GLOBAL MARKETS RESEARCH

Daily Market Outlook

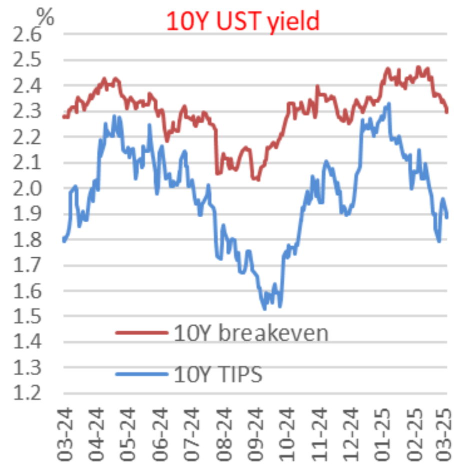
11 March 2025

Growth fears

Frances Cheung, CFA
FX and Rates Strategy
FrancesCheung@ocbc.com

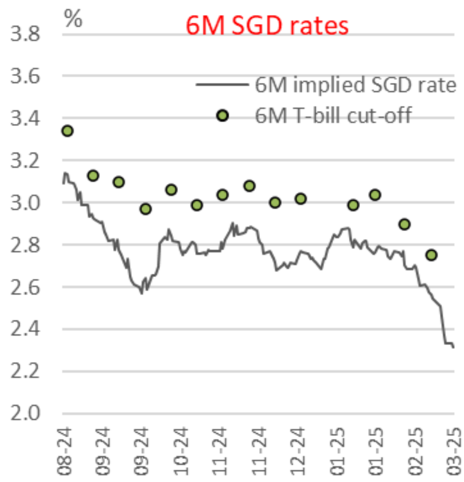
Global Markets Research and Strategy

- **USD rates.** USTs rallied by more than 10bps across the curve, upon heightened growth concerns with Nasdaq down 4% and S&P down 2.7%. The risk-off sentiment has been extended into Asian hours this morning. Fed funds futures added to rate cut expectations, now pricing in 85bps for this year – versus our long-held call for 75bps of cuts which we have argued does not require a recession scenario. After the recent bond rally, UST yields are mostly around our year-end targets (our forecast for 2Y yield at 3.85%, and 10Y yield at 4.15%). Yields have already moved onto lower levels and are likely to fluctuate within these lower ranges; catalysts are probably required to push yields into higher ranges. Some interim upticks in yields cannot be ruled out, but this may represent more of a correction, rather than a reversal to an extended uptrend in yields. Data releases this week include January JOLTS job openings and February CPI. The CPI base effect is favourable for the months ahead in that given similar sequential price pressure, chance is for softer year-on-year inflation prints. However, energy bills have got more expensive. On balance, we expect February headline CPI to print just below 3.0%YoY. This week brings coupon bond auctions of 3Y, 10Y and 30Y, while there is net bills paydown of USD61bn constrained by the debt ceiling. Near-term range for 10Y UST yield is seen at 4.10-4.30% and a wider range is at 4.06-4.34%.



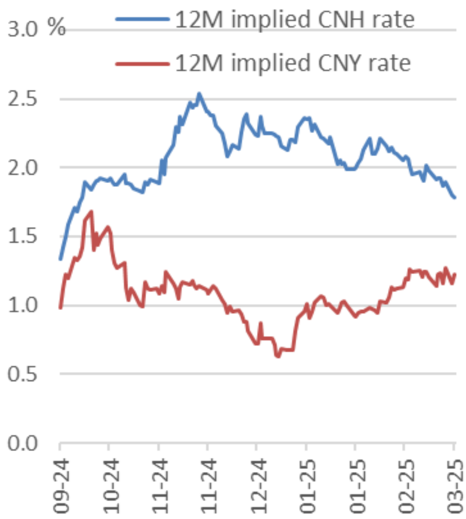
Source: Bloomberg, OCBC Research

- **SGD rates.** SGD OIS were offered down 5-9bps this morning, mostly following USD rates. At the front end, the forwards points were relatively stable this morning, having fallen over the past weeks representing SGD rates outperformance. 1M and 3M implied SGD rates traded at around 2.45% and 2.43% respectively this morning which were 14bps and 15bps lower than levels around the time of last week's MAS bills auctions. Market levels point to likely lower cut-offs at today's MAS bills auctions, but given quarter end is approaching, the 1M cut-off may not fall as much. Further ahead, Thursday brings the auction of SGD7.5bn of 6M T-bills; 6M implied SGD rate last traded at 2.32%, about 25bps lower than level around the last 6M T-bills auction. As per this morning's market level, cut-off at the upcoming 6M T-bills can potentially come in at around 2.5% level; but market continues to move. For how long this flush SGD liquidity condition will last is uncertain, which is partly a reflection of SGD FX view. Nevertheless, we would expect rates further out (1Y tenor and beyond) are less affected by the liquidity situation. We expect 1Y and 2Y SGD-USD OIS spread to gradually turn less negative over the coming months.



Source: Bloomberg, OCBC Research

- **CNY rates.** CGBs continued to face selling pressure, as outright monetary easing has yet to come while market braces for supply amid fiscal support. The resilient risk sentiment may also help explain CGB performances; domestic equities were relatively stable this morning thus far, outperforming US equities and most regional peers. While some short-end funding costs have retraced from the recent high levels, funding pressures may stay amid heavy NCD maturities when NCD rates most traded at or a tad above the 2% level. We believe monetary policy remains on the easing side and expect PBoC to provide more support to liquidity in the months ahead, especially as CGB yields have already rebounded from lows – if allowing liquidity to stay tight aimed at preventing yields from falling rapidly. Outright reverse repos are likely to be the main tool, if not an RRR cut. In offshore, CNH liquidity has been on the loose side. First, there has been a lack of bidding interest at the front-end with no intense pressure on spot. Second, strong Southbound Stock Connect flows have added to CNH pool, which either stays in the system or have led to some buy/sell flows, both supporting CNH liquidity. Offshore-onshore spreads have narrowed in line with our expectation; the 12M points spread was last at 400pips with the offshore CNH point below onshore CNY points plus the 20% FX risk reserve. Not all flows are subject to the 20% requirement and therefore it is not a constrain on further spread narrowing, but we would expect the narrowing momentum to slow somewhat at current levels.



Source: Bloomberg, OCBC Research

GLOBAL MARKETS RESEARCH

Macro Research

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

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

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

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@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
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee
Credit Research Analyst
mengteechin@ocbc.com

Co.Reg.no.: 193200032W