OCBC

GLOBAL MARKETS RESEARCH

Daily Market Outlook

7 March 2024

No surprise from Powell; Japan closer to a rate hike

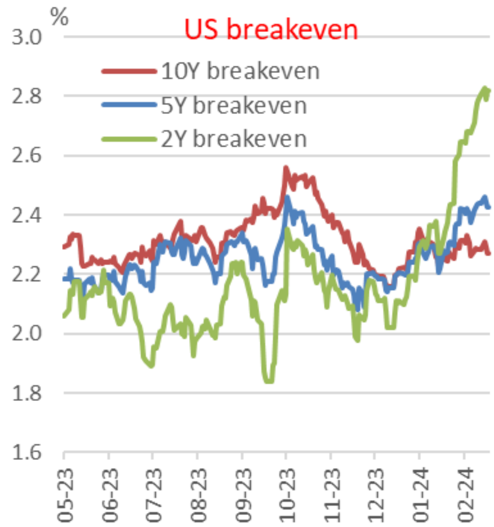
- **USD rates**. UST yields edged lower overnight, as the data support the notion that the US job market is becoming less tight, while there was little surprise from Powell's testimony. Powell's speech was like a copy-and-paste from previous commentaries. So, the core view remains that "if the economy evolves broadly as expected, it will likely be appropriate to begin dialling back policy restraint at some point this year", but the Committee will need to gain "greater confidence" that inflation is moving sustainably towards 2%. If anything, the testimony was marginally less hawkish than expected as Powell could have well delivered a stronger pushback on market rate cuts expectations. USTs rallied upon the release of February ADP employment change which was a tad lower than expected; later in the day January JOLTS job openings edged lower in line with expectations; USTs held gains post Powell testimony. Fed funds futures pricing was little changed, seeing an 85% chance of a 25bp cut by the June FOMC meeting and a total of 87bps of cuts this year. Market now looks forward to jobless claims and then payroll on Friday. We remain of the view that room for further hawkish repricing is limited, and the yield curve is prone to re-steepening upon any data print that supports the disinflation narrative as the 2Y breakeven is currently elevated.

- **GBP rates**. Gilts investors were relieved as there was no drama from the Spring Budget. The Net Financing Requirement (NFR) for 2024-25 is forecast at GBP265.3bn, on the high side but within market expectations; moreover, reliance is skewed towards short- and medium-term gilts issuances. Compared to the November forecast, borrowing is slightly higher by 0.1% of GDP on average over the five-year forecast period. The policy measures will leave a very narrow headroom at GBP8.9bn – OBR sees a 54% probability that the fiscal rule would be met; if, for example, the actual interest rate levels were 0.3 percentage point higher than their budget assumptions, this buffer would be eliminated. This is a medium-term consideration. Meanwhile, OBR revised down its inflation forecast, now expecting Q4 inflation at 1.4% versus the 2.8% previously expected; forecasts for gas prices and oil prices have also been revised lower. GBP OIS did not react much to these forecast revisions, still pricing in around 64bps of rate cuts this year. We see room for market to add mildly to rate cuts expectations later into the year.

- **JPY rates**. January labour cash earnings beat market expectation by a wide margin, printing 2.0% YoY. USD/JPY fell in response,

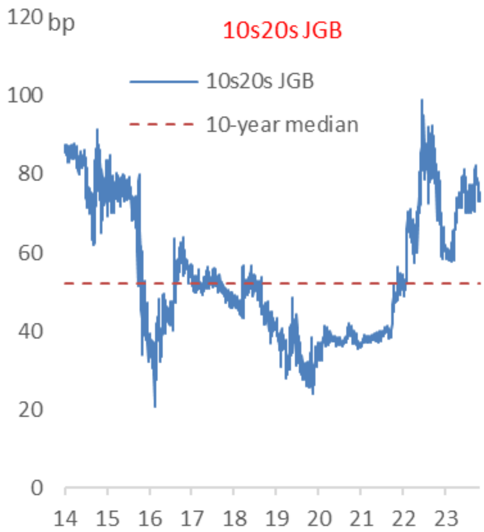
Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Global Markets Research
Tel: 6530 8384



Source: Bloomberg, OCBC Research

while JGB yields are up. JPY OIS now price a 56% chance of a 10bp hike at the March meeting versus almost nothing priced at the start of the year. It has been our long-held view that the BoJ is likely to exit NIRP within H1 this year, sooner rather than later. With the rebound in Tokyo CPI – albeit primarily on base effects, and the broadening wage pressures, the BoJ shall take this opportunity to start normalising monetary policy. Recent official commentaries have largely painted a post NIRP exit and post YCC-removed scenario. We continue to see the March meeting as a live one for a potential 10bp hike in the policy-rate balance rate. We expect USDJPY to trade further lower on the back of a moderate-to-soft USD profile and on monetary policy divergence; near-term there are a few supports to clear though, at 147.83/67 and then 146.15/09. On bond side, strong support for the 10Y JGB shall sit at the 1.1-1.2% area should the YCC be removed.



Source: Bloomberg, OCBC Research

- **EUR rates**. The ECB is widely expected to keep its policy rates unchanged later today, as Lagarde and most officials are in the no-hurry-to-cut camp. Some officials highlighted wage pressures staying strong. Focus is instead of the latest updates on staff macroeconomic projections. Should the ECB focus more on growth instead of inflation, then the risk is the timeline of rate cuts would be brought forward. That said, current EUR OIS pricing appears dovish enough to us, with a total of 84bps of cuts for this year in the price. The ECB outcome will likely be a non-event.

- **CNY rates**. CGB yields fell across the curve on Wednesday as there was no upside surprise on fiscal policy while PBoC Pan gave strong hints of further monetary policy easing. Pan mentioned ample room for deploying monetary policy including RRR cuts and further lowering financing costs. The monetary policy outlook alone was however unlikely to be enough to push long-end CGB yields lower. We believe the bond buying was partly due to asset allocation needs, as the subdued risk sentiment deter investors away from risk assets. Risk-reward does not justify chasing the 30Y CGB yield lower, against the prospects of higher long-end bond supply for years to come. Stimulus from both fiscal and monetary policies shall exert a steepening bias on the CGB curve. While RMB fixed-income instruments still provide asset swap pick-up for USD-funded investors, these pick-ups have been narrowing with the rapid falls in NCD rates and the lower CGB yields. Hefty inflows may not be repeated before RMB yields stabilise.

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
Cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Macau Economist
HerbertWong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
LavanyaVenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
Ahmad.Enver@ocbc.com

Jonathan Ng
ASEAN Economist
JonathanNg4@ocbc.com

Ong Shu Yi
ESG Analyst
ShuyiOng1@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

Co.Reg.no.: 193200032W