

US bill supply and Fed reverse repo

- **UST** yields initially rose upon the rebounds in US PMIs but have since retraced lower and the gains in bonds were sustained upon the rallies in Bunds and Gilts and the strong 2Y coupon (US) auction. The 2Y bond cut off at 4.139%, 1.3bp below WI level despite cheapening into the auction; bid/cover ratio edged higher to 2.94x and indirect accepted higher to 65%. Fed funds futures pricing was little with roughly 25bp hikes in Q1, which has been our base case. Treasury futures were trading firmer in Asia morning amid the mixed risk sentiment.
- **Bill supply and reverse repo.** At the short-end, usage at the Fed's o/n reverse repo facility fell by USD87bn to USD2.048trn on Tuesday, amid net bills issuance (settlement) of USD101bn on the day; another USD9bn is to be settled on Thursday. Changes in the usage at the reverse repo facility has acted as a buffer to the liquidity drainage from increased bill supply, with recent cut-offs at bill auctions ranging from 4.48% to 4.685% across the 4W to 6M tenors versus 4.3% paid on the funds parted at the reverse repo facility. After the big fluctuations around the turn of the year, usage on Tuesday was down USD140bn compared to that on 3 January. Meanwhile, net bill issuances were at around USD186bn. Whether the drop in the usage at the reverse repo reflected a short-term reaction to settlement need, or it will be sustained and run further remains to be seen. If money market rates are not appealing enough to attract more funds away from the facility when liquidity becomes overly tight (amid ongoing QT), a wider spread between the o/n RRP rate and the rate paid on bank reserves cannot be ruled out. That said, thus far the FOMC's stance appears to be that market forces will do the job, and liquidity is not undesirably tight. At the December FOMC minutes, the Committee opined that "greater competition among banks for funding could contribute to drawdowns" in the (reverse repo) facility over time.
- **Gilts** outperformed. Data/news flows coming through have been mixed. UK manufacturing PMI improved to a better-than-expected 46.7 points – new orders rose while employment fell, but services PMI went deeper into contraction – input prices rose while employment fell. Separately, the BoE has reportedly agreed on a 3.5% pay increase, and a one-off 1% salary top-up for this year. Our base case is a 50bp at the February MPC meeting, to be followed by a 25bp hike in March bring the Bank Rate to 4.25%; by then the BoE is probably done. GBP OIS pricing of a terminal rate at 4.50% looks roughly fair. Our view for Gilts to underperform GBP OIS has panned out well; as Gilt supply stays on the high side, we hold onto this view for now. That said, this underperformance may not be as rapid as that was observed over the past couple of months as the spreads have adjusted while BoE completed its sales of temporary holdings of bonds.

Frances Cheung, CFA

Rates Strategist

+65 6530 5949

FrancesCheung@ocbc.com

Christopher Wong

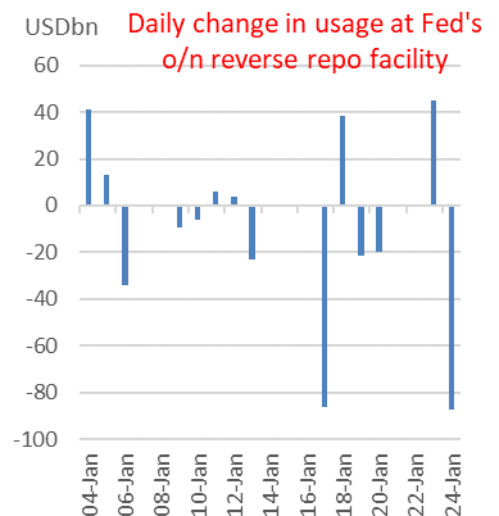
FX Strategist

+65 6530 4367

christopherwong@ocbc.com

Treasury Research

Tel: 6530-8384



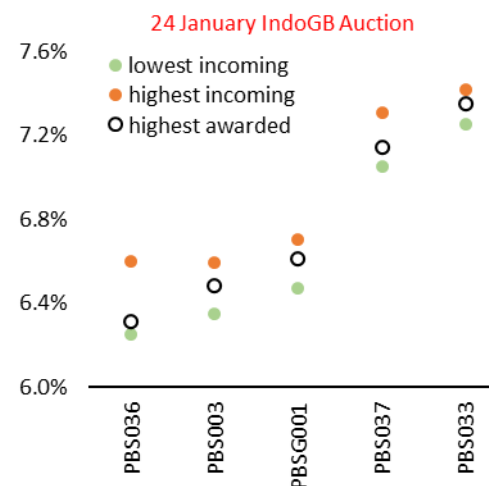
Source: Bloomberg, OCBC Research

- SGD rates and SGD.** SGD OIS were trading soft this morning with limited price action, as USD rates did a round trip overnight. Given the fairly negative SGD-USD rates spreads, room for further SGD rates outperformance is limited. The impact of any further MAS policy tightening may also be negligible as spot will probably reflect most of the reaction. 4W and 12W MAS bills are auctioned today; the 1M and 3M market implied SGD rates were at around 3.88/3.90% and 3.95/4.10% at the time of writing. SGD NEER was trading at 1.07% above mid-point this morning, having been on a downtrend over the past days, as the SGD underperformed the EUR and MYR. The recent SGD performance was in line with our medium-term view for the SGD to underperform against selected currencies upon a moderate-to-soft USD profile and a better risk sentiment. Against the dollar we retain a mildly bullish outlook on the SGD; if 1.3160 is broken again more decisively then next supports for USD/SGD are at 1.3090/10.



Source: Bloomberg, OCBC Research

- IndoGBs.** Tuesday's sukuk auction attracted incoming bid of IDR28.546trn; IDR14.15trn of bonds were awarded a tad above indicative target of IDR14trn, in line with our view for near or at target issuance. Most of the bids went to the short-end – bills and PBS36 (2025 bond) – with cut-offs at or near the lowest incoming bid yields. Demand was mildly weaker at PBS33 (2047 bond) with cut-off near the highest incoming bid yield. Overall, the auction shall be considered as solid.



Source: DJPPR, OCBC Research

Treasury Research & Strategy

Macro Research

Selena Ling

Head of Strategy & Research

LingSSSelena@ocbc.com

Tommy Xie Dongming

Head of Greater China Research

XieD@ocbc.com

Wellian Wiranto

Malaysia & Indonesia

WellianWiranto@ocbc.com

Keung Ching (Cindy)

Hong Kong & Macau

cindyckeung@ocbcwh.com

Herbert Wong

Hong Kong & Macau

herberthwong@ocbcwh.com

Ong Shu Yi

Environmental, Social & Governance (ESG)

ShuyiOng1@ocbc.com

FX/Rates Strategy

Frances Cheung

Rates Strategist

FrancesCheung@ocbc.com

Christopher Wong

FX Strategist

christopherwong@ocbc.com

Credit Research

Andrew Wong

Credit Research Analyst

WongVKAM@ocbc.com

Ezien Hoo

Credit Research Analyst

EzienHoo@ocbc.com

Wong Hong Wei

Credit Research Analyst

WongHongWei@ocbc.com

Chin Meng Tee

Credit Research Analyst

menateechin@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate.

This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. There may be conflicts of interest between OCBC Bank, Bank of Singapore Limited, OCBC Investment Research Private Limited, OCBC Securities Private Limited or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OCBC Bank and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W