OCBC TREASURY RESEARCH

Daily Market Outlook

27 January 2023

Soft-landing narrative

Frances Cheung, CFA
Rates Strategist
+65 6530 5949
FrancesCheung@ocbc.com

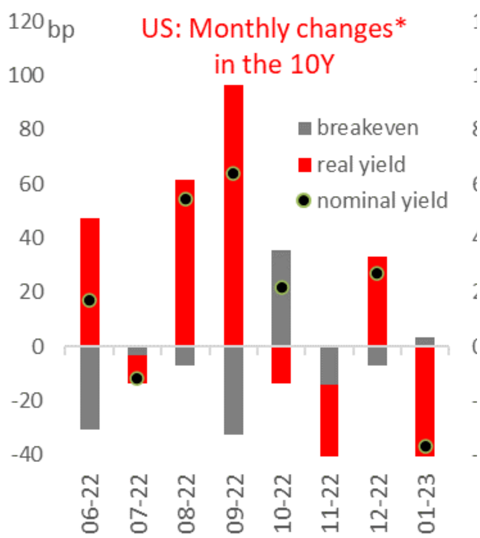
Christopher Wong
FX Strategist
+65 6530 4367
christopherwong@ocbc.com

Treasury Research
Tel: 6530-8384

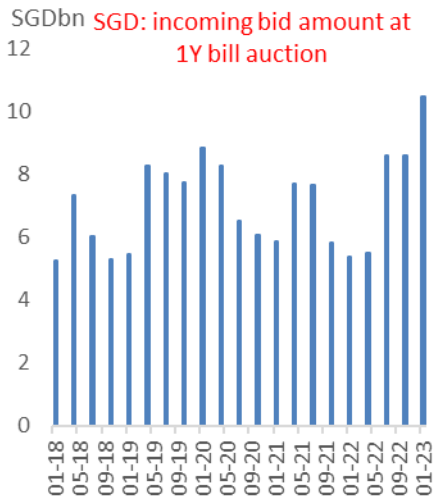
- **UST** yields were up overnight on better-than-expected US economic data. Throughout the day there were a few ups and downs in USTs as another solid auction came through. The 7Y coupon auction cut-off at 3.517% was 2.1bp lower than WI level; award to primary dealer was a meagre 6.1% as end-user demand was strong. USTs rallied after the auction, but the gains were not sustained. UST yields ended the day 5-7bp higher. Given how dovish USD rates have been trading, some upside surprises on the data front supporting the soft-landing narrative are probably enough to trigger a correction on the day. Although GDP data are much lagging, the outcome showed the US economy started from a firmer-than-expected footing into this year; January initial jobless claim also came in lower than expected. Next to watch is tonight's December PCE deflator. Market prices the terminal rate at around 5.08% but expects it to return to 4.50% by year-end; if recession fears subside, some of these expected rate cuts may be priced out. We also note the fluctuations in the 10Y yield have been mainly driven by real yield for most of the past months.

- The Republicans are reportedly considering suspending the debt ceiling till end-September. This is only an interim solution but note even this option may not be agreed on. Nevertheless, the market appears to be trading on the assumption that the debt ceiling will be ultimately resolved, as it had been in the past. Demand for T-bills has been supportive. Overnight, the spread between the cut-offs at the 4W and 8W bills narrowed further to 2.5bp; earlier this week, the spread between the cut-offs at the 3M and 6M bill also came in narrow, at 11bp. These narrow spreads partly reflect the view of peaking rates, and partly the lack of particular concern over the debt ceiling issue, amid ample liquidity in the market. Net bill issuances for next week have been planned at a still heavy USD60bn, although not as much as this week. Next focus is the US Treasury's quarterly refunding update scheduled on 30 January.

- **SGD rates**. The 1Y bill cut-off at 3.87% was at the lower end of our expected range of 3.85% to 4.05%, reflecting strong demand. The auction drew record amount of incoming bid at SGD10.5bn, resulting in a bid/cover ratio of 2.91x. Investors probably would like to lock in the return, which may still be considered as decent, for a longer period to guard against possible easing in rates latter into the year. The supply of 1Y bills is not as frequent as the 6M bills. There will only be three more auctions of the 1Y bill this year. Today's focus is the reopening of the 10Y SGS, the first bond auction of the year. Given a period of absence of supply and the average size of this bond sales, the auction is likely to be well received. The 10Y benchmark was trading at a bid yield of around 2.82% this morning and we expect no surprise in the auction cut-off. On the data front, December industrial production



Source: Bloomberg, OCBC Research
*As of 27 Jan



Source: MAS, OCBC Research

came in better than expected, but still shrank by 3.1% YoY. OCBC economists expect industrial production to stay in the doldrums in Q123 but should gradually stabilize in subsequent quarters.

- **IndoGBs** traded soft on Thursday upon profit-taking flows, with FOMC meeting less than a week away, while BI operational twist shall continue to cap gains at the front-end to the belly. Foreign inflows continued nevertheless, with foreign holdings of IndoGBs standing at IDR805trn, or 15.01% of outstanding, as of 24 January. Profit-taking flows likely continue today with the upticks in US yields and ahead of domestic supply next Tuesday. Tuesday's conventional bond auction has an indicative target of IDR23trn, with potential to be upsized to IDR34.5trn. The bond sales include the reopening of the SDGs bond FRSDG001, which can be used in the calculation of RPIM (macroprudential inclusive financing ratio). We again expect MoF to try to issue at least near or at target unless the market environment becomes overly unfavorable. BI Governor Wariyo repeated the earlier message that the cumulative hikes since August 2022 are enough.

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
herberthtwong@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
mengteechin@ocbc.com