

### US debt ceiling; China MLF

- CFTC positioning.** The UST curve bearish flattened on Friday with yields closing near session highs. Rate hike pricings were little changed with the terminal rate priced at around 5.1% to be followed by 47bps of rate cuts before year-end. Again, changes in rate hike expectations did not fully explain UST movements, with positioning being another key factor. According to the latest data covering the week to 10 January, leverage funds and non-commercial accounts reduced net short futures positions at the 2Y and 5Y but added to net short futures positions at the 10Y – which was consistent with a steepening in the curve during that period; the change in Eurodollars positions was positive – reducing net shorts and adding to net longs – across major investor groups, amid the disinflation narrative.
- US debt ceiling.** Yellen said the US Treasury would begin to take extraordinary measures on 19 January to avoid hitting the debt ceiling; she also commented that cash and these measures are unlikely to be exhausted before June – essentially setting June as the “deadline”. In the past, extraordinary measures included suspending investments in various retirement funds for the public sector, and the accompanying reduction in special-issue Treasury securities. Upon extraordinary measures, there will be a bit more room for the US Treasury to issue bills. Indeed, for this week, net bill issuance has been planned at USD90bn, which will add to the TGA which stood at USD310bn as of 12 January. Net bills issuance per se will have an initial tightening impact on liquidity; whether bill yields will rise to levels attractive enough to lead to a reduction in the Fed’s reverse repo usage remains to be seen. With bill supply on the rise while investors likely turn more cautious to bills, pressure is to the upside to bill yields.

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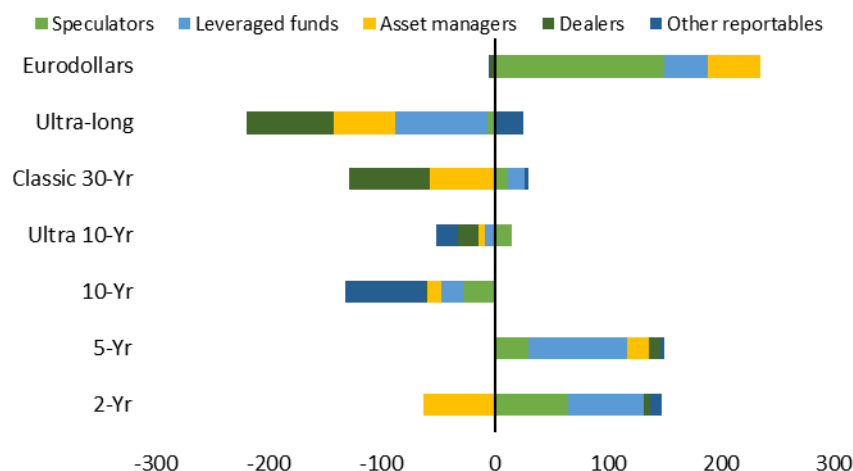
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### Weekly Changes\* in Futures Positions/'000



Source: Bloomberg, OCBC Research

\*week to 10 January

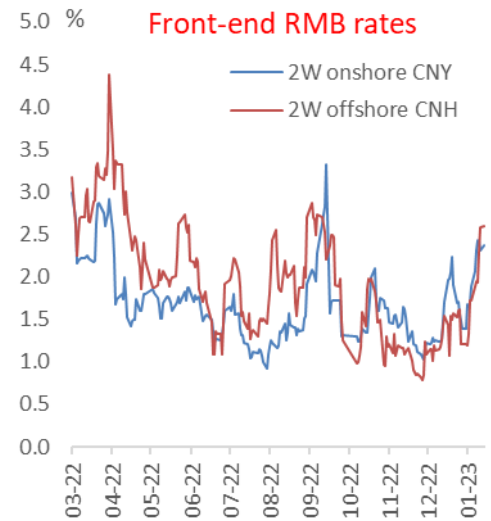


Source: Bloomberg, OCBC Research

## Daily Market Outlook

16 January 2023

- CNY rates.** The PBoC granted CNY779bn of MLF this morning, against CNY700bn maturing. There is no upside surprise (e.g. an RRR cut) or downside surprise (e.g. replacement of liquidity via shorter-term instruments); the 1Y MLF rate has also been kept unchanged at 2.75% as expected. The unchanged MLF rate does not add much information to the market as the LPR can still be cut or kept unchanged regardless, while our view has been that even if the MLF rate was cut it would have little bearing on market CNY rates. Meanwhile, the PBoC also injected short-term liquidity of CNY154bn via 7-day and 14-day reverse repos ahead of the Chinese New Year. The PBoC is likely to up the daily OMOs in the remaining trading days especially when maturity amounts are also getting bigger. We see a chance that the LPR will be cut by 5-10bps, especially the 5Y tenor given the policy focus on the property sector. Front-end RMB rates are elevated ahead of the holidays, while recent inflows have also added to the liquidity tightness.



Source: Bloomberg, OCBC Research

- IndoGBs** paired back initial rallies on Friday amid opposing flows. Tuesday's conventional bond auction has an indicative target of IDR23trn which can be upsized up to IDR34.5trn – we see an upsize at this auction as probable given the recent retracement lower in IndoGB yields and the desire to front-load financing activities. The auction includes reopening of FR95, FR96, FR98, FR97 and FR89; these bonds are trading in the market at yields below the previous cut-offs. Bond inflows continued, with foreign holdings of IndoGBs having risen further to IDR778.5trn, or 14.58% of outstanding, as of 12 January.

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