Daily Market Outlook

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Holding pattern

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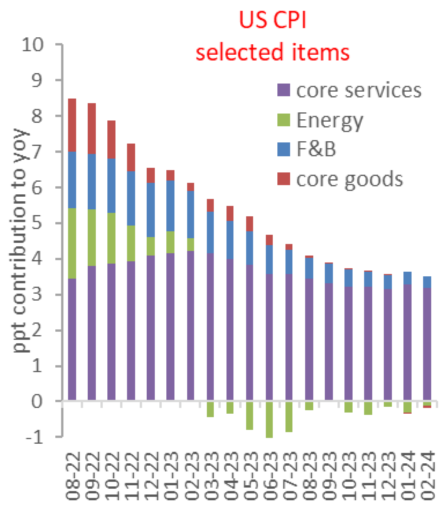
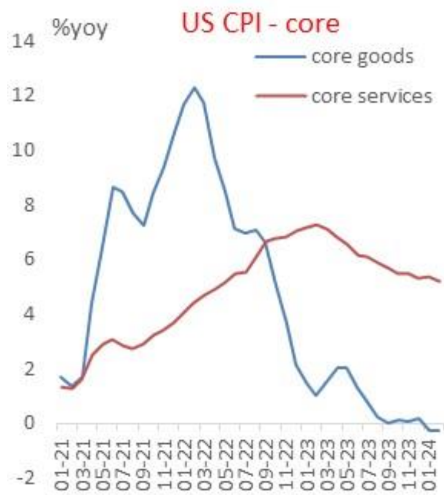
- **USD rates**. Market reaction to US CPI should be considered as contained after some initial choppy actions, not least because the CPI misses were marginal. DXY touched an intraday high of 103.177 briefly, before retracing lower and last traded at 102.918. USTs held onto small losses with yields higher by 4-5bps across. Equities shrugged off the higher-than-expected CPI prints. Fed funds futures slightly pared back rate cuts expectation, to a total of 85bps cuts priced for this year versus 91bps; the chance of a 25bp cut by the June FOMC meeting is priced at 77% versus 86% prior. As we wrote yesterday, *should CPI surprise to the upside, investors might pare back rate cuts expectations for this year towards the low-end of the recent 75-100bps range*. Market pricing is still within ranges. The bar is high for market to further trim rate cuts expectation to fewer than 75bps of cuts – which was where the December median dot was, before the March dot-plot is released. At the longer end, the uptick in the 10Y UST yield was cause by both a higher breakeven and a higher real yield. Headline **US CPI** inflation edged higher to 3.15%YoY from 3.09%YoY, as the drag from energy prices almost diminished. There were pockets of relief though; the contribution from core services inflation to headline YoY inflation continued to ease, albeit slowly. On a sequential pace, there were upside surprises only if one goes into the second decimal place of the numbers. By items, energy, in particular gasoline prices, showed acceleration; shelter reversed to December MoM level after the pick-up in January. Gasoline and shelter combined contributed over 60% of monthly increase in the headline. Overall, the CPI outcome supports the patience that Powell has been emphasising, but it is not enough to move the needle for the direction of monetary policy. That said, the CPI outcome adds marginally to the risk that **the median dot** may be pushed higher. We do note that the December dot-plot is skewed to the upside, in that two dots moving higher would be enough to move the median dot higher. Should this happen, it would be market moving. Between now and FOMC, market may keep a holding pattern.

- **GBP rates and EUR rates**. Gilts outperformed as UK labour market indicators came in a tad weaker than expected. January average weekly earnings (3M) printed 5.6% YoY versus 5.8% prior; January ILO unemployment rate (3M) edged higher to 3.9% from 3.8% prior. GBP OIS pricing was little changed, as the data are not enough to materially move the expected timeline of monetary policy easing. At the ECB, Villeroy commented that since last



Source: CEIC, OCBC Research



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week's MPC meeting, "there's a very broad agreement to cut rates in the spring, bearing in mind that spring lasts until 21 June". This is a strong hint for a move at the June 6 MPC meeting, which is in line with recent comments from other officials including Lagarde regarding the potential timing of the first rate cut. Our base-case is also for a 25bp cut in June. Nearer, market await the outcome of the review of ECB's operational framework. Granted, the framework involves sophistication and delicacies, but one of the market focuses would be the minimum reserve ratio. With the last change being that the remuneration rate was cut to 0%, expectation was once high for the next step to be an increase in the minimum reserve ratio. It has become a close call as of now.

- **USDKRW**. USDKRW edged higher upon the release of BoK minutes on Tuesday; the pair was last at 1313, broadly unchanged from yesterday's close. BOK minutes revealed that a few members saw no rush into an interest rate cut; one member sees "no reason to rush into an interest rate cut at a time when economic growth continues to pick up while inflation remains elevated"; one member opined "it was too early to discuss a pivot"; another member commented "there was no significant pressure to implement an early rate cut". These underlines a cautious approach to rate cuts which had been earlier articulated. There was muted reaction in KRW IRS. Our base-case remains for a total of 75bps of cut in the Base Rate this year, likely starting from Q3. Meanwhile, we continue to monitor trade data for signs of a bottoming in the chip/general trade cycle, which could support the KRW. Economic growth has been improving (2.2%YoY in Q423, implying an annual growth rate of 1.4%), and we will be watching to see as to whether export recovery could potentially translate into a broader trend that is positive for the region. Supports are at 1300 and 1275, while resistance lies at 1325 and 1340.

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