Daily Market Outlook

7 March 2025

ECB nearing the end of cycle; US payrolls tonight

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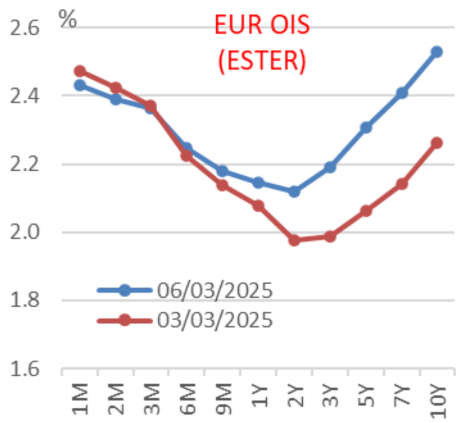
- **EUR rates**. ECB lowered the three key ECB interest rates by 25bps as widely expected. There were a few less-dovish elements in the statement and press conference, which suggest that the Governing Council is contemplating the timing of a pause in rate cuts, as it gets near the end of the cycle. We hold on to our base-case for one more 25bp cut for this year. Market initially paired back rate cut expectation, before adding back to price 52bps of additional cuts for the rest of the year, with the chance of an April cut priced at 76%. These pricings appear overly dovish to us.

  1/ The statement had it that "our monetary policy is becoming meaningfully less restrictive" – this was not an entire removal of the word "restrictive" but was still less dovish than the previous assessment that "monetary policy remains restrictive". Lagarde further explained that this change has a certain meaning, from a static assessment of what was needed to a more "evolutionary approach", taking into account of previous rate cuts.
  2/ When asked the question as to whether the direction is clear as there was no mentioning of "the direction of travel was clear", Lagarde did not give a definite answer but emphasised high uncertainty and commented the situation is not as straightforward – our interpretation is that the direction of travel is no longer clear.
  3/ Lagarde revealed that while the rate cut decision was a consensus, one governor – Holzmann – abstained.
  4/ Lagarde mentioned yesterday's discussion was substantive, quite extensive, intense and lively. This suggests that there might be a higher diversity of views within the Governing Council than at previous meetings.



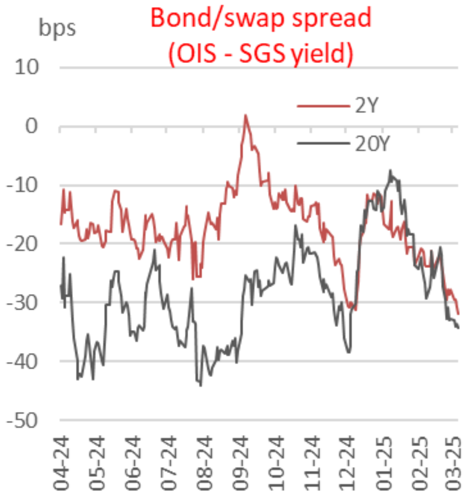
Source: Bloomberg, OCBC Research

- **USD rates.** Short-end UST yields softened overnight, while Fed funds futures added to rate cut expectation to price 77bps of cuts this year. Q4 unit labour costs growth was revised downward to 2.2% QoQ from previous reading of 3.0%. Meanwhile, a private sector report reflected higher job cuts plan in February, partly due to cuts in government jobs. These came ahead of February payroll and other labour market statistics tonight. Expectation for payrolls spans a wide range as usual, with median expectation at 160K. Six-month average (as of January) was 178K, and any outcome that will drag down this average will provide an argument for additional Fed funds rate cuts, in our view. However, given how the market has been set up, we suspect an outcome that is below the 130-140K area may be required to extend the bond rally. Immediate resistance for 10Y UST is at 4.20% in terms of yield, while support sits at 4.34%; a breakout may happen depending on data outcome tonight. On liquidity, usage at the Fed's overnight reverse repos was at USD129bn on 7 March; there will be net bills paydown of USD61bn next week as issuances are constrained by the debt ceiling.

- **USDCAD.** The United States has once again postponed the imposition of tariffs on Canada until April 2nd. Coupled with the continuous weakening of the US dollar and the stabilization of oil prices, the Canadian dollar continued to rise, by 0.30% on Thursday, against the US dollar. The temporary tariff deferral only applies to Canadian export products that meet the requirements of the Canada-United States-Mexico Agreement, and approximately 62% of Canadian imported products may still face a 25% tariff. Canada stated that it will not lift the tariffs previously imposed on US goods worth CAD 30 billion but agreed to postpone the second round of retaliatory tariffs worth CAD 125 billion until April 2nd. It is expected that the currency pair will continue to be volatile in the short term, with two-way trades. Pay attention to the trading range of 1.4300-1.4542, and a wider range is between 1.4194-1.4793.

- **CNY rates**. Repo-IRS were paid up by 1-3bps at open this morning. PBoC continued with daily OMO liquidity withdrawal, at CNY99.5bn today. On the week, PBoC net withdrew CNY881.3bn of liquidity, more than the earlier net injection of CNY600bn via outright reverse repos. While some funding rates are not as high as levels seen in late February, the funding pressure may stay with heavy NCD maturities in the months ahead when NCD rates are hovering around 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. On bond side, we maintain a steepening bias on the CGB curve upon a combination of monetary easing and fiscal stimulus.

- **SGD rates**. SGD OIS were offered down 4-5bps across 1Y to 10Y tenors at open, not matching entirely the overnight falls in USD rates yet but it was still early in the day. At the very front-end, SGD rates continued to outperform USD rates amid flush SGD liquidity. 1M and 3M implied SGD rates fell by 8bps on Thursday. For how long this flush liquidity condition will last is uncertain. But we would expect that 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. Within the SGD market, SORA OIS have broadly outperformed SGS over the past weeks, leading to lower (more negative) bond/swap spreads. With the recent moves in bond/swap spreads, asset swap pick-up at SGS



Source: Bloomberg, OCBC Research

have in general improved. Pick-up was last at around SOFR+90bps (before bid/offer spreads) at 20Y SGS, and at around SOFR+75bps at 15Y SGS. The 10s20s segment of the SGS curve has also steepened mildly over recent days, pointing to some relative value at 20Y SGS, when there is no 20Y SGS auction this year.

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