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GLOBAL MARKETS RESEARCH

Daily Market Outlook

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Not far

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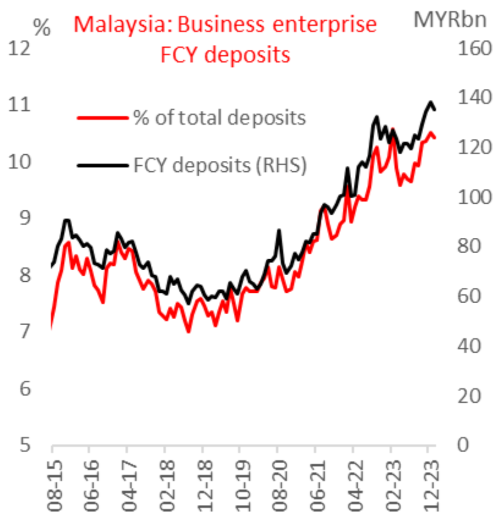
- **USD rates**. UST yields fell following Bund yields upon ECB policy rate decision, and edged further lower as Powell opined that the Committee is "not far from" being confident that inflation is moving sustainably at 2% - the criteria he has been emphasising for the start of easing. Fed funds futures increased rate cuts expectation mildly, seeing a 96% chance (up from 86%) of a 25bp rate cut by the June FOMC and a total of 92bps of cuts this year. Market reaction had not been bigger as investors stayed cautious ahead of the payroll report where consensus is looking for an easing to 200k; consensus expect some easing in average hourly earnings as well. The auctions of 4W and 8W T-bills were well received, garnering bid/cover of 2.76x and 2.90x respectively, with the cut-offs both at 5.280%. The cut-offs at these two tenors have been fairly similar, reflecting expectation for a stable rate outlook in the near term.

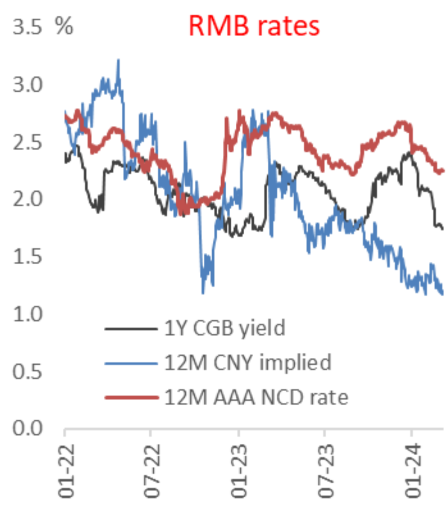
- **EUR rates**. ECB kept key policy rates unchanged as widely expected but nevertheless there were a couple of dovish elements. First, the central bank revised downward its inflation forecasts, in particular for 2024 to 2.3% from 2.7%. The downward revision mainly reflects lower contribution from energy prices but forecasts for inflation excluding energy and food have also been revised lower. Lagarde in the Q&A session commented that the central bank "feel more confident about those projections". Second, while Lagarde still highlighted strong growth in wages, she added that "profits are absorbing part of the rising labour costs, which reduces the inflationary effects" – this phrase was absent in her prepared speech in January. Third, Lagarde revealed that the Governing Council did not discuss rate cuts at the March meeting, they "have just began discussing the dialling back of [their] restrictive stance". Regarding the timeline for the start of the easing cycle, Lagarde opined that the MPC "will know a little more in April, but we will know a lot more in June" to gauge if they are sufficiently confident that inflation is moving towards target. This underlines our base-case for the first rate cut to come in June. EUR OIS price a 90% chance of a 25bp rate cut by the June MPC meeting which looks fair to us.



Source: CEIC, OCBC Research

- **MYR rates**. There was muted reaction from the bond market to the expected OPR decision; MGS yields ended Thursday little changed. The paragraph on the monetary policy outlook in the MPC statement was the same as the last statement. OCBC house view remains that BNM is likely to keep OPR unchanged throughout this year. 3Y MGS shall stay stable as its yield spread over OPR appears fair. The MPC statement's remarks on the Ringgit echoed the earlier shift in stance, from one which saw MYR weakness as driven by external factor to one which saw MYR as fundamentally undervalued. USD/MYR fell upon the BNM decision, probably as the MPC statement has it that "the Government and Bank Negara Malaysia are taking coordinated actions to encourage repatriation and conversion of foreign investment income by Government-Linked Companies (GLCs) and Government-Linked Investment Companies (GLICs)". This was not the first time BNM revealed these actions though. Indeed, entities keeping foreign currencies after repatriating onshore means Ringgit has not fully benefited from the inflows Malaysia has received. Repatriation of foreign currency proceeds helps smooth domestic USD liquidity conditions, but to have a more direct impact on spot these funds need to be converted into the local currency.

- **CNY rates**. CGB yields stabilised and traded a tad firmer this morning. We have cautioned against chasing long-end yields lower: 1/ while there was no upside surprise to fiscal stimulus thus far, bond supply is after all on the high side especially that of longer-tenors. 2024 Budget deficit has been set at 3% to GDP, or CNY4.06trn. This compares to the upwardly revised CNY3.88trn (with the additional CNY1trn announced in Q4-2023) for 2023. Additional bond issuance of CNY1trn is also planned for this year, in the form of ultra-long special bonds which do not enter the budget numbers. On top of these, this year's special LGB (local government bonds) quota (meaning new issuances) has been set at CNY3.9trn. Moreover, Premier Li mentioned the intention to keep issuing special bonds at the tune of CNY1trn each year in the coming years. 2/ Reflating the economy is likely an item high on the policy agenda which shall set a floor to yields. As OCBC Economist pointed out, the 3% to GDP and CNY4.06trn deficit numbers imply an assumed nominal GDP growth of 7.4%, versus 4.6% in 2023. This reflects the intent to reflate the economy. Supporting CGBs including long tenor ones despite bond supply would be asset allocation needs, in addition to monetary policy easing expectation, as domestic investors avoided risk assets at the moment. From foreign investors perspective, asset swaps into onshore NCDs and CGBs continue to provide pick-up for USD-funded investors thanks to low implied RMB rates, although these pick-ups have narrowed somewhat. For example, 12M implied CNY was last at 1.21% versus 1Y AAA NCD rate at 2.25% which provides a pick-up of around 100bps against SOFR; the pick-up was as high as SOFR+130bps or above at one point in December. Do note these asset swaps do not take into account the different credit profiles.



Source: Bloomberg, OCBC Research

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