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Daily Market Outlook

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BoJ reduces bond purchases; US CPI in focus

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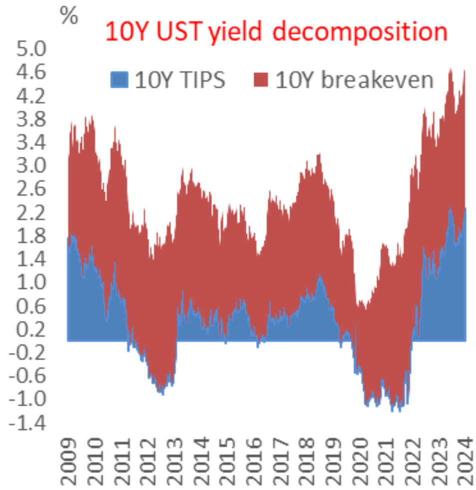
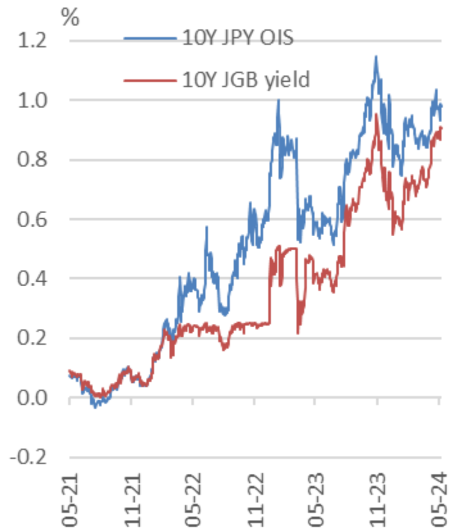
- **USD rates**. UST yields rose on Friday on higher print of University of Michigan inflation expectation ahead of this week's CPI release. 1-year inflation expectation under the University of Michigan survey unexpectedly rose to 3.5% from 3.2% prior, while long-term (5-10-year) inflation expectation also edged higher to 3.1% from 3.0% prior. Again, this survey's sample size is small, but investors took a cautious stance after recent UST rallies and as the April CPI release was looming. Meanwhile, Fed commentaries continued to emphasise patience on future monetary easing. Fed's Bowman opined that she has "not written in any rate cuts" for 2024 at this point, but she added that she has had "an even expectation of staying where we are for longer" – hence, meaning she is undecided, in our view. Logan said "it's just too early to think about cutting rates". FOMC members would need the data to provide more evidence that inflation is moving sustainably towards their 2% target. In this regard, the next focus is April CPI. Consensus is looking for some mild easing in both headline and core CPI; the base effect was largely favourable in the month, with the swing factor being energy. 10Y UST yield rebounded after dipping below 4.5% - the resistance (for the bond) that we have been watching as staying below this level would require breakeven and/or real yield to stay out of recent ranges.



Source: Bloomberg, OCBC Research

- **AUD rates**. Australia's Treasury forecast inflation would fall to 2.75% by the end of this year – this is more optimistic than the RBA's expectation for inflation to return to target only in the latter part of 2025. The Treasury also expects inflation to ease more than previously expected in the financial year ending June 2024. Budget is to be announced on Tuesday. Treasurer Chalmers said the Budget will "put downward pressure on inflation". Investors would be keen to see how fiscal measures, being part of the solution to cost-of-living pressures which are expected to include tax incentives and targeted grants, can potentially put downward pressure on inflation. In either the RBA or Treasury's forecasts, moving to inflation target is not expected to happen in the near-term. Meanwhile, after the recent RBA PMC meeting, market have priced out rate hikes. Bank bills futures essentially price a flat profile of the OCR for this year, which is not far from our base case of one 25bp rate cut towards year end. Next to watch on the data front is Q1 wage price index to be released on Wednesday.

- **JPY rates**. The BoJ is planning to purchase JPY425bn of 5-10Y bonds today, nearer the lower end of the planned range of JPY400bn-550bn. Our view has been that passive QT may start under the current purchase plan, if BoJ chooses to buy bonds near planned ranges; a separate announcement of QT may not be seen as necessary from the central bank's perspective. The maturity profile of JGBs held by the BoJ is usually light in the first two months of a quarter, and heavy at a quarter-end month. As such, we shall count the net investment amount for a quarter, and purchasing bonds near the lower end of planned ranges will be more meaningful if it happens at a quarter-end month, i.e. June in this cycle, to confirm the start of passive QT. We continue to see the next support (and target) for 10Y JGB at 1.05-1.15% in terms of yield. As for policy rate, we have pencilled in additional 20bps of hikes for the rest of this year, with risk to the upside.



Source: Bloomberg, OCBC Research

- **CNY rates**. Repo-IRS were offered down by 3-4bps at open this morning, after some soft data prints over the weekend. April M2 unexpectedly decelerated to 7.2%YoY from 8.3% prior; new yuan loans and aggregate financing came in mildly below expectations. The data outcome may further fan the recently renewed expectation for some form of monetary easing. CNY125bn of MLF mature on Wednesday; as the amount is small, whether there is a full, downsized or outsized rollover, the outcome of the amount is unlikely to send a strong policy signal. Market instead hopes for some liquidity support via an RRR cut. On interest rates, our base-case is for some further interest rate cuts to be delivered sometime this year but there may not be an imminent rate cut. First, the recent lifting of restrictions in the residential property sector reportedly includes lowering of the floor to mortgage rates; second, the Q1 monetary policy report suggests a higher tolerance for slower credit growth, as our China economist pointed out. Meanwhile, investors are still waiting for the long-end bond supply to come to the market – with the first batch said to be potentially coming this Friday. We have long had a steepening bias to the CGB curve, but the momentum may be slowing for the 2s10s segment, while we see room for further steepening across 10s30s. The 2.4% yield level remains as a key resistance for 30Y CGB.

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