Daily Market Outlook

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Two-way trades continue; shunto outcome eyed

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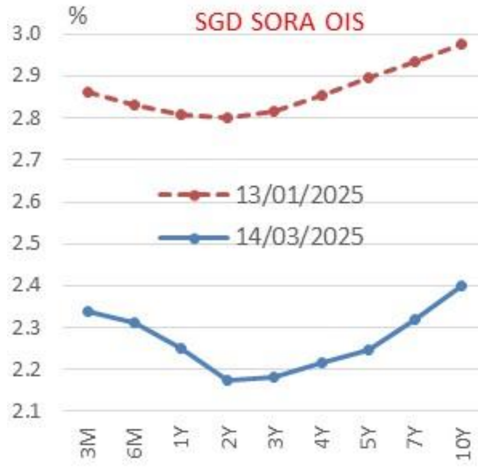
- **USD rates.** UST yields retraced from intra-day highs on heightened trade tensions; equities fell, and bonds benefitted from some flight-to-quality demand overnight. Earlier, February PPI came in softer than expected while January numbers were revised upward, which did not lead to much market reaction. Markets were not much bothered by the analysis that some sub-components under PPI might point to firmer PCE price indices, as growth concerns continued to reverberate among investors leading to safe-haven demand for USTs. Thereafter, however, UST futures traded softer at Asia open this morning, as the overall risk sentiment improved somewhat while Asian equity indices are up in some markets. This plainly illustrates the two-way trade theme amid tariff uncertainties. Overnight's 30Y coupon bond auction was well received, garnering a bid/cover ratio of 2.37x versus 2.33x prior, although cut-off was 1bp above WI level. Next week, there is net coupon bond settlement of USD71bn, but net bill paydown of USD94bn constrained by the debt ceiling. Range for 10Y UST is seen at 4.20-4.34%, with 10Y breakeven trading just around the key 2.3% level. TGA balance fell to USD451bn on 12 March. The stopgap bill has to be passed by the Senate and signed by Trump by end of Friday – Senate Democratic leader Schumer was quoted as saying he won't block the bill.

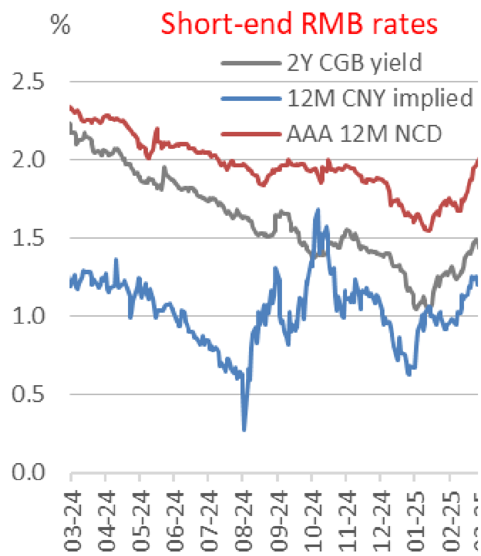
- **USDJPY. *Yen Gains Slow.*** Risk aversion has been the dominant theme overnight. Yen outperformed as concerns over rising tariffs continued to unhinge risky assets. UST yields were lower across the curve while 30Y JGB yield hit the highest level since 2006. BoJ Governor Ueda reaffirmed the central bank's determination to reduce its balance sheet and expressed an optimistic outlook on wage prospects. Overall, the downward trend in USD/JPY remains firmly intact, but interim climbs cannot be ruled out as the dollar itself appears to attract some safe-haven flows at the same time. Resistance for USD/JPY is at 151.50/152.02; support sits at 146.95 and key level to be tested would be 145.00. Rengo, Japanese Trade Union Confederation, is set to release first tally of wage deals later today, where an average 6.09% pay hike has been demanded. We continue to look for additional 50bps of BoJ policy rate hikes this year, versus JPY OIS pricing of 34bps.

- **SGD rates**. SGD SORA OIS were paid up by 1-3bps across 1Y to 5Y tenor this morning, underperforming USD rates thus far. Implied SGD rates were trading a tad higher but remained at low levels. Yesterday's 6M T-bills auction cut off at 2.56%, within our expected range of 2.5-2.6%. The lower cut-off (compared to the previous 2.75%) followed lower market SGD interest rates, which have fallen steadily on the back of lower USD interest rates and flush SGD liquidity at the same time. For how long SGD liquidity remains flush is uncertain. But earlier this week we wrote, "on the SORA OIS curve, the 2Y and 3Y rates represent the low points, at around 2.10-2.15% level, appearing to have incorporated the view for an extended period of flush liquidity; we see limited downside to these rates with risks of interim rebounds." 2Y OIS was last at 2.20% and 3Y at 2.26%. Short-end SGD-USD OIS spreads are at very negative levels that deviate from historical pattern; we expect 1Y and 2Y SGD-USD OIS spreads to gradually turn less negative on a multi-month horizon.



Source: Bloomberg, OCBC Research

- **CNY rates**. CGB yields edged up by 1-3bps thus far this morning, while domestic equities rallied. We continue to see two-way risks surrounding CGBs near-term, as the rotation between equities and bonds alternates across days. Tariff headlines continue to come in potentially lead to some safe haven flows, but domestic monetary easing has yet to come, while equity sentiment appears to hold up for now. There is NCD re-financing pressure, but nevertheless NCD rates eased mildly over the past two days. In offshore, CNH forward points traded a tad higher at the very front-end but rest of the curve stayed heavy, and implied CNH rates remained at low levels. The relatively loose CNH liquidity may stay for a while more. Next to watch is China's February new yuan loans, aggregate financing and money aggregates, to be released any time soon.



Source: Bloomberg, OCBC Research

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