GLOBAL MARKETS RESEARCH

Daily Market Outlook

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BoJ in action

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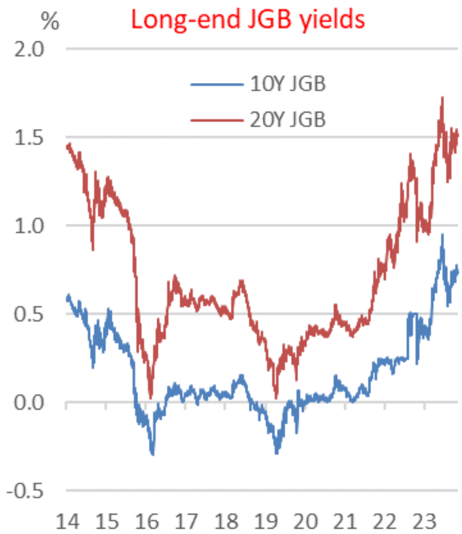
- **JPY rates.** BoJ has decided to exit NIRP and to remove YCC by a 7-2 vote. The Bank judged that "it came in sight that the price stability target of 2 percent would be achieved in a sustainable and stable manner toward the end of the projection period". YCC and NIRP to date "have fulfilled their roles". Given the market has been gearing up to today's decision, and the BoJ said it anticipates "accommodative financial conditions will be maintained for the time being", initial reaction saw JGB yields softer and USD/JPY higher. We however expect these initial reactions to be short lived. While the BoJ outcome is in line with our base-case, the 7-2 vote is arguably on the hawkish side. And although the BoJ said it would continue with JGB purchases, now that even the soft cap on yield is removed, the tolerance level of the BoJ is likely higher. Already, the upper bounds of scheduled JGB purchases for the Apr-Jun period came in lower than those for the Jan-Mar period.

- **BoJ:** more details on today's decision
  1/Guideline for market operations (7-2 vote): the policy now is to encourage the uncollateralised overnight call rate to remain at around 0 to 0.1% as a primary policy tool; the reference to the policy-rate balance rate of -0.1% is scrapped. This result in an effective hike of "around 10bps". And, there is no more YCC.
  2/ Purchase of JGBs (8-1 vote): this replaces "conduct of YCC" as there is no longer YCC. The BoJ said it would continue with JGB purchases with "broadly the same amount as before" and in case of a rapid rise in long-term yields it would make nimble responses by increase purchases.
  3/ Asset purchases other than JGBs (unanimous vote): The Bank will discontinue purchases of ETFs and J-REITs, and gradually reduce the purchases of CP and corporate bonds and discontinue such purchases in about one year.

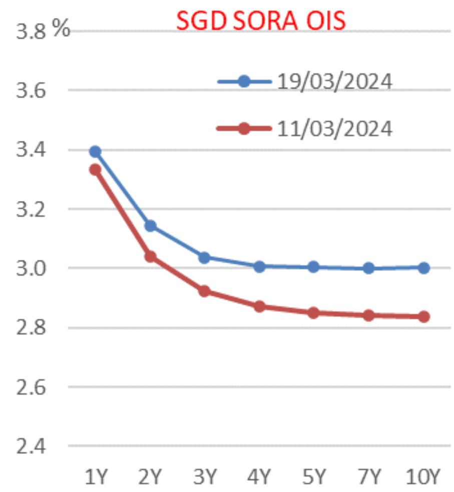


Source: Bloomberg, OCBC Research

- **USD rates**. UST yields edged up further as market prepared for potential hawkish tilts at the upcoming FOMC meeting, while data continued to print on the firm side albeit being second tier - NAHB Housing Market Index unexpected improved to 51. Fed funds futures last priced a total of 71bps of cuts for this year, with the chance of a 25bp cut by the June FOMC meeting seen at 61%. The 2Y UST yield has moved up by a cumulative 54bps and the 10Y UST yield by 45bs, since the start of February; should there be no change to the position of the "median dot" on the Fed's dot-plot, investors are likely to reload bond positions.

- **AUD rates**. RBA has kept its OCR unchanged as expected. The MPC statement tuned down its guidance, to "the Board is not ruling anything in or out", from last "a further increase in interest rates cannot be ruled out". But apparently the RBA tries to downplay this "dovish" tilt by reiterating that returning inflation to target is the priority. Regardless, the market has not been convinced that there is a material risk of further tightening even with the previous hawkish guidance. Our base-case remains for a total of 50bps cuts, likely starting from the August meeting. 3M BBSW is likely to stay around the current 4.35% level throughout H1 at least.

- **SGD rates.** SGD OIS rose by 6-16bps over the past week with the curve having steepened. In this recent leg of upward move, SGD OIS outperformed USD OIS, consistent with the usual pattern. Our medium-term view for SGD rates underperformance against USD rates is premised on a falling rates environment. In the immediate term, SGD OIS are likely to hover around the 3% handle for tenors 3Y to 10Y before FOMC decision. Today brings the auctions of SGD14.1bn of 4W and SGD20.5bn of 12W MAS bills. 1M and 3M implied SGD rates were trading at 3.76% and 3.74% this morning, respectively; MAS bills cut-offs are likely coming in at 3.90%-4.00%. The size of the new 5Y SGS auction will be announced tomorrow. The 5Y bond is likely to attract solid demand from domestic investors First, expectation remains for yields to go lower over the medium-term with a steepening bias to the curve, while the SGS curve is pretty flat from 5Y out to 30Y. Hence, investors may want to lock in the return at this medium to short tenor bond. Second, commercial banks' non-bank loan-to-deposit ratio stayed low at 70.1% as of January, pointing to asset allocation demand. On the other hand, foreign investors may prefer longer-tenor SGS. In terms of asset-swap pick-ups, it gets more favourable when USD-funded investors move further out the curve, as both the SGD OIS curve and the SGD basis curve are inverted. There is decent asset swap pick-up at 10Y SGS (around SOFR+70bps) and at 20Y SGS (around SOFR+100bps), and fair pick-up at 5Y SGS (around SFOR+30bps).



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