Daily Market Outlook

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Cautious Optimism

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- **USD rates**. USTs rallied further by 3-6bps on Friday amid soft retail sales print, with yields mostly ending the day below levels before CPI release. Fed funds futures brought forward the expected timing of the next rate cut slightly, now pricing a 60% chance of a cut by June FOMC meeting; still, rate cut pricing is not aggressive at 40bps of cuts for this year. We see the bar as high for the market pricing to shift further away to the hawkish side. UST futures opened a tad weaker with limited price action, ahead of US holiday tonight. This week, liquidity condition is supportive with net coupon bond settlement of USD18.8bn and net bills paydown of USD1bn. 10Y yield is back below the key 4.52% level and range remains at 4.40-4.60%. In terms of the curve, our view remains that in the absence of negative tariff headlines, we do not see much room for flattening, as front-end pricing is not dovish (and the breakeven curve is very inverted) while near-term downside to the term premium appears limited after the recent retracement.

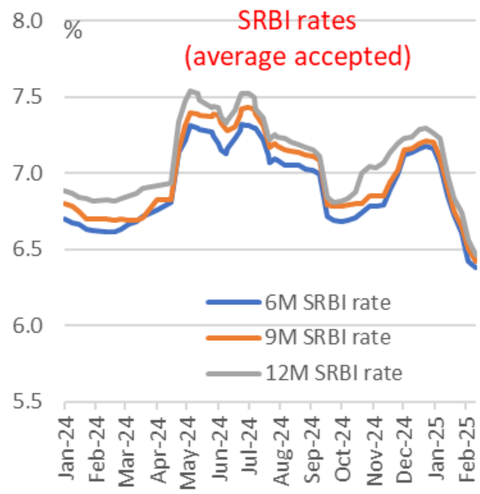
- **DXY. *Bearish Crossover.*** USD longs continue to unwind as tariff concerns fade. Prospects of a Ukraine peace deal as well as a re-rating of Chinese tech stocks also helped to support sentiments while counter-cyclical USD comes under pressure. A potential meeting between President Xi and prominent Chinese tech entrepreneurs, Jack Ma and DeepSeek founder Liang Wenfeng is perceived as a positive signal. Markets are hoping that the outcome of the meeting shows Xi's support for private sector and/or AI developments. Last Fri, US retail sales disappointed, further adding to USD woes. DXY was last at 106.70 levels. Daily momentum is bearish while RSI fell. Bearish crossover observed (21 DMA cuts 50 DMA to the downside). Risk remains skewed to the downside. Support at 106.20/40 levels (100 DMA, 38.2% fibo retracement of Oct low to Jan high). Resistance at 107.80 (23.6% fibo), 108.00/10 (21, 50 DMAs), and 108.50 levels. US markets are closed tonight for Presidents' Day holiday.

- **EURUSD. *Cautious Optimism.*** EUR continued to drift higher on prospects of a Ukraine peace deal and on news of a delay in reciprocal tariffs. Tariff concerns remain and **appears to open up EU's willingness to negotiate.** At the Munich Security Conference on Fri, European Commissioner for Trade and Economic Security, Maroš Šefčovič said that Brussels is ready to discuss "anything" to avoid Trump's tariff on European exports. He mentioned that Brussels is willing to reduce its substantial surplus in goods and services with the US, which reached €50 billion last year and has also signalled that the EU is ready to reduce its 10% tariff rate on cars, which is four times higher than the US rate. He also indicated that the EU could boost purchases of US goods such as LNG and soybeans. EU officials confirmed that Šefčovič will travel to Washington on Monday to hold talks with senior Trump administration officials, including Commerce Secretary nominee Howard Lutnick, trade representative nominee Jamieson Greer, and National Economic Council chief Kevin Hassett. EUR was last seen at 1.0495. Daily momentum is mild bullish while RSI rose. Immediate resistance at 1.05, 1.0540 levels. Break-out puts next resistance at 1.0570 (38.2% fibo retracement of Sep high to Jan low, 100 DMA), 1.0620 levels. Support at 1.0390 (21, 50 DMAs), 1.03 levels.

- **USDJPY. *Lower on BoJ Hike Prospects.*** USDJPY extended its decline as stronger 4Q GDP print (2.8% QoQ, saar) solidified expectations for another BoJ hike to be in due course. There were also chatters of a 8% increase in wages for large Japanese bank, adding to the list that a handful of Japanese corporates are likely to see another year of wage increases, meeting one of BoJ's pre-requisites for policy normalisation. USDJPY fell, last at 151.60 levels. Daily momentum is flat while RSI fell. Consolidation likely, with slight risks to the downside in the interim. Support at 151.50 (38.2% fibo retracement of Sep low to Jan high), 150 levels. Resistance at 152.70 (200 DMA), 153.40 (100 DMA) and 154.30 levels. Elsewhere, tariff concerns remain but it appears that Japan is attempting to seek exemptions with regards to Trump's proposed reciprocal tariffs. Ministry of Foreign Affairs Takeshi Iwaya also raised the issue of automobile tariffs and sought exclusion from the 25% tariff on imported steel and aluminium products at the Munich Security Conference last Fri.

- **USDSGD. *200 DMA Eyed.*** USDSGD continued to fall further amid supported sentiments and a sharp pullback in UST yields. Delayed tariffs, prospects of a Ukraine peace deal and a re-rating of Chinese stocks are supportive of risk sentiments, leading to continued unwinding of USD longs. Pair was last seen at 1.3390. Daily momentum is mild bearish while RSI fell. 2-way trades likely with risks still slightly skewed to the downside. Support at 1.3380 levels (38.2% fibo retracement of Sep low to Jan high), 1.3360 (200 DMA). Resistance at 1.3410 (100 DMA), 1.3510/20 (23.6% fibo, 21 DMA). S$NEER continued to strengthen; last seen around 1.35% above model-implied mid.

- **IndoGBs** traded on the strong side on Friday, with the upbeat sentiment being further extended upon SRBI auction results. 6M, 9M and 12M SRBI rate (average) fell further to 6.383%, 6.425% and 6.464%, respectively. From the recent peaks in late December, SRBI rates have fallen by cumulative 78.3-83.6bps, while implied rates only softened mildly during the period. Foreign holdings of IndoGBs stood at IDR888trn, or 14.49% of outstanding, as of 11 February, upon inflows of IDR7trn in the five days to 11 February. We earlier wrote "10Y IndoGB-UST yield spread at around 245-250bps level appears stable; we see room for IndoGB yields to go lower upon any UST rally". The spread has since narrowed to around 220bps; before another leg of UST rally, further downside to 10Y IndoGB yield may be limited. Tuesday's conventional bond auction comprise the reopening of FR104 (2030 bond), FR103 (2035 bond), FR106 (2040 bond), FR107 (2045 bond), FR102 (2054 bond), FR105 (2064 bond), and bills. Indicative target is IDR26trn with potential to be upsized to IDR39trn. Again, we would expect a small upsize if the demand and bid yield levels are favourable.



Source: CEIC, OCBC Research

- **CNY rates**. Liquidity appears to remain on the tight side without PBoC support. CGB yields and Repo-IRS traded a tad firmer at open this morning. There is around CNY1trn of reverse repo maturity this week, as PBoC has been pacing out its post-holiday liquidity withdrawal. Meanwhile, CNY500bn of MLF matures on Tuesday. On top of these, NCD maturity is heavy this month and through coming months, while NCD rates have rebounded from recent lows with 12M AAA rate last at 1.8% level. Today, PBoC net withdrew CNY38.5bn of liquidity via daily OMOs. In the coming days, we expect there will be some short-term liquidity provisions in the interim to buffer MLF maturity before MLF operations later in the month. On the data front, January aggregate financing and new yuan loan printed higher than expected. In offshore, RMB12.5bn of offshore CGBs and reopening of 3Y HKSAR Government Bonds are to be tendered on 19 February. Last week's offshore PBoC bills auction was well received. 3M PBoC bills cut off at 2.60% versus 3M implied CNH rate of 2.4%, and 12M PBoC bills cut off at 2.32% versus implied rate of 2.1%; spreads above implied rates were within ranges. Bid/offer ratios were high at 3.39x and 3.28x, respectively, for the 3M and 12M PBoC bills. We continue to expect offshore supply to be readily absorbed.

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