

Daily Market Outlook

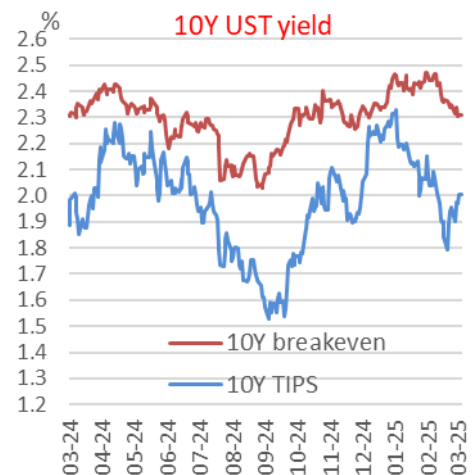
17 March 2025

FOMC dot-plot in focus; hawkish hold expected at BoJ

- USD rates.** UST yields, after some intra-day ups and downs, ended NY session a few bps higher on Friday. University of Michigan survey showed stagflation worries, with sentiment and expectations both sliding while short-term and long-term inflation expectations rose. The economic backdrop is increasingly pointing to a dilemma for the FOMC. Although market pricing and consensus is for a status quo decision with the next cut not fully priced until the June FOMC meeting, there are things to look out for at this week's meeting. 1/ Dot-plot, as part of SEP. Until recent days, market expectation was for the median dot on the dot-plot to move higher at the March update, but this outlook has since become uncertain. FOMC members are unlikely to run ahead of the curve on either side. On balance, there is a fair chance that the median dot stays where it was, pointing to two cuts this year. A higher median dot will likely lead to some hawkish market repricing; an unchanged median dot will be seen as a greenlight for current market pricing; in the scenario where the median dot stays unchanged, but the distribution of dots shows some dovish adjustments, markets may mildly add to rate cut expectations. 2/ Commentaries. Thus far, Committee members' comments focused on inflation impact of tariffs, with little touch on the growth impact; we would therefore like to see Powell at least mentioning the risk of slower growth instead of insisting on the current solid or resilient activities. 3/ QT. Any more concrete hints on the timeline for ending QT will be welcome. UST futures opened a tad stronger in Asia; 10Y real yield being back up to the 2% level provides some downside room again if data print soft – retail sales tonight. The stopgap bill has been passed by the Senate and signed by Trump, which will keep the US Government up till end September.
- JPY rates.** JGBs cheapened by 1-3bps at 7Y and beyond this morning, while short-end JGBs were steady thus far. Rengo revealed the initial *shunto* outcome; companies have offered an average 5.46% in pay hike so far, which was the biggest increase in 34 years, although the number was not as eye-catching as what has been demanded. Small unions with fewer than 300 members have won pay hike averaging 5.09%. This outcome does not change near-term monetary policy expectation, with the BoJ widely expected to keep its policy rate unchanged later this week. JPY OIS pricing at a total of 30bps of hikes for the rest of the year; however, it appears not hawkish enough to us. Our base-case remains for additional

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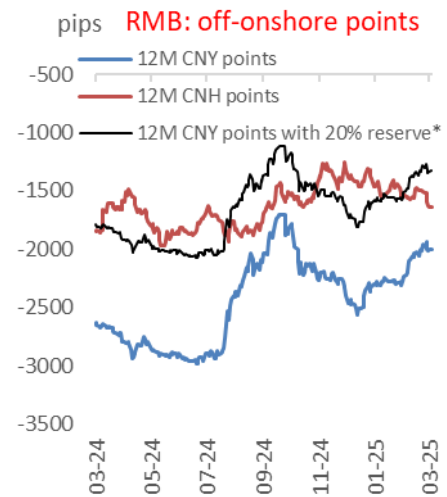
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Source: Bloomberg, OCBC Research

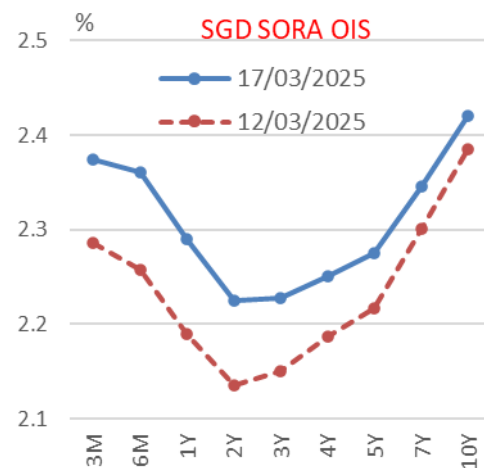
50bps of hikes before year end. We expect a hawkish hold, with potential hints from the BoJ that the timeline for the next hike might be as early as May or June – versus market pricing of September. Such hints can take the form of commenting on the latest *shunto* result and expressing higher confidence that there will be pass-through onto the broader price levels.

- CNY rates.** Repo-IRS traded on the firm side this morning while CGB yields went higher thus far. Over the weekend, China unveiled more measures to support consumption, mainly through raising income; this may help lift overall risk sentiment in the domestic market and result in rotation away from bonds – we wrote last week that “we continue to see two-way risks surrounding CGBs near-term, as the rotation between equities and bonds alternates over the days”. As far as monetary policy is concerned, officials said to lower interest rate on housing provident funds loans at an appropriate time - so, still at an appropriate time, a stance which may not excite bond investors much. PBoC net injected CNY384.5bn of liquidity via daily OMOs this morning, mostly to cover the CNY387bn of matured MLF. More than CNY1.5trn of NCDs are maturing during the rest of this month; NCD rates eased mildly over recent days but still stayed at relatively high levels, showing funding pressure remains. In offshore, the DF curve traded heavy, albeit with some upticks at certain tenors. The offshore-onshore spread at 12M points narrowed to 366pips; while we opined that the relatively loose CNH liquidity may stay for a while more, chasing further narrowing in the spreads is not preferred.



Source: Bloomberg, OCBC Research
*estimates of full impact of 20% FX risk reserve

- SGD rates.** Front-end SGD SORA OIS saw some paying interests over the past couple of days, likely upon profit-taking flows. Implied SGD rates were higher by 6-7bps on Friday, while SORA itself went up by 12bps to 2.3683%. We wrote early last week, that “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.” The liquidity outlook remains uncertain, but our medium-term view remains for short-end SGD-USD OIS spreads (1Y and 2Y) to gradually move higher, i.e. to become less negative. Bond/swap spreads at current levels remain supportive of SGS.



Source: Bloomberg, OCBC Research

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