OCBC TREASURY RESEARCH

Daily Market Outlook

26 January 2023

Central bank signals

- **UST** yields ended mildly lower in a steepening manner as the market saw another solid auction in the 5Y, after the 2Y on Tuesday; the Bank of Canada decision might have had some spill-over impact on the UST market. The 5Y coupon bond cut off at 3.53%, 2.4bp below WI level with indirect award rising to 75.7%. Demand in bills has been supportive as well, notwithstanding the US debt ceiling issue or increased supply, as liquidity has been moving from the Fed's o/n reverse repo facility to the bills market. Usage at the reverse repo facility was down USD156bn since 3 January; during the same period net bill issuances (settlement) should have been around USD186bn. Thus far, market forces have done the job of moving liquidity away from the reverse repo facility, while liquidity is not undesirably tight. Fed funds futures and USD OIS price a terminal rate of around 5% but expect it to be cut back to 4.5% by year end; rate cut expectations shall also render back-end bills more appealing than otherwise. As such, we see no imminent need to tweak administered rates. Further down the road, if liquidity becomes overly tight when QT is still ongoing, then a wider spread between the o/n RRP rate and the rate paid on bank reserves cannot be ruled out; after all, the spread was wider before 2019.

- **Bank of Canada** signaled a pause. The Bank of Canada hiked its policy overnight rate by 25bp to 4.5% in line with expectation. The highlight was the central bank's strong signal for a pause. The MPC statement had it that, if economic developments evolve broadly in line with the MPR outlook, the "Governing Council expects to hold the policy rate at its current level while it assesses the impact of the cumulative interest rate increases". USD/CAD broke above 1.342 as an initial reaction, before retracing lower as the dollar itself softened; investors might be taking inspiration from the BoC decision to reflect on the Fed policy outlook. Bond futures across – USD, CAD, EUR, AUD - are generally trading on the firm side in Asia this morning.

- **Bank of Thailand** signaled more hikes. THB OIS were paid up by 4-10bp upon the Bank of Thailand rate hike decision on Wednesday. Bank of Thailand hiked its policy repo rate by 25bp to 1.50% as expected, in a unanimous vote. The central bank is likely not done with rate hikes yet - our base case is two more 25bp hikes in this cycle bringing the policy rate to 2.00%. The MPC statement has turned more hawkish on inflation, noting "risks of rising demand-side inflationary pressures must be monitored" against simply mentioning "risks to inflation" in the December statement; the January statement maintained the stance that "the policy rate should be normalized… in a gradual and measured manner". After the post-meeting reaction, THB OIS still look a bit too dovish pricing in a terminal rate of around 1.75%.

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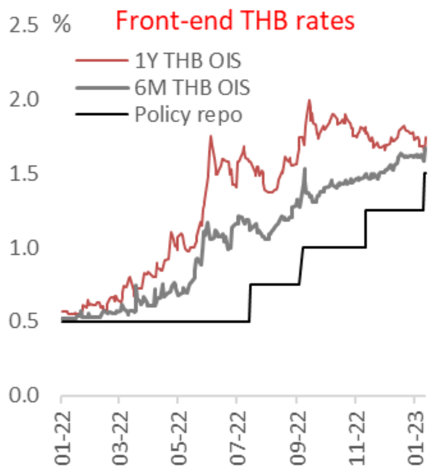
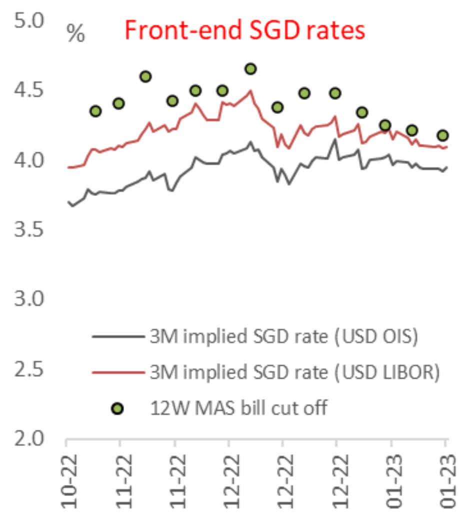
Source: Bloomberg, OCBC Research



Source: Bloomberg, OCBC Research

- **SGD rates**. The 4W MAS bill cut-off at 4.13% was on the high side compared with market implied rates but still within ranges; bid/cover ratio was decent at 2.39x. The 12W bill cut-off is in line with recent pattern. Today brings the auction of 1Y T-bill; the 1Y implied SGD rates were trading at around 3.75% (from USD OIS) and 4.00% (from USD IRS). We expect the cut-off to come in at 3.85-4.05%. On the data front, Singapore headline CPI inflation eased to 6.5% YoY in December from 6.7% prior. However, core CPI remained sticky downward, staying at 5.1% YoY. OCBC economists expect Singapore to still experience higher than normal headline and core inflation in 2023 as the inflation drivers have rotated from being external to domestic. That said, the impact of nay further MAS policy tightening on SGD rates may be limited, as spot will probably reflect most of the reaction.



Source: MAS, OCBC Research

- **CNH rates**. Onshore China remains close today. CNH points were last paid up on Friday on short-covering flows. Upon the lower USD rates, chances are for back-end CNH points to play some catch-up (to the upside) with trading volume seen coming back as Hong Kong market re-opens, although these points have edged lower thus far this morning.

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