

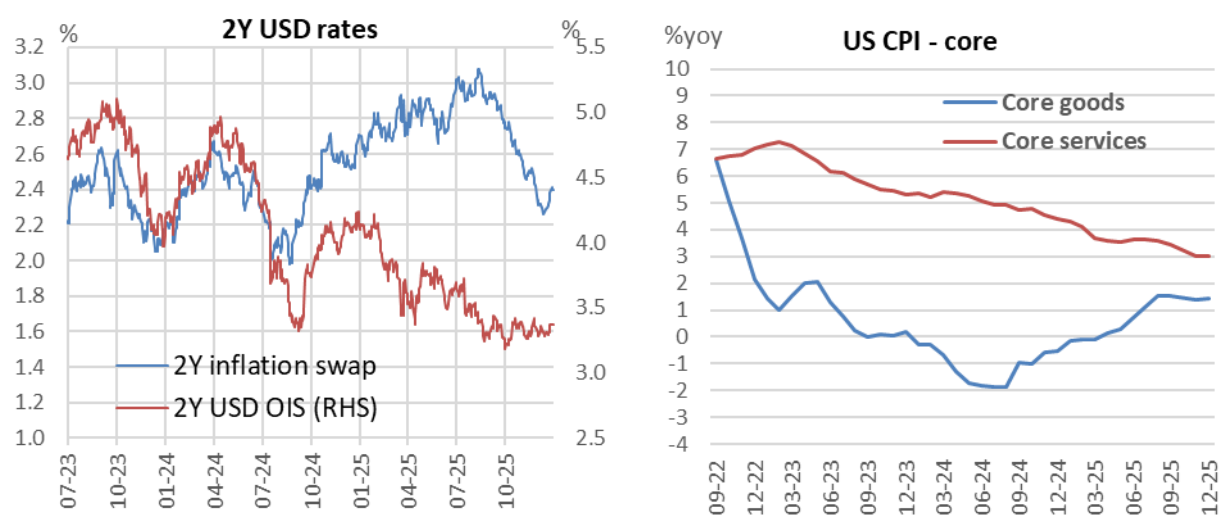
Interest Rates Thoughts

Muted reaction to US CPI; JGBs under pressure

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- **USD rates.** The dip lower in UST yields in response to the CPI release was brief. Yields ended the day little changed. Headline CPI was in line with expectation, while core CPI inflation was a tad softer than expected. On balance, the inflation outcome sustains, but does not add to, market rate cuts expectation. Our base-case remains for one 25bp Fed funds rate cut this year, as the labour market is cooling but not rapidly deteriorating, economic activities have remained resilient, while inflation is still above target when interest rates are probably within the range of neutral estimates. Short-term inflation expectation has picked up mildly over recent days, after the rapid easing in earlier months. Downside to short-end inflation swap, 2Y last at 2.4%, appears limited before the data shows further easing in inflation.
- There may be some spillover from higher JGB yields given asset swap pick-up (USD funded perspective, same-tenor hedge) at JGBs is mostly wider than at USTs (compared to bond/swap). Long-end UST yields may trade in higher ranges in the interim; next support for 10Y UST is at 4.22% in terms of yield but we still see the yield to stay in the range of 4.0-4.2% for most of the time on a multi-month horizon. Domestically in the US, the bond market environment appears to be constructive. Coupon bond auctions this week went well, with the 3Y, 10Y and 30Y bond sales all stopping through. Net coupon bond settlement this week is on the low side, at USD23.4bn; meanwhile, there is net bills paydown of USD12bn.
- **JPY rates.** Long-end JGBs are under pressure amid the risk of a snap election. The Immediate impact of heightened political risks is a steepening bias on the curve via a wider term premium, but beyond that, the longer-term impact on yields is ambiguous, depending on the actual fiscal policies to come. For now, investors may want to keep their positions at 10Y tenor and below. The individual auction sizes of 40Y and 30Y JGBs for FY2026 have already been reduced to JPY300bn and JPY600bn, respectively, versus JPY400-500bn and JPY700-800bn for FY2025. Room for further reduction, if need be, has become smaller. Meanwhile, the BoJ has been following a planned step-down approach in terms of JGB purchases. This quarter, JGB purchases per month has been scheduled at JPY2.9trn. The reduction in purchases amounts has been through reductions in the purchases of bonds with tenors at and below 25Y, while BoJ has kept the monthly purchases of JGBs of tenors >25Y at

JPY1500bn. In comparison, JGB supply for FY2026 has been scheduled at JPY1.8trn at 40Y and JPY7.2trn for 30Y, totalling JPY9trn. Assuming BoJ keeps monthly purchase amount of JGBs of tenors >25Y unchanged, then purchase amount will be at JPY1.8trn in a full year, which provide a partial buffer to supply.



Source: Bloomberg, CEIC, OCBC Group Research

- SGD rates.** SGD OIS traded on the firm side this morning. While we have earlier flagged chance of interim retracement lower in SGD rates, our medium-term views remain for short-end rates (up to 2Y tenor) to settle into the 1.45-1.60% area after dips – if any. Against the economic backdrop, a rate below 2.0% is still likely to be supportive of economic activities, while a rate at 1.3% or below may look overly stimulative. 1Y SGD OIS rate has been better anchored as the SORA overnight rate itself has stayed soft. There is the usual 6M T-bills auction tomorrow. 6M implied SGD rate last traded at 1.21% this morning; 6M T-bills cut-off may come in the range of 1.39-1.44%. We have a flattening bias on the SGS curve across 2s10s segment. The SGS curve has steepened alongside the UST curve in the absence of fiscal concerns in Singapore. Bond/swap spreads (SGD OIS – SGS yields) are positive across tenors, but the 10Y SGS may still exhibit some relative value due to the steepness of the SGS curve and an absence of supply (next 10Y SGS auction is in April). The 2s10s segment can potentially narrow to the 60-65bps area.

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