GLOBAL MARKETS RESEARCH

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

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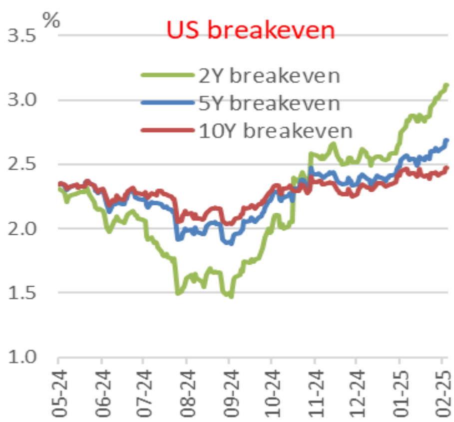
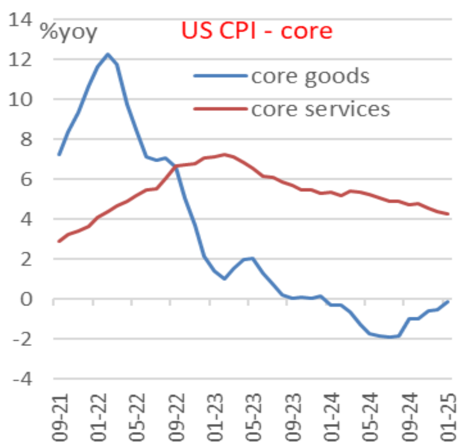


Source: Bloomberg, OCBC Research



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.

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