Daily Market Outlook

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Trump-Xi Phone Call a Boost to Sentiments

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- **USD rates**. UST yields rebounded from session lows on Friday upon the firm prints of housing starts, building permits and industrial production data. The UST curve ended the day bearish flatter with long-end yields little changed while short-end bonds pared back the gains seen on Thursday. Fed funds futures trimmed rate cut expectation to 37bps for this year as investors await Trump's inauguration. There is no cash USTs trading on US holiday, while FOMC members enter pre-FOMC blackout period. 10Y UST yield touched an intra-day low of 4.566%, above the 4.52% resistance level that we eyed; upside stays at 4.80%. This week brings the auctions of USD13bn of 20Y bond and USD20bn of 10Y TIPS; net bills settlement is at USD106bn this week.

- **JPY rates**. We see this week's BoJ meeting as a live one for a potential hike; our base-case is a 25bp hike. This should be seen as a continuation of policy normalization. The prospect remains for inflation to stay sustainably around the 2% target, premised on a positive output gap and the virtuous cycle between wage and price continuing to play out as the labour market continues to tighten gradually. For one, the expansion in the labour force, if any, is likely to slow down, contributing to the labour market tightness. JPY OIS has added to rate hike expectation and now price an 88% chance of a 25bp hike. Further out, market prices another 25bp hike by year-end. Unless BoJ sounds hawkish together with a rate hike this week, we suspect initial reaction in swaps may be mild. On bond side, upside to the 10Y JGB yield may be limited in the near term. First the spread between the 10Y yield and 20Y yield has recently narrowed somewhat although it stays above multi-year median levels – this may be explained by lower demand at the super long end. Second, the 10Y yield is already a few bp above swap rates. The next level to watch is 1.25% for the 10Y.

Source: Bloomberg, OCBC Research

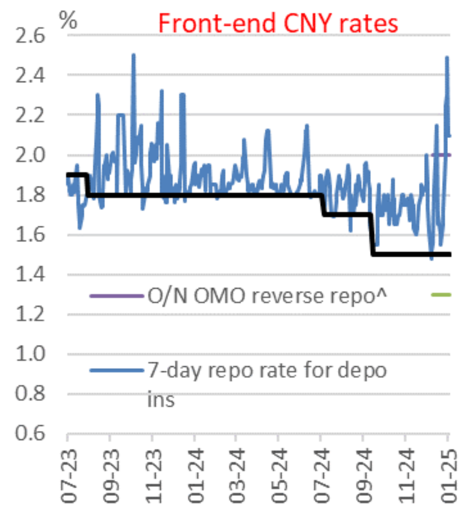
- **DXY. *Await Presidential Inauguration.*** USD started the week on a slightly softer footing ahead of US holiday (Martin L. King Day) and Presidential inauguration today. Trump had promised to sign a host of executive orders on his 1st day as President. At a pre-inauguration rally hours ago, he told the crowd he "will act with historic speed and strength and fix every single crisis". Trump promised executive orders that will ramp up artificial intelligence, form the Department of Government Efficiency (DOGE), etc. Media reports indicated Trump may issue more than 200 executive actions on Monday. There remains quite a fair bit of expectations that tariffs may soon be announced. But we believe tariff uncertainty remains in terms of timing, magnitude and scope of products. A longer delay for tariff announcement may provide a breather for risk proxies, and we do not rule out USD pullback (lower). That said, a swift order for tariff implementation is likely to undermine sentiments and provide a boost to the USD. Last Friday, President-elect Trump and President Xi had a phone call to discuss trade, TikTok and fentanyl. Trump said that that the call was a very good one for both China and the US. Separately over the weekend, Gaza ceasefire took effect. DXY was last at 109.20 levels. Daily momentum is mild bearish but decline in RSI moderated. Consolidation likely for now as we await event risk (signing of executive orders/ actions). Support at 108.75 (21 DMA), 107.43 (50DMA). Resistance at 110.10, 110.90 levels.

- **EURUSD. *21 DMA Holds Key.*** EUR traded under pressure (sub-1.03 levels). ECB's Schnabel said ECB has room to lower borrowing costs but also stressed that after the steep rate cuts over the last few months, ECB is getting closer to the point where policymakers have to take a closer look at whether and to what extent they can still reduce rates. EUR was last at 1.0290 levels. Daily momentum turned mild bullish while RSI rose. Risks modestly skewed to the upside. Immediate resistance at 1.0340 (21 DMA) needs to be broken for EUR bulls to regain some momentum towards 1.0440 (50 DMA). Failing which, EUR bears will reassert. Support at 1.0240, 1.02 (recent low).

- **USDSGD. *MAS MPC Scheduled on Friday.*** USDSGD continued to trade a touch softer as USD dipped post-opening, tracking decline seen in other USD pairs, including USDKRW, USDCNH. The Friday phone call between Xi and Trump as well as Gaza cease-fire may have helped to support sentiments ahead of Trump inauguration later. USDSGD was last at 1.3656. 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 remain skewed towards the downside. Support at 1.3650 (21 DMA), 1.3540 (50 DMA). Resistance at 1.3760 levels, 1.38. Focus this week on CPI (Thu) and upcoming MAS MPC (Fri). On the latter, 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. In terms of S$NEER outlook, a slight easing in the policy slope should see little impact on S$NEER as expectation is already priced in. S$NEER was last at 0.63% above model-implied mid.

- **USDCNH. *Breaking Out of Rising Wedge.*** USDCNH fell amid supported risk sentiments. CSI300, HK equities printed 1% and 2%, respectively this morning. Trump said that that the phone call with President Xi on Fri was a very good one for both China and the US may have supported sentiments. USDCNH fell; last seen at 7.3230 levels. Daily momentum is bearish bias while RSI fell. Risks are skewed to the downside. Next support at 7.2950 (50 DMA), 7.2755 (23.6% fibo retracement of Sep low to Dec high). Resistance at 7.3340 (21 DMA), 7.36 levels. A brief respite for RMB is still likely, given that policymakers have taken efforts – both onshore (via the fix) and offshore to maintain the relative stability in RMB. That said, we still expect RMB to depreciate when tariffs ultimately hit.

- **CNY rates**. The 1Y and 5Y LPR have been kept unchanged at 3.1% and 3.6% respectively, in line with expectations. Focus is instead on liquidity operations ahead of the new year holidays and also as earlier 7-day liquidity covering MLF matures. PBoC usually conducted 14-day reverse repos to cover long holidays; if there is a combination of outright reverse repos of multi-month tenors to cover earlier MLF maturity and 14-day reverse repos to cover the holidays, that will probably be seen as neutral to the market. This morning, PBoC continued to inject 7-day liquidity; before Chinese New Year, there is a total of CNY1.58trn of reverse repos maturing (including maturity of today's operation). Amid the recent liquidity tightness, the CGB curve has flattened meaningfully; short-end bond/swap spreads (repo-IRS minus yields) have stayed relatively high compared to other tenors. Looking further ahead, upon monetary easing, the CGB curve is likely to steepen back while short-end swaps may have more room to react than short-end CGBs.



Source: Bloomberg, OCBC Research

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