Daily Market Outlook

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Two-way trades amid tariff uncertainty

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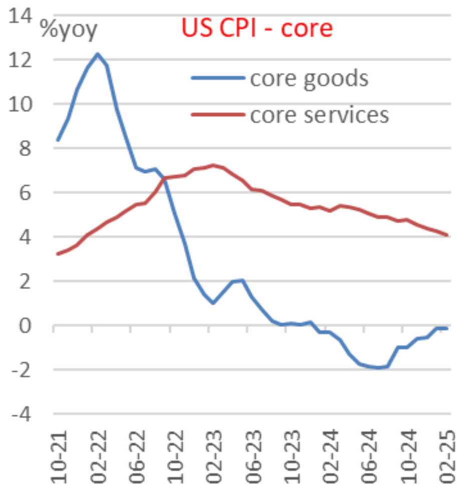
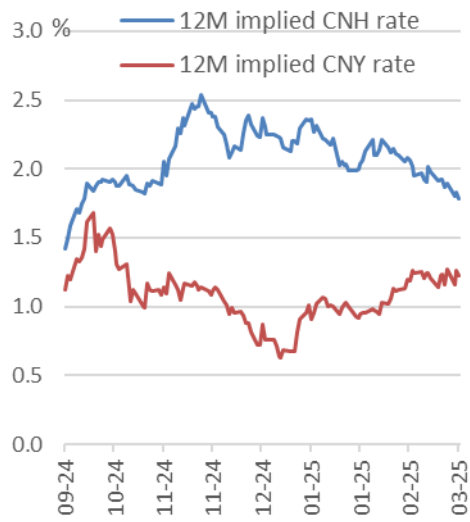
- **USD rates.** UST yields edged up across the curve despite the softer CPI print as the inflation outlook has stayed opaque. The improved equity sentiment might have resulted in some rotation from or profit-taking in bonds. We wrote yesterday "February outcome alone may not be too relevant at this point of time". Fed funds futures last priced 70bps of cuts for this year. Two-way trades are likely the dominating theme in the weeks ahead, with 2 April being the deadline for a few tariff measures. Immediate support for 10Y UST remains at 4.34% in terms of yield with range seen at 4.23-4.34% and a wider range at 4.20-4.42%. February CPI inflation came in softer than expected, with both the headline and core readings easing to 0.2%MoM. The index of shelter accounted for nearly half of the monthly increase. The energy index rose by 0.2%MoM on higher electricity and natural gas although gasoline fell, as we highlighted on more expensive energy bills. On a year-on-year basis, core goods inflation stayed virtually the same, at -0.12%YoY (-0.13% prior) while core services inflation eased to 4.11%YoY (4.31% prior). Overnight, the 10Y coupon bond auction was well received, stopping through to cut off at 4.31% with a decent bid/cover ratio of 2.59x. USD22bn of 30Y coupon bonds are offered tonight and that concludes the bond sales this week. Next week, there is net coupon bond settlement at USD71bn but net bill paydown at USD74bn. TGA balance stood at USD543bn on 10 March; this, together with the USD74bn of extraordinary measures left (as of 5 March) and low refunding need in Q2, will still likely put the "x-day" sometime in late July/early August. Before this, 14 March is the deadline for the stopgap bill to be passed by the Senate and signed by Trump.



Source: Bloomberg, OCBC Research

- **USDCAD.** ***Hawkish cut.*** Bank of Canada lowered its policy overnight rate by 25bps to 2.75% as widely anticipated. The central bank citied: 1/ Inflation remains close to the 2% target; and 2/ Pervasive uncertainty created by continuously changing US tariff threats. Unsurprisingly, BoC didn't commit to any particular rate path. Governor Macklem said the central bank will proceed cautiously on further easing, given that "monetary policy cannot offset the impacts of trade war" – which implies monetary policy may turn out less dovish than expected. Market mildly pared back rate cut expectation, to additional 47bps by year-end, from 53bps (net of last night's 25bps) priced earlier in the week. The CAD remains resilient as BoC pushed back against the idea – if any – that it would cut rate to arrest economic weakness, and USD-CAD yield differentials narrowed. Resistance for USD/CAD is at 1.4543 (3 Mar high) before the next at 1.4793; support sits at 1.4350 (50 DMA). Risk to the near-term growth outlook is on the downside, as pervasive uncertainty could potentially derail the strong GDP and labour market recovery that had been taking place. Canada announced that it will impose 25% retaliatory duties on more than US$20 billion worth of US goods.

- **CNY rates**. CGBs rallied on Wednesday, amid the somewhat subdued risk sentiment and probably upon expectations for immediate monetary policy support. There are still two-way risks surrounding CGBs near term, as tariff headlines continue to come in potentially leading to some safe haven flows, but domestically there is NCD re-financing pressure and monetary easing has yet to come, although liquidity at the front-end has eased. PBoC net withdrew CNY68.6bn of liquidity via daily OMOs this morning; there are a total of RMB530.5bn of reverse repos maturing in the next five days. In offshore, CNH liquidity stays on the loose side, in the absence of bidding interest at the front-end as upward pressure on spot faded. On and off inflows into Hong Kong equities from onshore are also adding to CNH pool, which either stays in the system or have led to some buy/sell flows, both supporting CNH liquidity. Implied 12M CNH rate has fallen to near the onshore 1Y repo-IRS level. While narrowing of offshore-onshore spreads has been our expectation, the recent move was rapid and we would expect any further narrowing to be slower.



Source: Bloomberg, OCBC Research

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