GLOBAL MARKETS RESEARCH

Daily Market Outlook

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Solid UST auctions; SGS auctions next; PBoC liquidity support

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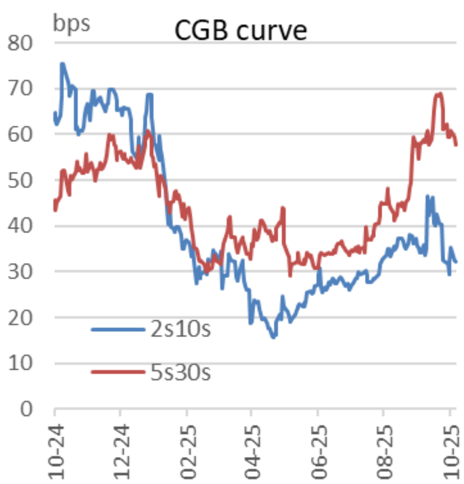
Global Markets Research and Strategy

- **USD rates.** UST yields initially rose on the better risk sentiment, before retracing from session highs upon solid coupon bond auctions to end the day little changed at the 2Y to 10Y tenors. 20Y and 30Y bond outperformed, as investors continued to lock in long-term yields. Overnight's 2Y coupon bond sales garnered a bid/cover ratio of 2.59x versus 2.51x prior; the 5Y coupon bond auction saw indirect accepted higher at 66.8% versus 59.4% prior with a bid/cover ratio of 2.38x versus 2.34x prior. There is USD44bn of 7Y coupon bond auction tonight.

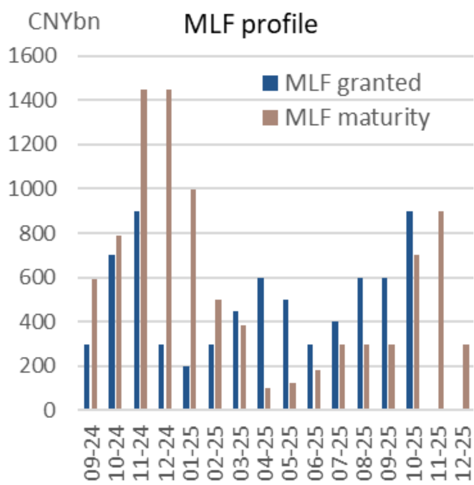
- Fed funds futures pricings were little changed, at 48bps of cuts for the remainder of this year and 68bps of cuts for 2026. Our base-case remains for one 25bp Fed funds rate cut each in October (this week), December and Q1-2026. Given the dovish market pricings, should there be any hawkish elements – e.g. pushback on back-to-back rate cuts or on aggressive 2026 rate cuts, short end yields would be subject to mild upward correction. At the 10Y, we continue to see breakeven in 2.3-2.4% range as fair and expect a range in 10Y nominal yield of 3.95-4.10%.



Source: Bloomberg, OCBC Research

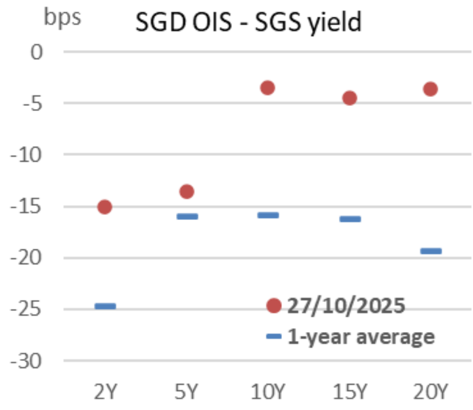
- **CNY rates**. CGB yields fell in late session on Monday as PBoC Governor Pan said the central bank would resume government bond trading in the open market. Earlier in January, PBoC suspended bond trading in view of demand-supply imbalances (excess demand). Before that, PBoC net purchased bonds for a few months, at the order of CNY100-300bn (face value) per month. PBoC may focus on short tenors, in our view, continuing with their stance of supporting liquidity, while the need to support the long end is not as pressing as before, as the CGB curve has already flattened back partially, while all special bonds for this year have been issued.

- In the month, PBoC has net injected CNY600bn of medium-term liquidity (3M to 1Y) via outright reverse repos and MLF. Repo-IRS traded on the soft side with short-end at just above 1.50% level which we have seen as an interim floor before the next interest rate cut. Now with additional liquidity support, dips below 1.50% level cannot be ruled out. In offshore, the flattening move in the CNH CCS curve did not gain further momentum; we continue to expect 1Y CNH CCS to trade in a 1.45-1.55% range.



Source: CEIC, OCBC Research

- **SGD rates**. SGD OIS were up by 4-9bps week on week, mildly underperforming USD OIS. We continue to expect a gradual upward normalisation in SGD rates on a multi-month horizon. The 5Y SGS mini-auction and 10Y SGS auction on Wednesday are the last auctions of the year. We expect demand at these two auctions to be fair, with the 5Y bond appearing relatively more appealing than the 10Y bond from bond/swap perspective, while the 5s10s segment of the SGS curve has also recently flattened. 5Y bond/swap spread (OIS – yield) was last at -14bps while 10Y bond/swap spread was at -3bps. Asset swap wise, pick-up at 5Y SGS was around SOFR+35bps and pick-up at 10Y SGS was around SOFR+40bps. Before these, today brings 4W, 12W and 36W MAS bills auctions. 1M and 3M implied SGD rates traded at around 1.19-1.21% levels this morning, which were 6-8bps lower than a week ago. The 4W and 12W cut-offs may dip below 1.40% level, while the 36W cut-off may come in similar to the last 1.39%.



Source: Bloomberg, OCBC Research

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