# Daily Market Outlook

11 July 2024

## Shifting Central Bank Narrative

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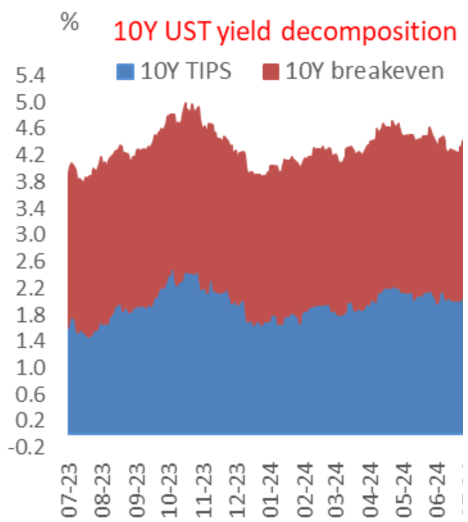
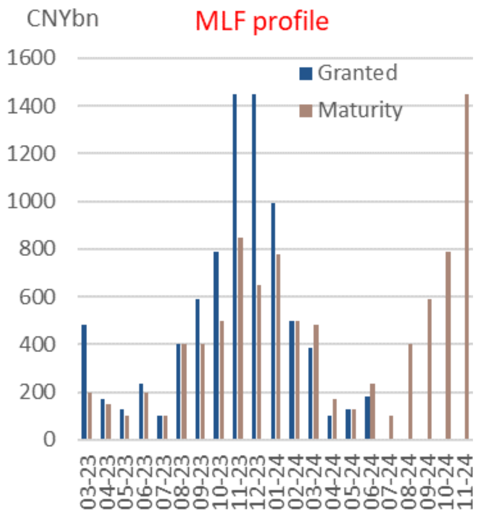
- **USD rates**. UST yields ended the day mildly lower. USTs initially rallied taking cue from Europe markets, before paring back gains at NY open, only to reverse again as the 10Y coupon bond auction went well. Demand was solid garnering a decent bid/cover of 2.58x, with the 10Y coupon bond cutting off at 2.58% which was just below WI level. Incoming Fed commentaries continued to reflect a shift in narrative, from upside risk to inflation to downside risk to growth through a cooling labour market. Cook commented in Asia morning that the Fed is very attentive to and would be responsive to changing labour market conditions. Granted, the inflation backdrop needs to be a favourable one for the Fed to start cutting rates, and on this, investors await the all-important June CPI to be released later today. We are with the consensus, in that headline CPI is likely to show some further easing year-on-year, while uncertainty lies on core CPI. Fed funds futures last priced a total of 51bps of rate cuts by year-end, with the chance of a 25bp cut by the September FOMC meeting seen at 78%. While any downside surprises to CPI may pressure short-end UST yields lower, long-end yields may be sticky downward at current levels with breakeven and real yield looking fair before additional soft economic data come in.




Source: Bloomberg, OCBC Research

- **UK rates**. GBP OIS pared back rate cut expectation, last pricing a 54% chance of a 25bps cut by the August MPC meeting versus 64% priced a day ago, upon some mixed to hawkish comments from BoE officials. Mann commented that "the 2% [inflation outcome for May] is a tough and go, meaning we're going to be above 2% for the rest of the year". Pill, while opining that rate cuts are a matter of when rather than if, highlighted that inflation has remained persistent. We note the inflation forecasts by the BoE are materially higher than those by the OBR, as there is a combination of counteracting factors in play. Further disinflation from the already low 2%YoY outcome in May is unlikely, in our view; but we expect inflation to still hover around such low level in the coming months, which would be good enough for the BoE to start cutting rates. Key risk to inflation arises from wage growth and the subsequent resilient household spending. Our base-case is a total of 50bps of cuts in the Bank Rate by year-end.




Source: CEIC, OCBC Research

- **CNY rates**. Repo-IRS eased on Wednesday upon the soft CPI outcome. Despite potential overnight repo operations would set a floor to interest rates, market expectation is for cuts in the policy –

- or administered - rates themselves. Implied CNY rates edged further lower, with the 12M implied CNY rate last at 0.7653%, compared to 1Y repo-IRS at 1.8562% (reflecting a "basis" of minus 109bps) and 12M AAA NCD rate at 1.9657%. This morning, PBoC reverse repo operations matched maturities. Maturing profile of reverse repos in the week ahead is light, while the focus is on the RMB103bn of MLF that matures on 17 July. Investors contemplate as to whether PBoC will only partially roll over MLF in the months ahead to gradually reduce the outstanding amount of the facility.

- **KRW rates**. Bank of Korea kept its policy rate unchanged as widely expected. The vote was unanimous, but the rhetoric turned a tad more dovish: 1/ today's statement has it that "inflation will gradually converge on the target level", instead of the previous "it is premature to be confident that inflation will converge on the target level"; 2/ following this assessment, today's statement added that "the Board will examine the timing of a rate cut." KRW IRS did not react much, probably as the market has already added to rate cut expectations over the past weeks, to become in line with our base-case of 50bps of rate cuts by year-end. Room for further downward adjustment in front-end KRW rates may be limited from here.

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