Daily Market Outlook

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RBA Cut; USD Bounce

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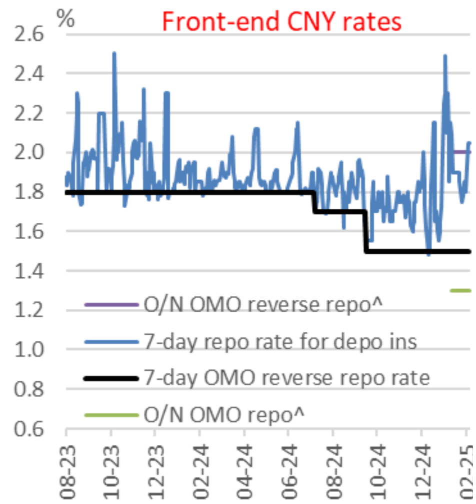
- **DXY.** ***Bears Pause.*** USD firmed overnight on comments from Fed's Waller. He spoke about preferring to keep rates on hold for now until it is clear that inflation is fading (like it did in 2024). But Waller did question if Jan CPI figures had been properly adjusted for seasonal factors as there were some patterns over the past few years of higher inflation readings at the start of the year. He went on to emphasise that Fed's favoured gauge of inflation is still the PCE price index – and that was less alarming. Next release of Jan core PCE price index is on 28 Feb. Waller acknowledged that the new Trump administration's policies had introduced a degree of uncertainty but cautioned against allowing that to delay the Fed's response to economic data. He also reiterated that tariffs imposed by Trump administration would 'only modestly increase prices in a non-persistent manner". DXY rebounded modestly; last at 106.89. Daily momentum is bearish while RSI shows signs of turning higher from near oversold conditions. Near term rebound risks not ruled out. Resistance at 107.30, 107.80 (23.6% fibo, 21 DMA) and 108.50 levels. Support at 106.20/40 levels (100 DMA, 38.2% fibo retracement of Oct low to Jan high). Data this week brings empire manufacturing (tonight); housing starts, building permits (Wed); FOMC minutes (Thu 3am SGT); prelim PMIs (Fri). Softer print should weigh on USD unless tariff uncertainty drums up again.

- **AUD rates.** RBA cut its OCR by 25bps as expected, citing restrictive financial conditions "which is weighing on demand and is helping to bring down underlying inflation". The tone of the statement is somewhat balanced but still underlines our view that the rate-cutting cycle is likely to be a shallow one. RBA opined that "the labour market has remained strong" and revised down unemployment rate to 4.2% from previously anticipated 4.4%. Labour cost growth has eased but remains high. GDP growth is forecasted to pick up over 2025 and to return to its trend rate. Underlying inflation "is expected to return to 2-3% target range this year, and if the cash rate follows the market path, to be a little above the midpoint over the forecast period". Before today's cut, cash rate futures priced around three 25bp cuts for this year, which explained the assumption of 3.6%. Market reaction thus far is muted, with cash rates futures up slightly (implied rate marginally down by 1bp in April contract).

- **USDJPY. *Consolidate.*** USDJPY rebounded today, tracking USD's modest bounce after back-to-back session of declines. USDJPY was last at 152 levels. Daily momentum is flat while RSI rose slightly. Consolidation likely in the interim. Resistance at 152.70 (200 DMA), 153.50/85 levels (21, 100 DMAs) and 154.30 levels. Support at 151.50 (38.2% fibo retracement of Sep low to Jan high), 150 levels. Elsewhere, tariff concerns remain to some extent as reciprocal tariffs may affect Japan. This can prove tricky for JPY's near-term outlook though we also noted 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. *2-Way Trades.*** USDSGD rebounded after the sharp pullback to sub-1.34 levels yesterday. The move tracked the rebound in USD. Comments from Fed's Waller - in keeping rates on hold for now until it is clear that inflation is fading - served as a reality check for USD bears. US data is in focus this week – softer print should restrain USD's rebound unless tariff uncertainty drums up or US data comes in hotter than expected. Near term, we expect consolidative trades around current levels. Pair was last seen at 1.3426. Daily momentum is mild bearish while RSI rose from near oversold conditions. 2-way trades likely. Resistance at 1.3510/20 (23.6% fibo, 21 DMA). Support at 1.3410 (100 DMA), 1.3380 levels (38.2% fibo retracement of Sep low to Jan high), 1.3360 (200 DMA). S$NEER was last seen around 1.27% above model-implied mid. Later today (3:30pm SGT), Singapore unveils Budget 2025.

- **CNY rates**. Onshore liquidity has stayed on the tight side; 7-day repo (RP07) was higher at 2.29% while 7-day repo rate for depository institutions (DR07) was last at 2.05%. PBoC net injected CNY456.2bn of liquidity via daily OMOs, covering most of the CNY500bn of MLF maturity in the interim as we had expected, before potential MLF operations next week. Still, high funding costs are keeping short-end repo-IRS high, and short-end bond/swap spreads wide. Repo-IRS were paid up by 3-4bps in a steepening manner, while CGB yields also traded higher this morning. We have been looking for bottoming out in long end bond yields amid fiscal stimulus; the next level to watch for 10Y CGB yield is 1.80/1.85%. Offshore CNH liquidity, meanwhile, is relatively loose. There was a lack of strong bid at T/N while 1W and 2W implied CNH rates trade below 2.1% level. At the back end, offshore-onshore spread in the 12M forward points narrowed further, to around 650ips compared to around 720pips implied by full impact of 20% FX risk reserve. Further narrowing in the spread may come more slowly. RMB12.5bn of offshore CGBs and reopening of 3Y HKSAR Government Bonds are to be tendered on 19 February. We continue to expect offshore supply to be readily absorbed.



Source: Bloomberg, OCBC Research

^to be conducted

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