GLOBAL MARKETS RESEARCH

Daily Market Outlook

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BoJ outlook; ECB operational framework review

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- **USD rates**. UST yields rose further overnight, as the market prepared for yet another set of data prints including February PPI and retail sales. Market further pared rate cuts expectation to a total of 80bps for this year. The bar is high for market to further trim rate cuts expectation to fewer than 75bps of cuts – which was where the December median dot was, before the March dot-plot is released. On this, recent resilient US data add marginally to the risk that the median dot may be pushed higher. We do note that the December dot-plot is skewed to the upside, in that two dots moving higher would be enough to move the median dot higher. Our base-case remains for a total of 100bps of cut this year, and for the median-dot to stay at three cuts. FOMC members' own forecasts keep changing and history suggests that these "dots" were not particularly accurate in predicting what would be delivered. However, should the median dot move, it would move the market as well.

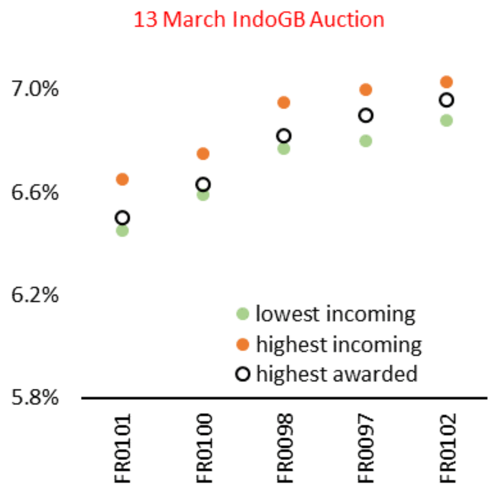
- **JPY rates**. News continued to come through that major firms have agreed to mostly match labour unions' wage hike demand, while the first Rengo survey outcome will be known tomorrow. It has been our long-end view that the BoJ is likely to exit NIRP as soon as this month. Recent official commentaries have largely painted a post NIRP exit and post YCC-removed scenario. Robust wage growth shall give the BoJ the greenlight to start normalizing monetary policy. There are a few parts of BoJ monetary policy: 1/ Short-term interest rate. We expect a 10bp hike in the policy-rate balance rate from -10bps to zero percent. This would make the current three-rate system into a two-rate system. 2/ Long-term interest rate: it is a close call as to whether the BoJ will remove the guidance of "10-year JGB yields will remain at around zero percent" at this upcoming meeting. We do however note the 1% is only a soft target after all. 3/ Conduct of YCC: the BoJ is likely to continue with JGB purchases even if they decide to remove YCC (2/ above); this part may just need to be renamed as "JGB purchases" if there is no longer YCC. 4/ Asset purchases. The BoJ may well stop/reduce asset purchase other than JGBs. 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 with relatively more room for the 10Y yield to adjust upward.

Source: Bloomberg, OCBC Research

- **USDJPY**. As BoJ Governor Ueda has remained cautious in terms of policy guidance, emphasizing the bank is awaiting more evidence of wages growth to sustain inflation above the 2% target, USDJPY continues to trade around the 146.00-148.00 level and is likely to do so ahead of the BoJ meeting next week. The first Rengo survey outcome is released on Friday. There is optimism that the wage negotiation results would be strong, as Rengo is demanding an average wage increase of 5.85%, the largest increase since 1993. BoJ's January outlook report showed the Bank acknowledged consumer spending should increase moderately over 2024 as employee income rises while corporate profits are expected to be elevated; economic growth rate in Japan is expected to be positive. Base case for us is that the BoJ shall start normalizing monetary policy sooner rather than later, and we continue to see next week's meeting a live one. Given the BoJ is unlikely to hike interest rates aggressively, we think an exit from NIRP is likely to push the USD/JPY closer towards the 140.00 subject to the movement of US rates. On the chart, support is at 146.30 (200 DMA), followed by 145.00; resistance is at 148.30 (50DMA) and 150.00.

- **ECB operational framework review**. The framework involves sophistication and delicacies, but the main theme of the review is on refining how liquidity will be provided to market participants as excess liquidity in the banking system gradually declines. While the review covers mostly medium-term operational changes, they do reflect the central bank's thoughts on the policy front. First, these operations changes are in preparation for a scenario where the excess liquidity in the banking system fall further, which means the ECB has intention to continue with QT, without a deadline or target. Second, the minimum reserve ratio can still be hiked some time down the road despite that it has been kept at 1% for now. We highlight: 1/ The spread between the rate on MRO and DFR will be narrowed to 15bps from the current 50bps, effective 18 September. The DFR is formalised to be the key policy rate, and short-term money market interest rates are expected to "evolve in the vicinity of the DFR". The narrower spread between the rate on MRO and DFR point to an effective 35bps cut in the rate on MRO relatively to DFR. Accordingly, the rate on MLF will also be adjusted (cut) to maintain its spread with MRO rate. 2/ New structural longer-term refinancing operations and a structural portfolio of securities will be introduced at a later stage. ECB said these operations will "make a substantial contribution to covering the banking sector's structural liquidity needs arising from autonomous factors and minimum reserve requirements". 3/ The minimum reserve ratio has been kept at 1% for now, which shall be a relief to banks.

- **IndoGB.** Wednesday's conventional bond auction went well, attracting decent incoming bid of IDR58.94trn; MoF issued as per target amount of USD24trn. Cutoffs were near the lowest incoming bid levels for FR101 (2029 bond), FR100 (2034 bond) and FR098 (2038 bond). Most of the incoming bid again went to FR101 (2029 bond) followed by FR100 (2034 bond). The upcoming maturity of FR70 might have helped the auction, as some investors took this opportunity to replenish bond holdings. MTD as of 8 March, BI increased holdings (excluding those held under monetary operation) of government securities, while banks, non-banks and foreign investors reduced holdings. Given still narrow yield differentials and that implied IDR rates are not low, a strong comeback of foreign flows is not in sight yet.



Source: DJPPR, OCBC Research

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