

Daily Market Outlook

7 February 2025

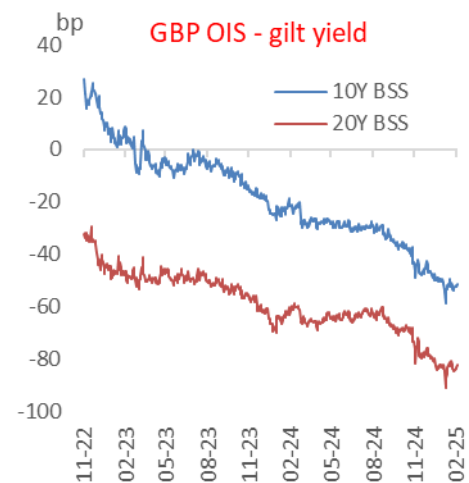
BoE Review; US Payrolls Tonight

- GBP rates.** GBP OIS slid as knee-jerk reaction upon the 7-2 vote with two dissidents voting for a 50bp cut; the reaction did not last as BoE revised upward CPI forecasts. 1Y GBP OIS ended the day a tad lower, while gilt yields were mostly higher, reflecting mixed market responses. We do not see the February cut as hawkish despite the upward revision in CPI which was primarily due to higher energy prices and regulated price changes. Between headline inflation risks and downside growth risks, we consider one 25bp cut per quarter as in line with a gradual and careful approach to the withdrawal of monetary policy restraint. Our base-case remains for additional 75bps of cuts for the rest of this year, versus GBP OIS pricing of 61bps. Gilt yields were up by a few bps overnight; this was after the recent retracement lower from peaks. We expect medium to long-term bond/swap spreads (OIS - yields) to stabilise around current levels but a quick reversal higher does not appear to be in sight yet.
- GBPUSD. Sell Rallies (if any).** GBP fell after BoE vote count saw 2 members voting for 50bp cut while 7 other members voted for 25bp cut. In particular, Mann voting for 50bp cut was a surprise as she is typically a hawk. The last time BoE met, only 3 voted for cut and 6 members voted for hold. The dovish shift prompted markets to re-assess how a stagflation story may already be playing out for UK economy. BoE halved growth forecast and revised upward inflation projection. While US tariffs may not hit UK, domestic concerns at home may still undermine GBP. In a Bloomberg TV interview post-MPC, BoE Governor Bailey said markets should not over-interpret the vote split but to read the minutes pretty carefully this time. He also emphasized that the vote split is not a communication tool. MPC continues to guide for gradual and careful easing, which is in line with our house view for 25bp cut magnitude. In our opinion, the dovish shift (voted for 50bp cut) from Catherine Mann should not be ignored. GBP was last at 1.2430 levels. Bullish momentum on daily chart shows signs of fading while RSI is easing. Support seen at 1.2410 (23.6% fibo), 1.2360 (21 DMA) and 1.2250. Resistance at 1.2490 (50 DMA) 1.2550, 1.2610 (38.2% fibo retracement of Oct high to Jan low).
- BoE decision.** The MPC voted by a majority of 7-2 to reduce Bank Rate by 25bps to 4.5%; two members preferred to reduce the

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Source: Bloomberg, OCBC Research

Bank Rate by 50bps which was a surprise. Specifically, Mann, who was seen leaning on the hawkish side within the Committee and the dissident voting for a hold at the November 2024 meeting, voted for a 50bp cut. BoE revised upward CPI forecasts, to 3.0% from 2.6% for the four quarters to Q12026, with headline CPI expected to go up to 3.7% in Q32025. BoE cited higher global energy costs and regulated price changes, “even as underlying domestic inflationary pressures are expected to wane further”. The Committee “judges that this pickup in headline inflation will not lead to additional second-round effects on underlying domestic inflationary pressures in the forecast”. On balance, the inflation outlook is not decisively hawkish. Meanwhile, GDP growth has been weaker than expected, and the Bank revised downward GDP forecast to 0.4% from 1.4% for the four quarters to Q12025, and to 1.5% from 1.6% for the four quarters to Q12026. “The margin of excess supply is expected to widen over the next couple of years... the unemployment rate is projected to rise gradually to around 4.75%”. Between headline inflation risks and downside growth risks, we consider one 25bp cut per quarter as in line with a gradual and careful approach to the withdrawal of monetary policy restraint.

- **DXY. Payrolls in Focus (9:30pm SGT).** DXY traded largely flat in the absence of Trump tariff headlines while waiting for US payrolls tonight. Consensus expects 175k new job creation and for average hourly earnings to come in steady at 0.3% MoM. A softer than expected print should weigh on USD. Recent US data, including CPI, PPI, ISM services, 4Q GDP, job openings have largely come in softer than expected. This reinforces our view that Fed remains on track to lower rates. DXY was last at 107.70 levels. Bearish momentum on daily chart intact while RSI was flat. Consolidation likely in the interim. Bias to sell rallies. Resistance at 107.80 (50 DMA, 23.6% fibo retracement of Oct low to Jan high), 108.40 (21 DMA). Support at 107, 106.40 (38.2% fibo). Apart from NFP this Fri, USD’s fate also hinges on whether there will be a phone call between Trump and Xi 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.
- **USDJPY. May Consolidate Intra-day; Payrolls Matter.** USDJPY briefly fell below 151 this morning. Market chatters that leveraged community are ploughing back shorts after recent comments from BoJ’s Tamura and wage growth data bolstered confidence about continued BoJ hikes this year. In particular, BoJ’s Tamura said that policy rate should be raised to at least around 1% by the second half of this fiscal year. 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. Earlier in the week, wage

growth jumped to 5.2% YoY. 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. We still look for USDJPY to trend lower, premised on Fed cut cycle while the BoJ has room to further pursue policy normalisation. 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 151.70 levels. Bearish momentum on daily chart intact while RSI shows signs of turning higher from near oversold conditions. Rebound risks not ruled out in the interim. Resistance at 152.70/80 levels (100, 200 DMAs), 154.30 levels. Support at 151.50 (38.2% fibo retracement of Sep low to Jan high), 150 levels.

- **USDSGD. Consolidation.** USDSGD traded range-bound in absence of fresh catalyst. Pair was last seen at 1.3510 levels. Mild bearish momentum on daily chart intact while RSI is flat. 2-way trades likely. Support at 1.3490, 1.3460 levels. Resistance at 1.3520, 1.3560/70 (21, 50 DMAs). US payrolls tonight is likely to influence USD and USDSGD direction. Elsewhere, markets await the phone call between Trump and Xi (timing uncertain after Trump called it off). S\$NEER held steady; last seen around 0.93% above model-implied mid.

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