Japan wage growth, BOJ and FOMC in focus

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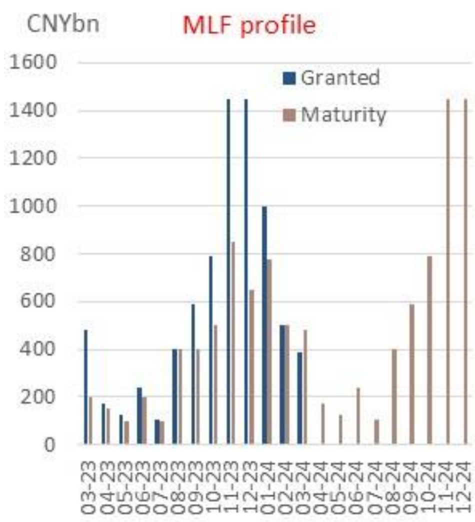
- **USD rates**. UST yields jumped upon the firmer-than-expected PPI prints, with the curve trading steeper. Market pared back rate cuts expectation slightly, to a total of 76bps of cuts this year versus 79bps priced a day ago; chance of a 25bp cut by the June FOMC meeting is now priced at 65% versus 73% priced prior. The rebound in headline PPI YoY to 1.6% was primarily because of diminishing drag from energy price inflation – similar to the case of headline CPI. Food deflation has also turned tamer; services, and goods less foods and energy YoY inflation were fairly stable. Separately, initial jobless claims and continuing claims printed softer than expected. Investors took this opportunity to trim positions ahead of FOMC next week – one of the focuses is the updated dot-plot. 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. FOMC members' own forecasts keep changing and history suggests that these "dots" have not been particularly accurate in predicting what would be delivered ultimately. Regardless, should the median dot move, it would move the market as well. On the liquidity front, net bills settlement next week is on the light side at USD25bn while there is no net coupon bond settlement.

- **DXY**. The dollar index was higher overnight and is now seen at 103.45 levels. US PPI rose 0.6%MoM in February, on the back of a 1.0% surge in food prices. In sequential terms, goods for export, capital and nondurable goods were all higher while most of the services components also showed gains. Market pricing was pared, with 16bp of cuts priced for June, down from 23bp at the end of last week following the Feb NFP report. The next set of dot plot projections on 21 Mar FOMC will provide fresh clues. While there is some evidence that US labour market is softening (Feb non-farm payrolls), we believe further data will be needed to support the nascent USD downtrend. If the Mar NFP data confirms this trend, Q1 ECI (released on Apr 30) will play a crucial checkpoint for determining the confidence in the first Fed cut starting in June. We remain biased for a moderate and soft USD profile as the Fed is done tightening and rate cut, alongside an assumed loss of US exceptionalism, should provide the path to a weaker USD. On a multi-month horizon, we see 102.50 as the key support to the downside. Moves to the upside could be resisted at 103.60/70 and we believe these could be the levels to sell USD on rally.

- **USDJPY**. The yen was the best performer among G10 currencies despite the broadly stronger dollar amid ongoing speculation that the BoJ could hike interest rates as soon as next week. Wage negotiations remain in focus, with the Rengo (Japanese Trade Union Confederation) survey result being announced later today. The group is scheduled to hold a media conference at 4.15pm Tokyo time today. 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 that 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 as 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 149.40 and 150.00.

- **CNY rates**. PBoC granted CNY387bn of MLF this morning, against maturity of CNY481trn, thereby net withdrawing CNY94trn of 1-year liquidity. Today's operation is subject to interpretation. For one, it may suggest that an RRR cut is forthcoming. As we have flagged, there might be an intention to replace part of MLF with liquidity released from an RRR cut. On a less positive note, officials may have judged the liquidity released from the recent RRR cut is enough. Either case, we see room for further cut in the RRR down the road. Market reaction in repo-IRS and CGBs are mixed thus far. We earlier cautioned against chasing long-end CGB yields lower. Yields have since rebounded; still, at current levels, we are at best neutral long-end CGBs. The FX swap curve is under a flattening pressure. Back-end points fell on the back of higher USD rates, while front-end points are likely supported given renewed upward pressure on spot USDCNY and USDCNH.



Source: CEIC, OCBC Research

- **MYR rates**. MGS has stayed resilient in the face of higher UST yields, with the domestic yields trading only 1-2bps higher on Thursday. The 10Y MGS auction (reopening) garnered a decent bid/cover ratio of 2.05x, cutting off at 3.865%. Post-auction, the bond was trading at the similar level in the secondary market. MYR basis have been retracing lower since mid-February, after an extended uptrend that started in November. Onshore MYR bonds saw the third month of outflows in February, albeit being tamer than in the previous two months. Some improvement in asset-swap pick-up of late, if sustained, may help attract some inflows.

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