Daily Market Outlook

11 March 2024

Goldilocks

- **USD rates**. USTs were supported on Friday as US average hourly earnings eased. Yields dipped briefly upon data releases and ended the session mildly lower. February non-farm payroll printed higher than expected, at 275K, but previous two month's payrolls were revised lower by a total of 167K. February hourly earnings eased more than expected to 0.1%MoM. Overall, the labour market conditions add to a soft-landing scenario, which in turn supports some easing in monetary policy in a goldilocks environment. Market appears comfortable to hold onto the expectations of a total of rate cuts this year between 75bps and 100bps – last at 94bps while the chance of a 25bp cut by the June FOMC meeting is priced at 91%. Fed funds futures pricing look roughly fair to us. Focus now turns to February CPI release on Tuesday, the last key data ahead of the March FOMC meeting. The base effect likely means lower core CPI YoY but market will focus on the sequential change to gauge price momentum. This week also brings coupon bond auctions of 3Y, 10Y and 30Y. The sizes of the 10Y and 30Y are at USD39bn and USD22bn, lower than last month's USD42bn and USD25bn respectively. On the week, net coupon bonds settlement is at USD60.7bn while net bills settlement is at USD26bn.

- **JPY rates**. JGB yields rose this morning as Japan avoided a technical recession with the upward revision to its Q4 GDP. Last week, Japan reported firmer-than-expected January labour cash earnings, while Rengo revealed wage increase demand at 5.85% which was at the high end of the expected "over 5%". Market has boosted expectation for a 10bp hike in the policy-rate balance rate at this month's meeting to 66%, versus virtually nothing priced at the start of the year. It has been our long-held view that the BoJ shall start normalizing monetary policy, sooner rather than later; we continue to see next week's meeting a live one. Recent official commentaries have largely painted a post NIRP exit and post YCC-removed scenario. Strong support for the 10Y JGB shall sit at the 1.1-1.2% area should the YCC be removed. Given the BoJ is unlikely to hike interest rates aggressively, the JGB curve is biased to steepening across the 2s10s segment as market may also contemplate the likelihood of a removal of YCC. We expect USDJPY to trade further lower on the back of a moderate-to-soft USD profile and on monetary policy divergence; USDJPY have broken a few supports and the next one sits at 146.09.

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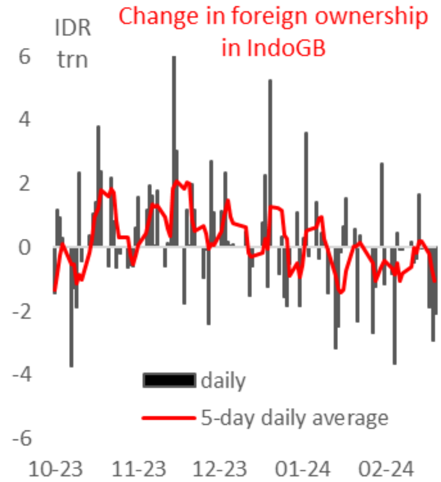
- **CNY rates**. China February CPI rose by a firmer-than-expected 0.7%YoY. Although inflation was partly boosted by spending during the Chinese New Year, our economists pointed out that the drag to inflation via the base effects will diminish towards Q2. This, together with the implementation of appropriate policy support, the bar may be high for CPI inflation to go back negative territory. The inflation outlook shall set a floor to CGB yields. This week's focus is the CNY481bn of MLF that mature on Friday; given the strong hints on a potential RRR cut, we will observe as to whether part/all of the MLF will be covered by an RRR cut. Meanwhile, NCD maturities stay heavy in the month, at CNY2.2trn. 12M implied CNY was last at 1.21% versus 1Y AAA NCD rate at 2.24% which provides a pick-up of around 100bps against SOFR. On the FX swap curve, back-end CNH points rose on the lower USD rates but the upward momentum does not appear to be particular strong on easing expectation in China.

- **USDCNH**. On Friday, USDCNH edged lower amid the broader USD weakness, albeit with the CNH underperforming regional peers and spot staying within recent range of 7.19-7.22. China's February CPI inflation was aided by pork prices turning positive in annual terms while service prices were also up, led by tourism and air travel. It is worth noting that last week's National People's Congress (NPC) retained a 3% goal for CPI this year, indicating the intent to reflate the economy which in our view shall set a floor to RMB interest rates beyond short-term reaction upon any monetary easing. On balance, we continue to expect USDCNH to trade within a narrow range in the near term, as PBoC appears to cap onshore spot at 7.20 and while USDCNY midpoint fixing has been hovering around the 7.10 handle. On the chart, the next support is at 7.1848, followed by 7.1770; resistance is at 7.2360.

- **IndoGBs** saw two-way interests on Friday between local and foreign investors. Foreign investors mostly continued with selling; on the first four trading days of March, total outflows amounted to IDR6.9trn. Foreign holdings of IndoGBs fell to IDR830trn or 14.35% of outstanding as of 6 March. This week's conventional bond auction on Wednesday has an indicative target of IDR24trn with the potential to be upsized to IDR36trn. The bond sales comprise the usual tenors of 5Y, 10Y, 15Y, 20Y, 30Y and bills. The auction may benefit from the upcoming maturing of IDR122trn of FR70 (original tenor of 10Y). Meanwhile, SRBI rates came in at 6.66389%, 6.69200% and 6.85577% for the 6M, 9M and 12M tenors at the auction on Friday; still higher compared to short-end bond yields. On balance, interest may again concentrate on the 5Y (FR101) and 10Y (FR100) at Wednesday's auction.



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