Daily Market Outlook

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JPY Gains on Strong Wages

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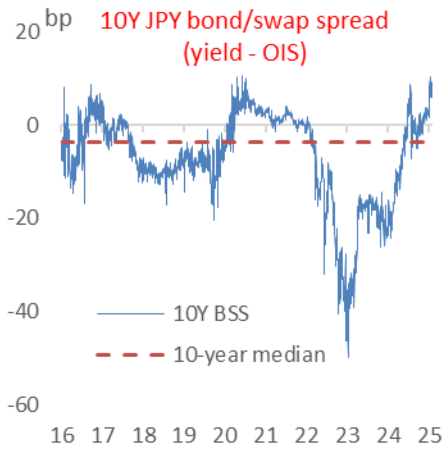
- **USD rates**. UST yields fell overnight while Fed funds futures added mildly to rate cut expectations to 43bps for this year. JOLTS job openings printed 7600K in December which was lower than those in the previous two months; layoff levels also came in a tad higher than expected. Reaction in USTs to tariff headlines has been relatively muted and may remain so as there are counteracting factors – namely, safe-haven flows and growth concerns – to inflation worries. 10Y real yield fell to 2.07% the latest, in line with our directional view; there may still be some room for retracement if there is further growth concern. That said, term premium has retraced a lot from the recent peak and if there is any risk it may come from tonight's US Treasury Quarterly refunding documents (overall estimates were announced on Monday), with intended individual auction sizes. We do not expect upsizes, but we watch if US Treasury continues to commit to no upsize in the quarters ahead. On the data front, key releases include ISM, ADP, and payrolls this week, and January CPI next week. Base effect is favourable for CPI in Q1 - more for Feb and Mar though; still, room is for a mild downside to January CPI compared to consensus of 2.9%YoY.

- **DXY. *USD Bulls Retreat.*** USD continued to trade lower, alongside the bounce in equities after trade tensions were assessed to be less drastic than expected. While US 10% tariff on China came into effect and China hits back with counter-tariffs on US goods and announced investigations into Google for alleged antitrust violations, the counter-response was interpreted as "measured". To some extent, there are some hopes that tensions may not escalate as Trump had agreed to delay tariffs against Mexico and Canada for one month. Focus is on Trump's call with Xi (timing uncertain for now). A "good call" can see USD trades broadly lower. DXY was last at 107.90 levels. Bearish momentum on daily chart returned while RSI turned lower. 2-way trades likely from here. Support at 107.80 (50 DMA, 23.6% fibo retracement of Oct low to Jan high), 107 levels. Resistance at 108.60 (21 DMA), 110.20 levels (previous high). While worsening/ broadening of trade war can further undermine sentiments and provide a boost to the USD, we cannot rule out compromises or a truce that may also provide a temporary breather for risk proxies (and the USD softens). Recent developments continue to suggest that 2-way trades are likely to dominate.

- **EURUSD. *Relief.*** EUR managed to hold on to gains amid USD's retreat as trade tensions was assessed to be rather contained at this point. EUR was last at 1.0380 levels. Daily momentum is flat while decline in RSI moderated. 2-way risks likely. Resistance at 1.0410/20 levels (50 DMA), 1.0460. Support at 1.0280, 1.0140/80 levels (recent low). We remain cautious on EUR as Trump did earlier warn about tariffs on European Union. There was some clarity on Mexico and Canada but the same cannot be said about EU for now. Uncertainty on that front may restraint gains on EUR until we get some clarity.

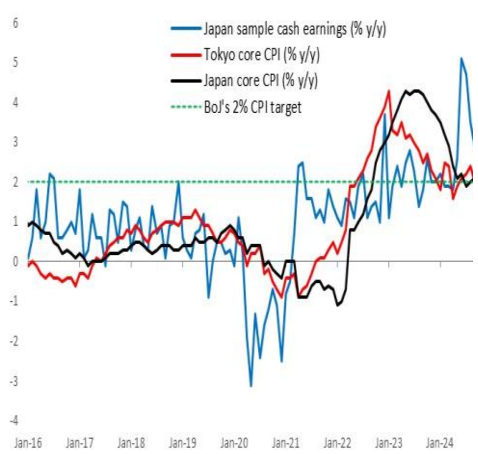
- **JPY rates**. JPY OIS were paid up by 1-2bps this morning while JGB yields were also trading higher, as December labour cash earnings surprised a lot to the upside. Labour cash earnings rose by 4.8%YoY versus expectation of 3.7% while November's number was revised up to 3.9%YoY from 3.0% prior. Similarly, cash earnings same sample base also printed higher than expected with upward revision in previous number. JPY OIS added to rate hikes pricing, to 34bps by year-end; our base-case remains more hawkish than market pricing as we look for two additional 25bp hikes which will bring BoJ target rate to 1% by year end. 10Y bond/swap spread (OIS – yield) was last at 8bps vs 10-year median of -5bps, and 10s20s JGB spread was last at 71bps vs 10-year median of 52bps. We earlier wrote "further upside to 10Y JGB yield may be limited without a break higher in 20Y JGB yield and/or 10Y JPY OIS". 20Y JGB yield was up by 5bps while 10Y JGB yield was up by 2bps this morning thus far, providing some upside room to the 10Y yield.



Source: Bloomberg, OCBC Research

- **USDJPY. *Drifting Lower.*** USDJPY fell on surprise strong gain on wage data. Cash earnings jumped 5.2% YoY (vs. 3.6% expected). Wage growth data adds to conviction that further BoJ policy normalisation remains on track. We had earlier highlighted that wage growth pressures are growing while Shunto wage negotiations had also saw unions calling for 5 – 6% wage increase for 2025. Several Japanese corporates have already indicated that they will be raising wages in 2025. Fast retailing (Uniqlo) announced it will raise starting pay for new employees by 10% and 5% for other employees, while companies in other sectors such as Meiji Yasuda Life Insurance Co. and Hoshino Resorts Co., Ltd announced raising wages by 5% and 5.5% on average respectively. Suntory Holdings is looking to raise monthly wages by about 7% in 2025 for the third straight year. We still look for USDJPY to trend lower, premised on Fed cut cycle while the BoJ has room to further pursue policy normalisation (supported by data). Divergence in Fed-BoJ policies should bring about further narrowing of UST-JGB yield differentials and this should underpin the broader direction

Jump in Wages



Source: Bloomberg, OCBC Research

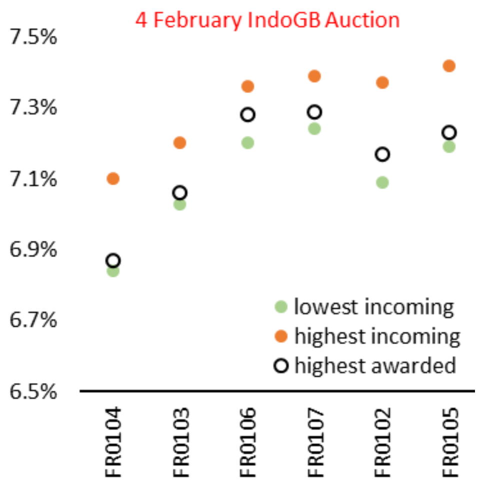
of travel for USDJPY to the downside. USDJPY was last at 153.45 levels. Bearish momentum on daily chart intact while RSI fell. Risks skewed to the downside. Support at 152.70/80 levels (100, 200 DMAs), 151.50 (38.2% fibo retracement of Sep low to Jan high). Resistance at 155 (50 DMA), 155.90 (21 DMA).

- **USDSGD. *2-Way Trades Likely.*** USDSGD fell further as risk sentiments held up. US-China trade tensions were assessed to be less drastic than expected even as China responded (which were interpreted as measured). Elsewhere, tariffs on Mexico and Canada were delayed – some clarity of no-escalation at this point. Pair was last seen at 1.3520. Bearish momentum on daily chart faded while RSI fell. 2-way trades likely. Resistance at 1.3560 (50 DMA), 1.36 (21 DMA). Support at 1.3490, 1.3430 levels. S$NEER was last seen around 0.9% above model-implied mid.

- **USDCNH. *Steady Fix; Watching Out for Phone Call.*** USDCNH fell as trade tensions between US and China was assessed to be contained for now. The fixing came in at 7.1693 (vs. 7.1698 before LNY holidays). A steady fix shows that China is walking the talk in not devaluing the RMB. Focus next on Trump's call with Xi (timing uncertain for now). A "good call" can see USD trades broadly lower. USDCNH was last at 7.2910 levels. Bullish momentum faded but decline in RSI also moderated. 2-way trades likely in the interim until we get some clarity on "tariff direction". Support at 7.2750, 7.25 levels. Resistance at 7.3020 (50 DMA), 7.33 levels.

- **CNY rates**. PBoC net withdrew CNY716.5bn of liquidity via daily OMOs this morning, which was the usual practice after a long holiday. Today's operation already represented a smooth-out of liquidity drainage as PBoC conducted CNY697bn of reverse repos against maturity of CNY1.4trn. Just before the holidays PBoC conducted CNY1.7trn of outright reverse repos of 3M and 6M tenors; with massive outstanding outright reverse repos, liquidity is likely to stay supported. Repo-IRS and CGBs traded with limited price action this morning, except that the 30Y yield was up slightly. 2Y bond/swap spread (IRS – yield) still appears a bit wide and if there is any monetary easing, there is room for short-end IRS to react.

- **IndoGBs.** Tuesday's conventional bond auction attracted solid demand, with incoming bid amount at a whopping IDR77trn. MoF awarded IDR28trn of bonds, representing a small upsize from the indicative target of IDR26trn; the amount was consistent with Q1 issuance target. Most of the incoming bids went to the 5Y bond (FR104) followed by the 10Y bond (FR103) as usual. Cut-offs were very near lowest incoming bids levels for FR104, FR103, FR107 and FR105 upon strong demand. We have been of the view that 10Y IndoGB-UST yield spread at 245-250bps looks stable and there is room for IndoGB yields to fall upon any UST rally. Flow-wise,



Source: DJPPR, OCBC Research

cumulative foreign inflows post-holidays amounted to IDR4.47trn as of 3 February, with foreign holdings standing at IDR880trn or 14.43% of outstanding.

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