Daily Market Outlook

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Fed Cut Still on The Table

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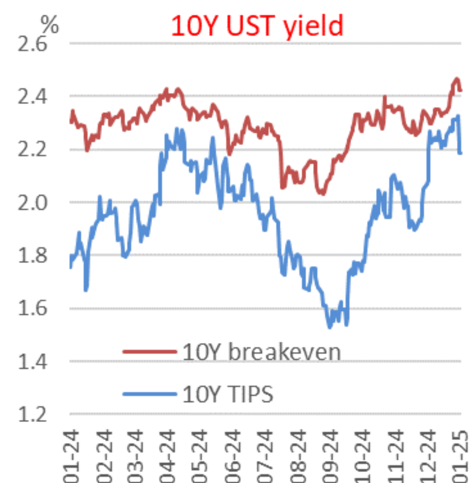
- **USD rates**. UST yields retraced from intra-day highs upon dovish remarks from Fed's Waller, ending the day 2-4bps lower. Fed funds futures added to rate cut pricing now seeing 42bps of cuts this year with a 25bp cut almost fully priced by June. Waller opined that "it's reasonable to think rate cuts could happen in the first half of the year" if inflation data continued to be favourable and he wouldn't entirely rule out a cut in March. He added that he is optimistic that the disinflationary trend will continue and "we'll get back closer to 2% a little quicker than maybe others are thinking". Our base-case remains for 75bps of cuts this year as rates are still at restrictive level; this expected rate cut profile already represents a well slower pace of easing compared to the 100bps of back-to-back rate cuts that had been delivered, and it is consistent with the Fed's stance of bringing rates gradually down over time to a more neutral level – if our expected rate cuts materialise Fed funds rate will be at 3.75% by end-2025 which is arguably at or above neutral. That said, market may be reluctant to add much to rate cut expectation before the next Fed funds rate materialises, given high uncertainty on various fronts including tariffs implications and the inflation outlook. At the longer end, the 10Y real yield has adjusted lower by a cumulative 14bps over recent days but at 2.185% still appearing somewhat elevated; 10Y breakeven stayed on the high side of recent range. 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

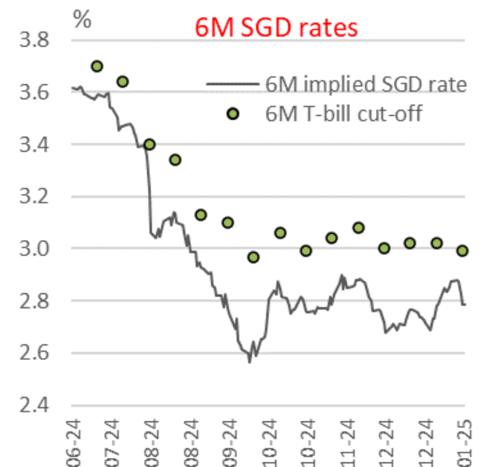
- **DXY. *Dip May Find Support in the Interim.*** USD was a touch softer overnight, helped by dovish comments from Fed's Waller. He said that Fed may cut rates more this year and sooner than investors expect if future inflation data fall in line with Dec CPI report. He also added that Fed could lower rates again in 1H 2025 if data remains favorable. Timing of next rate cut shifted earlier to Jun (vs. Oct previously) while the quantum of rate cut expectations have also risen back to 42bps. This morning's release of data shows China growth and activity data came in better than expected. This helped to keep Asian FX supported. But into the weekend and ahead of Trump inauguration (20 Jan), markets may turn slight cautious on positions (USD dip maybe shallow), fearing that tariffs may soon be announced. On Truth social platform, President-elect Trump recently 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. DXY was last at 108.90 levels. Daily momentum turned mild bearish while RSI eased. Bearish divergence observed on RSI. Risk of pullback still likely. Support at 108.70 (21 DMA), 107.33 (50DMA). Resistance at 110.10, 110.90 levels. Today brings housing starts, building permits and IP data.

- **USDJPY. *Bearish Bias.*** USDJPY continued to trade lower, as expectations on BoJ hike next week continues to build. Markets are pricing in 22bp hike at the upcoming MPC (vs. 11bp hike expectations at the start of the new year). The shift this week in particular was due to comments from BoJ officials and a report in Japanese media, 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 decision 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. All seem to point to high likelihood of a hike at the upcoming MPC (24 Jan). We continue to look for a hike as data continues to support policy normalisation. Wage growth pressure remains intact, alongside broadening services inflation. Pair was last at 155.30 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 on Wed, we look for short SGDJPY targeting a move lower towards 110. Spot ref then at 115.10 with SL at 117.12. Cross was last at 113.70 levels.

- **USDSGD. *On the Lookout for MAS Announcement of MPC Date.*** USDSGD continued to trade modestly softer as USD strength eased while JPY, CNH and risk sentiments found support. USDSGD was last at 1.3658. Daily momentum is 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 0.59% above model-implied mid.



Source: Bloomberg, OCBC Research

- **SGD rates**. 6M T-bills cut off at 2.99%, 3bps lower than the previous cut-off of 3.02% two weeks ago; the result was in line with what market implied rate would have suggested 6M implied SGD rates traded at a level that was similar to two weeks ago. SGD OIS were offered down by 4-7bps on Thursday in a flattening manner, following USD OIS. SGD OIS opened further lower this morning. SGD-USD OIS spreads were little changed over recent days but compared to a month ago, spreads had become less negative probably reflecting some MAS easing expectation. A slope reduction per se may exert a mild upward pressure on the forward points and hence some upward pressure on short-end SGD interest rates. Granted, the actual movements in SGD rates depend on how spot versus forward outright reacts upon and following policy announcement, and on USD rates performances around that time. The movement in front-end spreads over the past month may limit initial reaction but on a multi-month horizon, we still expect SGD-USD OIS spreads to become less negative, premised on our lower USD rate view and assumption of only partial passthrough from movements in USD rates onto SGD rates.

- **CNY rates**. Onshore liquidity had been on the tight side over recent days. A commentary on CCTV has it that the liquidity injections in the past three days were equivalent to a 0.5ppt cut in RRR – 7-day liquidity is disappointing, more so if that was compared to an RRR cut. 7-day repo rate went up to 2.41% while 1W and 2W implied CNY rates went above 2% on Thursday. Nevertheless, there is some sign of easing this morning with 7-day repo plunging to 1.51% and repo-IRS offered down by 1-3bps at open. Rates went back up mildly upon Q4 GDP which surprised to the upside. Hope remains for longer-term liquidity injection next week. As Chinese New Year approaches, if PBoC conduct outright reverse repos instead of the usual 14-day reverse repos, that will help lift sentiment. At the back end, 12M CNY point has been paid up to be better align with offshore – 12M off-onshore spread was last at 859pips, getting nearer the 720-740pips as implied by full impact of 20% FX risk reserve.

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