

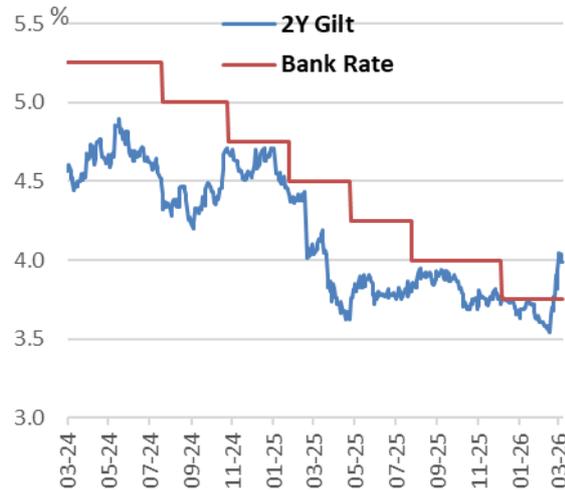
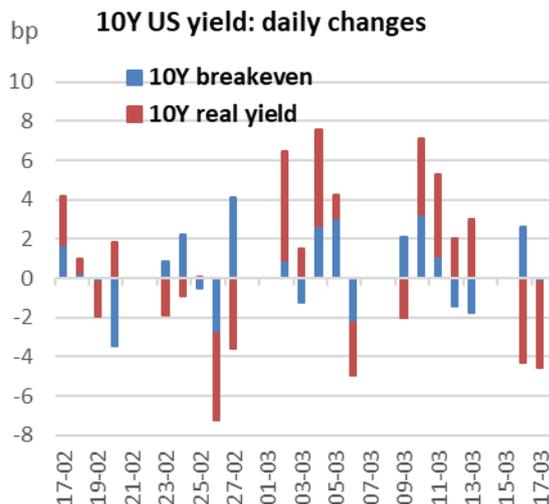
Interest Rates Thoughts

Central bank decisions

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- **USD rates.** USTs traded in ranges overnight with the curve ending the day a tad flatter as market shifted the focus to potential growth impact of high oil prices. 10Y real yield had fallen by a cumulative 9bps in the past two sessions. The 20Y coupon bond auction was well received, with bid/cover ratio higher at 2.76x versus 2.36x while indirect accepted was also higher at 69.2% versus 55.2% prior. FOMC decision on Thursday will be accompanied by the updated dot-plot as part of the SEP (summary of economic projections). We expect the median dot to continue to point to one 25bp cut this year and one 25bp cut for 2027. The bar is high for FOMC officials to remove that one cut forecast for this year, as the labour market has continued to cool, there is growth headwind, and it is still early in the year. Fed funds futures last priced 26bps of cuts before year end which appears roughly fair. 2Y UST yield at around 3.70% level is mildly on the high side, compared to market pricings of Fed funds rates for 2026 and 2027. Near-term range for 2Y UST yield is seen at 3.60-3.75% and range for 10Y yield is seen at 4.10-4.30%.
- **AUD rates.** RBA hiked the cash rate target by 25bps to 4.10% in a 5-4 split vote. The outcome did not out-hawk the market, which led to mixed reactions. ACGB yields fell in response, while cash rate futures maintained hawkish pricing. The Board cited greater capacity pressures, the Middle East conflicts, and higher short-term inflation expectations as the reasons for Tuesday's policy decision. The statement erred on the hawkish side, saying the Board "will do what it considers necessary to achieve that outcome" of price stability and full employment. With the assessment that the labour market is tight, the focus is on price stability. Governor Bullock revealed in the post-meeting press conference that dissenters would prefer a hawkish hold and all members agreed that inflation was too high. On balance, the statement and Bullock's comments were more hawkish than the 5-4 vote split suggested; but one interpretation could be that the Board simply brought forward the May hike which render another back-to-back hike less certain. Cash rate futures price a total of 45bps of hikes for the remainder of the year, while a 25bp hike at the May meeting is priced at 57%. We have one 25bp hike in May on our forecast profile.
- **GBP rates.** Gilts outperformed overnight, amid growth concerns while market pared back slightly the hawkish pricing of BoE policy rate. We earlier noted that "we see the room for BoE to tighten monetary policy as limited, as the labour market is weak while

policy rate at 3.75% is arguably still restrictive”. GBP OIS last priced 14bps of a rate hike by year end; we expect market to price out rate hike. Our base-case remains for one 25bp cut in the Bank Rate this year, to be delivered in Q3-2026. 2Y gilt is likely to garner some support at 4.00-4.10% in terms of yield. With the recent volatility in energy prices which are still elevated, risk is it may take longer for inflation to ultimately settle near the 2% target, but we continue to expect slower wage growth ahead. Next to watch are January earnings/unemployment rate and February PAYE payrolled employee monthly changes to be released on 19 March. PAYE payrolled employee monthly changes had been negative for five months in a row.



Source: Bloomberg, OCBC Group Research

- EUR rates.** ECB is expected to stay put on policy rates this week, with a rhetoric which will probably emphasizes vigilance and flexibility to react. EUR OIS is pricing in a total of 32bps of hikes for the rest of the year – which was already less hawkish than almost two 25bp hikes being priced days ago. The best strategy at this juncture, given high uncertainty to the timeline and the scope of the Middle East conflicts, is to wait and see. Our base case remains for the ECB to keep rates on hold through this year, but we acknowledge the risk of some tightening in the latter part of the year, if the impact of supply shock filters through onto entrenched inflation expectations and onto second-round effects on consumer price levels. Nagel recently commented that the ECB is “vigilant” and “will act decisively in a timely manner” if energy price increases translate into broad consumer price inflation in the medium term. ECB will release its latest quarterly forecasts, together with some risk scenario analysis.

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