Daily Market Outlook

10 July 2024

Focus on the labour market

- **USD rates**. UST yields ended the day little changed, after some transient upticks as Powell's comments hit the wires. Powell's comments were taken as fairly balanced by the market, with his opinion that the labour market has cooled significantly and is not a source of inflationary pressure being balanced by his usual stance of being patient waiting for more data. Fed funds futures pricing was little changed either, looking for a total of 50bps of Fed funds rate cuts by year-end. Overnight, the 3Y coupon bond auction went well, garnering a bid/cover ratio of 2.67x versus 2.43x prior. There are USD39bn of 10Y coupon bond and USD22bn of 30Y coupon bond to be auctioned for the rest of the week; these sizes are the same as those in June and settlement will be done next week. Near-term range for the 2Y UST yield stays at 4.55-4.65% and for the 10Y UST yield at 4.20-4.35%, before June CPI data on Thursday. Headline CPI is likely to show some further easing year-on-year, while uncertainty lies on core CPI.

- **US labour market**. We would argue that Powell has turned a tad more dovish, with his focus on (the risks in) the labour market. He opined that inflation is not the only risk; this echoes the recent comments from some FOMC members suggesting the officials are starting to pay attention to downside risks to growth. Being non-committal to a policy rate path is understandable and it does not shed much light on the monetary stance. Current policy rate level is probably overly restrictive vis-à-vis economic fundamental as suggested by some economic indicators, in our view. For example, six-month average of non-farm payroll change was last at 222K (as of June 2024), which was similar to the 200K+ levels in the years 2013-2019 before COVID. In comparison, Fed funds target rate ranged between 0.25% and 2.50% in those years. Furthermore, some FOMC members observed that "the monthly increase in employment consistent with labor market equilibrium might now be higher than in the past because of immigration". The Beveridge curve, as cited by some FOMC officials and a number of market observers, shows we are probably near the point where further falls in job vacancies would translate into adjustments in actual employment itself. A cooling labour market will help services inflation to ease further, which will then set a more constructive backdrop for the Fed to start cutting rates.

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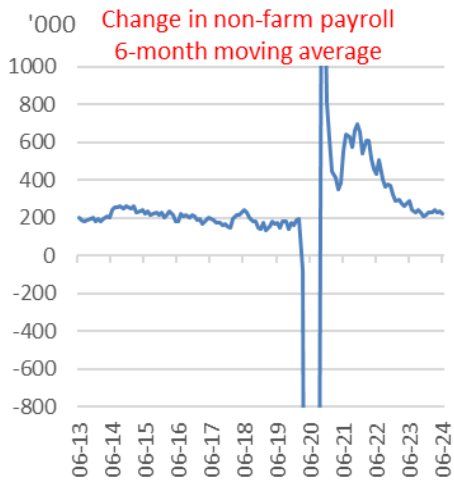
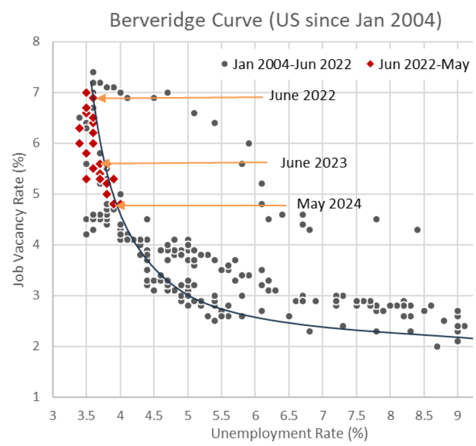


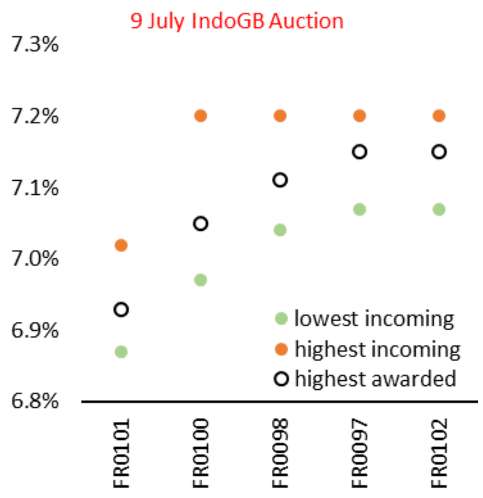
Source: Bloomberg, OCBC Research



Source: Bloomberg, OCBC Research

- **NZD rates.** Bank bills futures edged higher (implied yields lower) and NZD OIS fell upon RBNZ policy rate decision. While the status quo decision had been widely expected, the MPC statement sounded less hawkish. 1/ Restrictive monetary policy has "significantly" reduced consumer price inflation and the RBNZ now expect inflation to return to the 1-3% target range "in the second half of this year", instead of "by end of 2024"; 2/ while the Committee holds the opinion that monetary policy will need to remain restrictive, this morning's statement added that "the extent of this restraint will be tempered over time consistent with the expected decline in inflation pressures"; 3/ members agreed that "there is now more evidence of excess productive capacity emerging", as they also discussed signs of easing in the labour market. Our base-case is a 25bp cut in the OCR by year-end. OIS pricings appear irregular thus far as the market is still adjusting, but over market has added to rate cuts expectations.

- **IndoGBs** traded on the weak side on Tuesday running into the conventional bond auction. IDR24trn of bonds were awarded as per target, against incoming bids of IDR48.35trn. Most of the incoming bids went to FR101 (2029 bond) and FR100 (2034 bond) as usual. Cut-offs were in line with market levels but nearer the highest incoming bid levels rather than the lower incoming bid levels for FR097 (2043 bond) and FR102 (2054 bond). Next week's sukuk auction has target size of IDR10trn. This IDR24trn/10trn combination for conventional/sukuk auctions suggests that the MoF has tilted slightly towards conventional bonds in view of market demand. Given current information on fiscal positions, we expect most of the auctions will not be upsized. Granted, the actual outcomes depend on how the fiscal positions evolve and MoF may also want to pre-fund for next year There were IDR1.78trn of bond outflows over the five trading days to 8 July, while non-bank domestic investors were the major buyers in that period. Foreign holdings stood at 808trn or 13.92% of outstanding as of 8 July.



Source: DJPPR, OCBC Research

- **CNY rates**. Repo-IRS and CGB yields edged higher this morning after some easing yesterday. PBoC did not conduct any overnight repo yesterday after gauging demand. As we mentioned yesterday, *market demand for OMO repo may be on the low side currently*. Still, we cannot rule out that PBoC may conduct some OMO repos in some of the days ahead, at minimum amounts on a trial basis, to help build an interest rate corridor. With the 2Y CGB yield near the 1.6% mark, we do not see much room for further bond rally. In offshore, a total of RMB9bn of offshore CGBs are tendered today, comprising RMB3bn each of 2026, 2027 and 2029 bonds (reopening). While these sales may have a marginal impact on CNH liquidity in the interim, the bonds shall be readily absorbed given the RMB1.134trn of offshore CNH deposits in Hong Kong.

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