bn of offshore CGB, comprising RMB3.5bn of 2Y, RMB3.0bn of 3Y, RMB3.0bn of 5Y, RMB2.0bn of 10Y and RMB1.0bn of 30Y bonds. Offshore supply is likely to be readily absorbed given higher offshore CNH rates than onshore CNY rates.

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
herberthwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

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

Jonathan Ng
ASEAN Economist
jonathannq4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyionq1@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

This report is solely for information purposes and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein or to participate in any particular trading or investment strategy. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this report is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this report may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This report may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, it should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. In the event that you choose not to seek advice from a financial adviser, you should consider whether the investment product mentioned herein is suitable for you. Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), Bank of Singapore Limited ("BOS"), OCBC Investment Research Private Limited ("OIR"), OCBC Securities Private Limited ("OSPL") and their respective related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future, interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial or securities related services to such issuers as well as other parties generally. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. There may be conflicts of interest between OCBC Bank, BOS, OIR, OSPL or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OCBC Bank and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

The information provided herein may contain projections or other forward looking statements regarding future events or future performance of countries, assets, markets or companies. Actual events or results may differ materially. Past performance figures are not necessarily indicative of future or likely performance.

Privileged / confidential information may be contained in this report. If you are not the addressee indicated in the message enclosing the report (or responsible for delivery of the message to such person), you may not copy or deliver the message and/or report to anyone. Opinions, conclusions and other information in this document that do not relate to the official business of OCBC Bank, BOS, OIR, OSPL and their respective connected and associated corporations shall be understood as neither given nor endorsed.