

Waiting for Fed

- USD rates.** UST yields rose upon the release of JOLTS job openings which unexpectedly increased to 9026K as the previous month's number was also revised upward. Yields have nevertheless retraced from session highs. Market further pared back expectation for a 25bp Fed rate cut by the March FOMC meeting, to 44%. Long-end USTs outperformed, probably on residual impact of the quarterly refunding plan and as data and news-flows came in mixed. As for tonight's FOMC, while no change in the Fed funds rate is priced in or expected, investors will watch out for 1/ clue on the prospects of rate cuts timeline or magnitude, and 2/ the Committee's latest thoughts on QT. We reckon there is still enough liquidity (bank reserves and reverse repos netting out BTFP) in the system to allow QT to continue throughout most of this year, but if there is an early end to QT or a slower pace of QT, that would be supportive of USTs. To put things into perspective, out of the Q1 marketable borrowing need of USD760bn, USD172bn is due to SOMA redemption; and almost all of the Q2 marketable borrowing need is due to SOMA redemption, as estimated by US Treasury. Tonight also brings Treasury's auction plan which will reveal the adjustment in coupon bond supply vis-à-vis bills supply; we suspect the reduction in marketable borrowing needs will be skewed towards lower bills supply as after all, part of the reduction in borrowing needs is due to higher TGA balance and it would be a good opportunity for Treasury to reduce the % share of bills.
- JPY rates.** JGB yields rose by 1-4bps across the curve this morning, upon the release of the Summary of Opinions at the January MPM. BoJ opined that "conditions for policy revision, including the termination of the negative interest rate policy, are being met." There also appears an intention to make a decision to start normalizing monetary policy soon. In particular, "shifts in monetary policies of overseas central banks could reduce the flexibility of the Bank's monetary policy. Now is a golden opportunity, and the Bank's policy decisions need to take into account that, if it continues with the current monetary policy, the accompanying side effects will remain until the next recovery phase, particularly that of overseas economies". Our interpretation is that the BoJ would like to normalise monetary policy before major central banks start to cut interest rates. We see the March meeting as a live one, where JPY OIS is pricing in only 32% chance of a 10bp hike. As for the YCC, in the scenario where it is removed, the support for the 10Y JGB shall sit at the 1.1-1.2% area, 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 JGB OIS and 20Y yield in the current cycle.

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
ChristopherWong@ocbc.com

Global Markets Research
Tel: 6530 8384



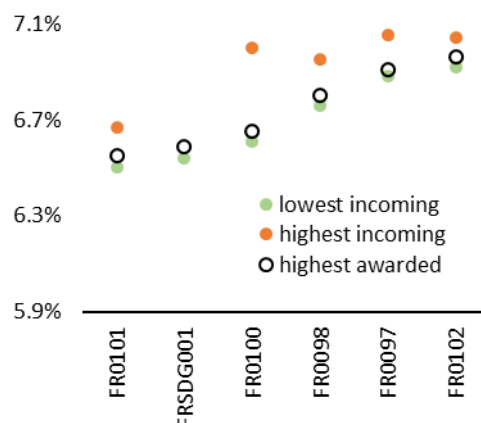
Source: Bloomberg, OCBC Research

- DXY. *Waiting for Fed.*** While the Fed is widely expected to keep policy on hold at the upcoming meeting, we will be watching for clues on timing of Fed cut/push back against earlier easing and guidance on QT. 30d Fed fund futures implied <45% probability of cut at Mar FOMC while the timing of first Fed cut is fully priced in for May FOMC. This is now in line with our house view for first Fed cut to happen in 2Q. Softer core PCE (2.9% y/y) reinforced how entrenched disinflation trend in US is and if we do get a softer NFP print, USD can ease. DXY was last at 103.55 levels. Bullish momentum on daily chart shows tentative signs of fading but RSI rose. 2-way risks likely ahead of key event/data risks. Resistance here at 103.55 (200 DMA), 103.8 (50% fibo retracement of Nov high to Dec low) and 104.60 (61.8% fibo). Support at 103.10 (38.2% fibo), 102.6 (neckline of inverted h&s, 21DMA) and 102.20 (23.6% fibo). Day ahead brings ADP employment, Chicago PMI, employment cost index, quarterly refunding plan for notes and bills (Wed) before FOMC decision (3am Thu SGT), ISM mfg (Thu) and payrolls report, Uni of Michigan sentiment, inflation expectations (Fri).
- EURUSD. *CPI Estimate in Focus Tomorrow.*** EUR continued to drift a touch lower as markets repriced a dovish ECB while Europe's economy stagnated in 4Q. Market bets have shifted in favour of an earlier cut in Apr (more than 80% priced vs. <20% probability a week ago). The risk of an earlier ECB cut, alongside still contractionary PMI readings in Europe suggest that EUR may be biased to the downside for now unless Fed takes on a more dovish stance at the upcoming FOMC. EUR was last at 1.0820 levels. Mild bearish momentum on daily chart intact while RSI slipped. Consolidation likely with bias to the downside in the interim. Support at 1.08 (50% fibo) and 1.0780 (100 DMA). Resistance at 1.0875 (38.2% fibo retracement of Oct low to Jan high), 1.0920 levels (21, 50 DMAs). Focus on CPI estimate on Thu. Softer data print could further weigh on EUR.
- GBPUSD. *2-Way Risks.*** GBP traded a touch softer overnight but still within recent range as markets await BoE meeting (Thu). Pair was last at 1.2675 levels. Momentum is flat while RSI fell. 2-way risks ahead. Support here at 1.2670 (50 DMA), 1.2590 (50% fibo retracement of Jul high to Oct low). Resistance at 1.28, 1.2880 (76.4% fibo). While BoE is widely expected to keep policy rate on hold, markets will be watching out for any hints of BoE embarking on starting its rate cut cycle earlier. Markets are now pricing 56% probability of 25bps cut at May MPC (vs. <50% probability a week ago). Any hint from BoE MPC that suggests an earlier cut/dovish tilt could send GBP bulls into hibernation. Recall at the last MPC in Dec 2023, 3 members out of 9 members voted for rate hikes while Governor Bailey said there was "some ways to go" in the fight against inflation. That said, so long the remarks from BoE officials do not sound overly dovish, we reckon the pullback may provide an attractive point for GBP bulls to re-enter. On the data front, UK economy has been fairly resilient. Services PMI is still in expansionary territory (53.8 vs. 53.4 prior) while mfg PMI though in contractionary territory, has improved (47.3 vs. 46.2 prior). Business optimism and consumer confidence were also improving

while public sector net borrowing (ex-banking groups) came in much lower than expected (GBP7.8bn vs. 14.1bn expected). Overall, these positives should continue to support GBP.

- USDJPY. Sell Rallies.** USDJPY consolidated after the recent move lower. Pair was last at 147.65 levels. Bullish momentum on daily chart is fading but decline in RSI moderated. Consolidative price action to take hold for now as markets await FOMC. Support at 146.50 (21 DMA), 146.10 (50% fibo retracement of Nov high to Dec low). Resistance at 148.20, 148.80 levels before 149.20 (76.4% fibo). In the summary of opinions from the last meeting, officials discussed prospects for ending NIRP with some members indicating conditions that would allow that move are increasing. One official cited likelihood of better results in this year's shunto and signs of improvement for the economy and inflation. This is in line with our view that the BoJ is paving way for a move, sooner rather than later. Governor Ueda highlighted that policy change at meeting can happen with or without quarterly outlook. This implies that every meeting is probably live. Governor Ueda also commented that many businesses have decided on wages early this time and does not need all SMEs to hike wages significantly for a policy change. This also implies that BoJ decision does not necessarily have to wait till shunto negotiation is over. Potentially, an earlier move in Mar/Apr should not be ruled out. Retain bias to sell USDJPY on rallies on potential Fed-BoJ policy divergence.
- USDSGD. Consolidation.** USDSGD traded range-bound as markets await catalyst. Pair was last at 1.3410 levels. Bullish momentum on daily chart is fading while RSI rose. Consolidation likely for now. Support at 1.3390 (38.2% fibo retracement of Oct high to Dec low), 1.3360 (50 DMA) and 1.33 levels (23.6% fibo). Resistance at 1.3460 (200 DMA, 50% fibo), 1.35 (100 DMA). We expect a range of 1.3390 - 1.3450 in the interim. S\$NEER trades 1.8% above our-model implied mid estimates.
- IndoGBs.** The conventional bond auction on Tuesday attracted strong incoming bids of IDR73.2trn, while MoF awarded IDR24trn of bonds as per target which is in line with our expectation. Most of the bids went to FR101 (2029 bond) and FR100 (2034 bond) which was not surprising either; IDR16.4trn of these two bonds have been awarded. Cut-offs were mostly near the lower incoming bid levels. MoF did not take advantage of the strong demand to upsize the auction, probably as there is little need to do so given the fiscal position; instead, securing lower funding costs may be more desirable. Supported by domestic demand, IndoGB yield differentials over USTs did not widen further after the adjustment in Nov-Dec last year, and bond inflows have yet to stage a strong comeback.

30 January IndoGB Auction



Source: DJPPR, OCBC Research



Macro Research

Selena Ling

Head of Strategy & Research

LingSSSelena@ocbc.com

Herbert Wong

Hong Kong & Macau Economist

HerbertWong@ocbc.com

Jonathan Ng

ASEAN Economist

JonathanNg4@ocbc.com

Tommy Xie Dongming

Head of Greater China Research

XieD@ocbc.com

Lavanya Venkateswaran

Senior ASEAN Economist

LavanyaVenkateswaran@ocbc.com

Ong Shu Yi

ESG Analyst

ShuyiOng1@ocbc.com

Keung Ching (Cindy)

Hong Kong & Macau Economist

Cindyckeung@ocbc.com

Ahmad A Enver

ASEAN Economist

Ahmad.Enver@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA

Rates Strategist

FrancesCheung@ocbc.com

Christopher Wong

FX Strategist

ChristopherWong@ocbc.com

Credit Research

Andrew Wong

Credit Research Analyst

WongVKAM@ocbc.com

Ezien Hoo, CFA

Credit Research Analyst

EzienHoo@ocbc.com

Wong Hong Wei, CFA

Credit Research Analyst

WongHongWei@ocbc.com

Chin Meng Tee, CFA

Credit Research Analyst

MengTeeChin@ocbc.com

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