

Daily Market Outlook

6 February 2025

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- **USD rates.** Rallies in USTs were extended after ISM printed weaker than expected; the curve ended bullish flatter. Earlier in the day, US Treasury kept the anticipation that it would maintain nominal coupon and FRN auction sizes “for at least the next several quarters”, providing market with a relief. January ISM services index unexpectedly fell to 52.8 points; new orders and prices paid fell by 3.1 points and 4 points respectively. The higher-than-expected ADP employment change was ignored by the market; next lining up are jobless claims and payrolls. 10Y UST yield broke decisively below the 4.52% resistance level (for the bond) which now becomes the support; and the next resistance is at 4.30%. 10Y breakeven at 2.42% remained on the high side of range, while 10Y real yield has eased to around 2%; the next leg lower in the 10Y yield will probably need both components to adjust instead of relying squarely on real yield movement. On the curve, growth concerns have been more reflected in long-end yields for now, as data softness thus far is not enough to add much to market expectation for Fed funds rate cut. In this regard, additional weak data will be required for a re-steepening of the curve.
- **GBP rates.** The gilt curve bullish flattened overnight as the final readings of services PMI was lowered; the gilt rallies were extended upon a solid 30Y auction which garnered a bid/cover ratio of 3.20x. A 25bp cut by the BoE is fully in the price. Whether it will be a dovish cut or hawkish cut may depend on the split of votes: 8-1 with Mann preferring a hold will probably be seen as neutral; a unanimous decision is marginally dovish; and if there is more than one dissident to an assumed cut decision, it will probably be taken as hawkish. There will also be updated CPI forecasts. Our base case is for one 25bp cut in each of the quarter of this year, i.e. a total of 100bps of cuts this year including the expected cut later today. GBP OIS last priced 84bps of cuts which appear roughly fair, given inflation risks.
- **DXY. Bears Took Over.** USD extended its decline as trade tensions between US and China were assessed to be more contained than expected, while US data continued to print softer. Putting the tariff story aside and taking a step back to take stock, recent US data, including CPI, PPI, ISM services, 4Q GDP, job openings have largely come in softer than expected. This reinforces our view

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that Fed remains on track to lower rates. Week remaining on data front, US payrolls on Fri is key. Consensus expects 170k new job creation and average hourly earnings to come in steady at 0.3% MoM. A softer than expected print should further weigh on USD. Back on tariff developments, there has been a series of tit-for-tat responses between US and China, including the 10% counter-tariff imposed on US goods followed by Trump cancelling a phone call, US postal service suspending inbound parcels from China (but just resumed overnight) and China's probe into 2 large US corporates. That said, responses appeared measured and tensions are contained for now. Measured responses may well set the stage for both Xi and Trump to speak soon. Apart from NFP this Fri, USD's fate also hinges on the outcome of the phone call, perhaps likely before 10 Feb, when China tariffs on US goods come into effect. A "good call" is all we need for risk proxies to find an extended breather and for USD longs to unwind further. DXY was last at 107.60 levels. Bearish momentum on daily chart intact though decline in RSI moderated slightly. Risks somewhat skewed to the downside. Support at 107, 106.40 levels. Resistance at 107.80 (50 DMA, 23.6% fibo retracement of Oct low to Jan high), 108.50 (21 DMA).

- **GBPUSD. *BoE Guidance Eyed.*** GBP enjoyed a decent bounce after Trump excluded UK from the initial list of countries that will be hit by tariffs. Whether GBP can continue to extend its rally may be dependent on BoE MPC tonight, to some extent. A 25bp cut is likely but markets will be watching out for any dovish guidance. Recall at the last meeting, MPC voted 6-3 to keep rates on hold. Deputy Governor Dave Ramsden, Swati Dhingra and Alan Taylor all voted to cut by 25bp. BoE staff also downgraded their economic forecast for 4Q 2024, now predicting no growth, compared with the 0.3% expansion projected in its Nov report. Taken together, the dovish split and downgrade in growth assessment was a negative for GBP. An outcome of no dovish guidance but a commitment to gradual approach to rate cuts may actually be sufficient for GBP to stay supported (assuming USD continues to trade on the back foot). GBP was last at 1.2490 levels. Bullish momentum on daily chart intact for now while RSI shows signs of easing from near overbought conditions. Resistance at 1.25 (50 DMA) 1.2570, 1.2610 (38.2% fibo retracement of Oct high to Jan low). Support seen at 1.2410 (23.6% fibo), 1.2360 (21 DMA).
- **USDJPY. *Bias to the Downside.*** USDJPY fell briefly below 152 this morning. Yesterday's jump in wages and comments from BoJ Tamura (this morning) added to expectations that BoJ policy normalisation remains intact. He said that the policy rate should be raised to at least around 1% by the second half of this fiscal year to achieve the central bank's sustainable and stable inflation target. He also added that the neutral rate is at least 1%, and the rate at 0.75% would still be clearly negative in real terms, and there would still be some distance to a level where the rate would

cool the economy. We still look for USDJPY to trend lower, premised on Fed cut cycle while the BoJ has room to further pursue policy normalisation. Several Japanese corporates have already indicated their intent to raise wages by >5% this year and Japanese banks reporting their earnings this year have also done well so far. These anecdotal evidence points to another year of solid wage increase and meets the pre-requisite for BoJ to continue with hiking rates. Divergence in Fed-BoJ policies should bring about further narrowing of UST-JGB yield differentials and this should underpin the broader direction of travel for USDJPY to the downside. USDJPY was last at 152.20 levels. Bearish momentum on daily chart intact while RSI fell. Risks skewed to the downside. Support at 151.50 (38.2% fibo retracement of Sep low to Jan high), 150 levels. Resistance at 152.70/80 levels (100, 200 DMAs), 154.30 levels, 155 (50 DMA).

- **USDSGD. 2-Way Trades Likely.** USDSGD traded little changed this morning, after decline WTD. Softer UST yields and somewhat some clarity of tariffs stabilised sentiments. Pair was last seen at 1.35 levels. Mild bearish momentum on daily chart intact while decline in RSI moderated. 2-way trades likely. Support at 1.3490, 1.3460 levels. Resistance at 1.3520, 1.3560 (50 DMA). S\$NEER held steady; last seen around 0.9% above model-implied mid.
- **USDCNH. When the Phone Rings.** USDCNH traded a subdued range as trade tensions between US and China was assessed to be contained for now as responses have been “measured”. The fixing came in at 7.1691 (vs. 7.1693 yest), in line with our view for policymakers’ preference for relative stability. Focus is still on Trump’s call with Xi (timing uncertain for now after it was last called off). A “good call” can see USD trade broadly lower. USDCNH was last at 7.2850 levels. Daily momentum and RSI indicators are flat. 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 (21, 50 DMAs), 7.33 levels.
- **CNY rates.** PBoC continued to net withdraw liquidity via daily OMOs, as the usual practice after long holidays. With a big amount of outstanding outright reverse repos, liquidity is likely to stay supported despite the usual post-holiday drainage. We believe PBoC will still keep the liquidity condition stable, if not loose. A supportive liquidity environment is also constructive for short-end bonds, and may prevent the CGB curve from flattening too much. Repo-IRS were offered down 2-3bps at the 1Y and 2Y this morning thus far. 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.

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