GLOBAL MARKETS RESEARCH

Daily Market Outlook

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Dovish BoK Hold; Hawkish BoJ Guidance

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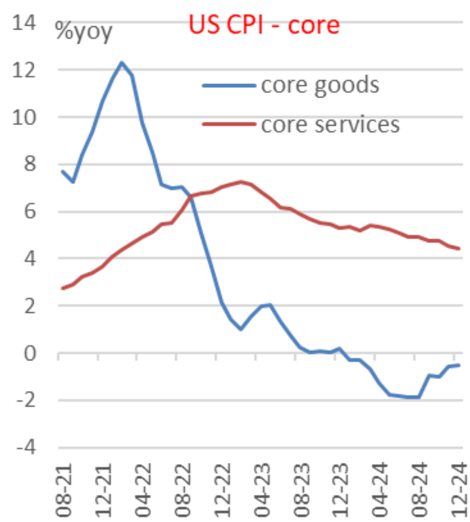
Global Markets Research and Strategy

- **USD rates**. USTs rallied upon the CPI print which showed the broader disinflation trend remained intact. Yields were down by more than 10bps for most tenors. Core CPI eased to 0.2%MoM in December, after staying at 0.3%MoM for four months in a row. Year-on-year, the disinflation trend in the services sector continued, including the rent of shelter component. Fed funds futures added back to rate cut expectation to 38bps of cut this year, from as little as 28bps after payrolls. A January pause remains in the price; next to watch on the inflation front is December PCE price index which will only be out after the January FOMC. At the long end, the fall in 10Y UST yield was mainly driven by lower real yield, while inflation expectation stayed on the high side of recent range. 10Y real yield at 2.2% still appears somewhat elevated, while a soft PCE deflation print may push breakeven slightly lower. Potential adjustments in real yield and breakeven see downside to 10Y UST yield at 4.52%, while upside is the recent high of 4.80%.



Source: Bloomberg, OCBC Research

- **DXY. *Retail Sales Tonight.*** USD fell after core CPI underwhelmed expectations. But the pullback was also quickly retraced. Markets are likely cautious ahead of Trump inauguration (20 Jan), fearing that tariffs would be announced soon. On Truth social platform, President-elect Trump said that he will create an external revenue service to collect tariffs, duties and all revenue that come from foreign sources. That said, tariff uncertainty remains in terms of timing, magnitude and scope of products. Recent report about the Trump team considering a schedule of gradual tariffs increasing by about 2% to 5% a month is one that may defuse some fears, temporarily. DXY was last at 109.10. Mild bullish momentum on daily chart faded while RSI eased. Bearish divergence observed on RSI. Some risk of pullback not ruled out but likely to be shallow ahead of event risk. Support at 108.60 (21 DMA), 107.25 (50DMA). Resistance at 110.10, 110.90 levels. Today brings retail sales, Philly fed business outlook.

- **USDJPY. *BoJ MPC is Live.*** USDJPY fell in reaction to a volley of comments from BoJ officials, that seem to point to high likelihood of a hike at the upcoming MPC (24 Jan). Most notable one was a report that said BoJ officials see good chance of an interest rate hike next week as long as Trump administration does not trigger too many negative surprises. Earlier this week, Governor Ueda spoke about making a decision on whether to raise rate at the upcoming BoJ meeting. He also shared there is positive views on wage hikes gathering momentum. Deputy Governor Himino also said MPC will discuss next week whether to raise rate or not and to raise rate if economic outlook is realised. He also said "In conducting monetary policy, it is difficult but essential to judge the right timing". We still look for a hike as data continues to support policy normalisation. Wage growth pressure remains intact, alongside broadening services inflation. Pair was last at 155.75 levels. Daily momentum is bearish while RSI fell. Risks remain skewed to the downside. Next support at 154.80 (50 DMA), 154.30 (23.6% fibo retracement of Sep low to Jan high) and 152.80 (200 DMA). Resistance at 156.40, 157.40 (21 DMA). Tactically, in our FX Weekly sent yesterday, we look for short SGDJPY targeting a move lower towards 110. Entered at 115.10 with SL at 117.12. Cross was last at 114 levels.

- **USDSGD. *Mild Pullback Risk.*** USDSGD is a touch softer as USD strength paused while risk sentiments found support. Pair was last at 1.3675. Daily momentum turned mild bearish while RSI fell. Price action still shows a potential rising wedge pattern in the making. This can be associated with a bearish reversal. Bearish divergence observed on RSI. Near term risks continued to suggest downside bias though conviction level is not strong. Support at 1.3645 (21 DMA). Resistance at 1.3760 levels, 1.38. The focus next is on NODX (Fri), CPI (next Thu) and upcoming MAS MPC (no later than 31 Jan). We are looking for MAS to ease policy at the upcoming MPC by reducing the policy slope slightly but still maintain a mild appreciation stance. Given that the disinflation journey has made good progress, we believe MAS now has optionality to ease especially if it takes on a pre-emptive stance in the face of policy transmission lag. S$NEER was last at 0.62% above model-implied mid.

- **KRW rates**. KRW IRS were offered down 4-8bps thus far, upon what is considered as a dovish hold from the Bank of Korea. BoK kept its policy Base Rate unchanged at 3.00% against consensus for a 25bp cut. Nevertheless, Rhee sounded dovish at the press conference. Today's status quo decision appears to be primarily of FX consideration – "inflation is likely to remain stable backed by weak consumer demand but weaker won is likely to push up prices", Rhee was quoted as saying, while he also mentioned USD/KRW faced risks from political events. Rhee tried to keep rate cut expectations alive with 1/ a downbeat economic assessment, saying "consumer spending weakened and construction investment was sluggish…"; 2/ opining that "the BoK sees bigger need to adjust rates further"; 3/ revealed that the views within the board were more diverse than the one dissenter result showed, with lots of opinions that just looking at the economy, a rate cut would be natural. All six members are open to rate cut in the next three months. KRW IRS are pricing in around two cuts on a three-month horizon, while we see a 25bp cut in February a high possibility.

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