OCBC

Daily Market Outlook

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GLOBAL MARKETS RESEARCH

All Eyes on US CPI

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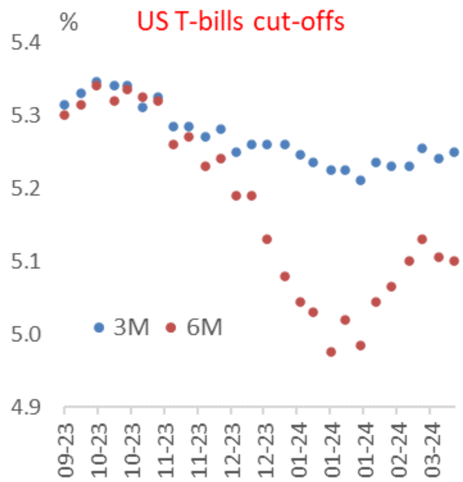
- **USD rates**. UST yields were up by a few bps overnight as investors were cautious ahead of the February CPI print. Longer-end USTs outperformed on the curve with front-end more sensitive to any potential shifts in market pricing of Fed funds rate. Nevertheless, overnight auctions went well. The 6M bills garnered a bid/cover ratio of 2.95x (versus 2.59x prior) and a higher indirect accepted rate of 61.4% (51.7%); the difference in 3M cut-off and 6M cut-off with the stronger demand at the 6M bills continued to reflect easing expectations. Cut-off at the 3Y coupon bond auction edged higher to 4.256% from the last 4.169%, reflecting prevailing market conditions (being 1bp below WI level); demand was solid. The base effect likely means lower core CPI YoY, but market will focus on the sequential change to gauge price momentum. Market is looking for a confirmation of continued disinflation, however slow it was, which will then likely lead to range-trading in USTs before March FOMC. Should CPI surprise to the upside, investors might pare back rate cuts expectations for this year towards the low-end of the recent 75-100bps range. The rest of the week also brings coupon bond auctions of 10Y and 30Y. The sizes of the 10Y and 30Y are at USD39bn and USD22bn, lower than last month's USD42bn and USD25bn respectively; net coupon bond settlement this week is higher at USD60.7bn on lower maturity. Net bills settlement is on the low side, at USD26bn. Usage at the Fed's o/n reverse repo edged higher to USD479bn on Monday. On balance, liquidity shall stay broadly supportive.



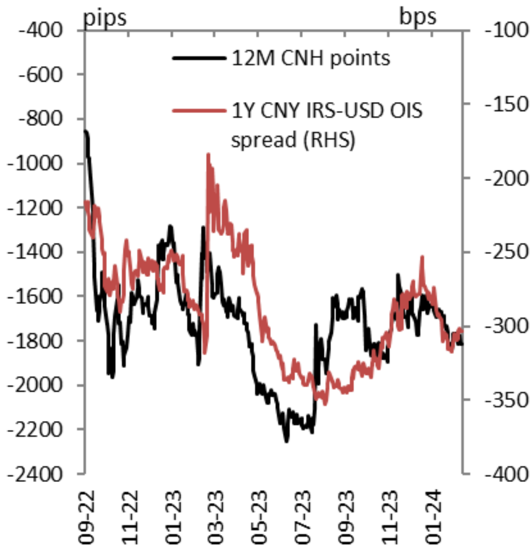
Source: Bloomberg, OCBC Research

- **GBP rates and GBPUSD**. BoE Mann commented that the UK is "nowhere near" the historical relationship between core and goods inflation that is consistent with headline inflation at 2%, and that "the deceleration in services has to continue throughout the forecast horizon at a much faster pace". The bond market did not have chance to react to these comments; short-end Gilts did a round trip on Monday, ending the session little changed. GBP OIS still price around three 25bp rate cuts for this year. We have pencilled in the first rate cut at the August MPC meeting and a total of 75bps of cuts this year. GBPUSD traded slightly higher upon Mann's comments, but price action was limited as the USD remained within range. Despite Mann's concerns over inflation, we continue to see two-way risks for GBPUSD amid ongoing recalibration of central bank rate cut expectations; supports sit at 1.2800 and 1.2710, while resistance lies at 1.2875 and 1.2950. UK average weekly wages and employment data are due later today.

- **EUR rates**. Bunds weakened mildly on Monday while EUR OIS was little changed. The outcome of the review of ECB's operational framework is likely to be announced at the ECB's 13 March meeting, as Lagarde mentioned at last week's press conference. Granted, the framework involves sophistication and delicacies, but one of the market focuses would be the minimum reserve ratio. With the last change being that the remuneration rate was cut to 0%, expectation was once high for the next step to be an increase in the minimum reserve ratio. It has become a close call as of now.

- **JPY rates**. Market pricing has moved further towards our base-case for a 10bp hike in the policy-rate balance rate at the March meeting; JPY OIS now price a 76% chance of a move this month, versus nothing priced at the start of the year. Despite the rate hike prospect, we have a steepening bias on the JGB curve across the 2s10s segment, as market may also contemplate the likelihood of a removal of YCC while the BoJ is unlikely to hike policy rate aggressively. If the 10Y bond/swap spread and the 10s20s yield spread were to revert to multi-year median levels, with reference to the highs in the 10Y JPY OIS and 20Y JGB yields attained in late October/early November, then the next support for the 10Y JGB sits at the 1.10-1.20% area.

- **CNY rates**. Repo-IRS opened firmer this morning…PBoC did CNY10bn of reverse repos today matching maturity; the maturity profile is very light this week with the focus on the CNY481bn of MLF that matures on Friday; given the strong hints on a potential RRR cut, we will observe as to whether part or all of the MLF will be covered by an RRR cut. On bond side, CGB yields continued to rebound, underlining our caution against chasing long-end yields lower. Short-end CGBs may be supported by monetary easing expectations and asset-swap flows. At the long end, 30Y CGB yield below 2.40% would mean the bond is too rich to us. Back-end CNH points fell on the higher USD rates; there has been a lack of direction in the points given USD rates have been oscillating. We maintain a medium-term upward bias but there need to be triggers for the points to break out of range, which could include a confirmation of continued disinflation in the US, and/or some concrete signs of economic recovery in China.



Source: Bloomberg, OCBC Research

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