

Watch UK Budget; Powell testimony

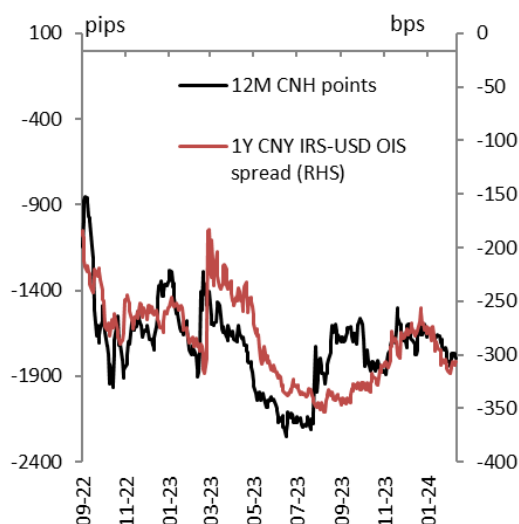
- USD rates.** USTs rallied before the ISM services release, with the gains being sustained as the survey outcome was weaker than expected. ISM services index came in softer-than-expected at 52.6 points; it was precisely those indices that the bond market may be more sensitive to that showed weakness - employment dipped below the 50-watershed level to 48 points; prices paid printed 58.6 points versus 64 points prior. Still, market reaction was muted – and Treasury futures fell at Asia open – as investors stayed cautious ahead of Powell’s testimony and labour market reports. If Powell simply repeats his no-urgency-to-cut rhetoric, the market shall not react to it further. The path of QT is likely to be discussed at the March FOMC meeting, and ahead of that, we doubt Powell will elaborate much on that topic. Fed funds futures price the chance of a 25bp rate cut by the June FOMC meeting at 85% and a total of 87bps of cuts this year. The 2Y breakeven edged lower to a still elevated 2.79%. Usage at the Fed’s O/N reverse repos were stable these days, last at USD444bn while net bills settlement this week is at a moderate USD31bn.
- GBP rates.** Long-end Gilts rallied ahead of Budget, with market expectations that the DMO is inclined to rely on shorter end bonds if there is an increase in financing needs. The Spring Budget is probably the last budget before elections. Given the Conservative is trailing Labour by a wide margin according to some opinion polls, market watch the risk that the budget will turn out much more expansionary than the current headroom would suggest – not our base case though. But in that scenario, both bond yields and GBP OIS would be under upward pressure given the implication on bond supply and potentially inflation as well. The Autumn Statement put Gilt issuance target at GBP237.3bn; any outcome today within GBP250bn is probably seen as neutral by the market. GBP OIS price a total of 66bps of cuts this year, which already represented a massive hawkish repricing from as much as 140bps priced at the start of the year, which shall limit further hawkish repricing.
- CNY rates.** The 30Y CGB yield softened this morning, failing to react further to the CNY1trn of special bond supply; meanwhile, short-end bond yields are capped by expectation for continued monetary policy support. Market awaits today’s official press conference at 3pm local time. Our Economist noted that the budget deficit at CNY4.06trn, or 3% of GDP, implies an expected nominal GDP growth of 7.4%. As such, market will watch for any reflation efforts alongside overall support measures. Market

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Global Markets Research
Tel: 6530 8384



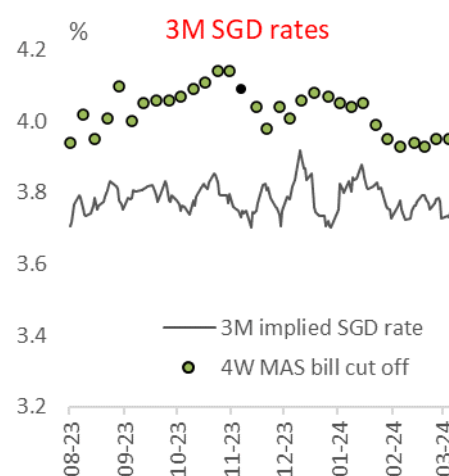
Source: Bloomberg, OCBC Research



Source: Bloomberg, OCBC Research

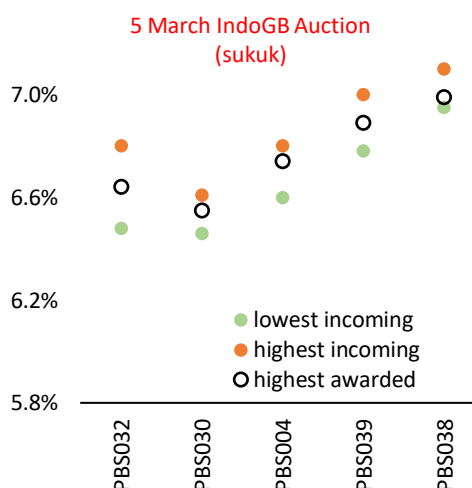
seems unimpressed by the NPC announcement thus far, but we noted that we shall count the extra CNY1trn of bond supply announced in Q4 last year as part of the support package, as the impact will be mostly felt this year. We however may need to be a bit more patient for a more decisive turnaround in market sentiment. CNY and CNH liquidity have largely stayed flush, but the usual bidding interest at T/N continue to come on and off, preventing front-end points from falling materially. Pressure at the front-end of the FX swap curve depends pretty much on where spot USD/CNY and spot USD/CNH are. Back-end points are primarily a function of CNY-USD rates differentials which in turn is driven more by USD rates move. Given our downward bias on USD rates, we maintain an upward bias to back-end points. Counteracting this would be lower CNY rates and any rollover of intervention.

- **SGD rates.** SGD OIS were little changed to a tad softer on Tuesdays, with SGD-USD rates spreads still not breaking out of ranges. The 4W MAS bills cut off at 3.95%, 7bps lower than the cut-off at the 27 February auction, while the bid/cover ratio improved to 2.29x from 1.95x prior, as SGD liquidity had eased mildly. Cut-off at the 12W MAS bills stayed at 3.95% which was within expectations. There were also the auctions of 6M and 1Y MAS FRN on Tuesday. Cut-off spread at the 6M FRN came in at 35bps, implying a rate of 3.87% using 6M SGD OIS. Cut-off spread at the 1Y FRN was at 34bps, implying a rate of 3.71% using 1Y SGD OIS. The 6M FRN compares favourably with 6M T-bills.



Source: MAS, Bloomberg, OCBC Research

- **IndoGBs** traded in ranges with yields mildly higher on Tuesday. At the sukuk auction, MoF awarded IDR7.38trn of bonds, lower than its indicative target of IDR12trn. Incoming bids amount was IDR17.05trn, smaller than those at previous auctions. Cut-offs were near the highest incoming bid levels for PBS030 (2028 sukuk) and PBS004 (2037 sukuk), where the bid/cover ratios were relatively low at 1.01x and 1.46x respectively. IndoGB yields have been drifting higher since late February, against the mostly risk off sentiment. Still, the domestic bonds outperformed USTs, resulting in a narrowing in the yield spreads which is not conducive to bond inflows when implied IDR rates are not low. Meanwhile, banks were seen adding back to bond holdings in recent days. Between supportive local demand and a lack of foreign demand, we are largely neutral IndoGBs.



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

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.: 193200032W