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GLOBAL MARKETS RESEARCH

Daily Market Outlook

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Powell in no hurry; markets watch data

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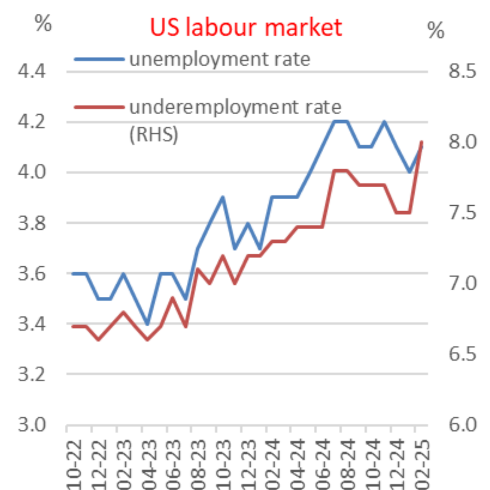
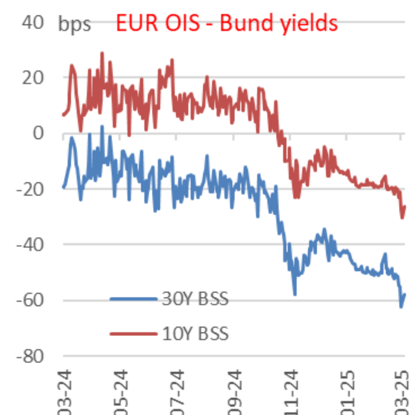
Global Markets Research and Strategy

- **USD rates.** USTs reacted to Powell's comments and the overall risk sentiment, not labour market releases on Friday. While FOMC officials see no hurry to act and still see economy as fine or solid, growth concerns are likely to reverberate among investors. UST yields are already settling into lower ranges and likely to oscillate in these lower ranges before the next catalyst. USTs initially whipsaw upon the release of payroll and other labour market statistics, before weakening as Powell and Daly pushed back on rate cut prospects. Powell believed officials do not need to be in a hurry and "the cost of being cautious are very, very low"; Daly opined that the "FOMC has interest rates in a good place" and "there are plenty of signs that the economy is solid". Markets pared back expectations for a May rate cut, but broadly kept full year expectation of three cuts. Additional Fed funds rate cuts of up to 75bps do not require a recession scenario, in our view. Six-month average of non-farm payrolls was now back up to a decent 191K (not incorporating all of government layoffs yet); but on the household survey, unemployment and underemployment rates both ticked higher when labour force participation fell; average hourly earnings was a tad softer (January and February combined). Data releases this week include January JOLTS job openings and February CPI. The CPI base effect is favourable for the months ahead in that given similar sequential price pressure, chance is for softer year-on-year inflation prints. However, energy bills have become more expensive. On balance, we expect February headline CPI to print just below 3.0% YoY. This week brings coupon bond auctions of 3Y, 10Y and 30Y, while there is net bills paydown of USD61bn constrained by the debt ceiling. Near-term range for 10Y UST yield is seen at 4.20-4.34%.



Source: Bloomberg, OCBC Research

- **EUR rates.** Bunds did a round trip on Friday, ending the day little changed from previous close. For now, markets may not react much further to the proposed defence spending package – of EUR650bn on member states level over four years and EUR150bn as loans provided to member states. Long-end bond/swap spreads fell to below 2013/14 levels. On a more positive note, the recent movements in bond/swap spreads helped raise asset swap pick-up at Bunds especially at the long end, offsetting the earlier upward move in EUR basis. Long-end Bunds may start to find some support at current levels, although the medium-term bias is for long end yields to go higher as bond supply still needs to be digested while the growth prospects may be lifted as well.

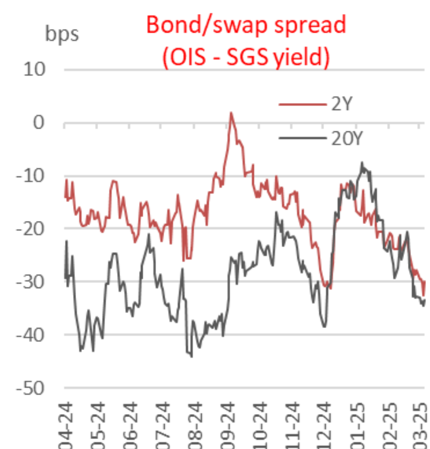


Source: Bloomberg, OCBC Research

- **EUR.** ***Eyes on 1.10.*** Germany's outgoing parliament is set to debate the EUR500 billion infrastructure fund and a radical change to the state borrowing rules to finance defence expenditures starting from March 13th, ahead of the new parliament's takeover on March 25th. The vote will take place on March 18th. This comes in the wake of EU leaders reaching a consensus at the EU defence summit in Brussels. The leaders agreed to channel more resources into defence initiatives and offer support to Ukraine. Additionally, they consented to jointly borrow up to EUR150 billion, which will be lent to EU governments to bolster their military spending. This is seen by the markets as a positive step as it helps generate favourable ripple effects on growth within EU. For now, market direction is somewhat extended, with the upward bias remaining strong and momentum stays bullish. Eyes on the key resistance level at 1.0960/1.1000, while support can be seen around 1.0722, followed by 1.0677.

- **CNY rates.** CGBs continued to trade on the weak side, as outright monetary easing has yet to come while markets brace for supply amid fiscal support. PBoC Governor Pan's comments about cutting rates and RRR at an appropriate time might have well been interpreted by the markets as pointing to a delay. While the YoY fall in February CPI could be partly attributed to the Chinese New Year effect, it nevertheless came in below economist consensus (which by right should have taken the Chinese New Year effect into account). Our China economist opined "the contraction in core CPI by 0.1% YoY confirms that disinflationary pressures remain entrenched". While some short-end funding costs have retraced from the recent high levels, funding pressures may stay amid heavy NCD maturities when NCD rates most traded at or a tad above the 2% level. We believe monetary policy remains on the easing side and expect PBoC to provide more support to liquidity in the months ahead, especially as CGB yields have already rebounded from lows – if allowing liquidity to stay tight aimed at preventing yields from falling rapidly. Outright reverse repos are likely to be the main tool, if not an RRR cut.

- **SGD rates**. Implied SGD rates fell further, and SGD OIS were down by 6-8bps across 1Y to 10Y tenors on Friday. SGD OIS were little changed at open thus far, outperforming USD rates, resulting in more negative SGD-USD OIS spreads. 6M implied SGD rate was trading at around 2.31% level this morning, which points to a 6M T-bills cut-off at around 2.5% – still days to come to the 13 March auction and we will update levels. For how long this flush SGD liquidity condition will last is uncertain, which is partly a reflection of SGD FX view. Nevertheless, we would expect rates further out (1Y tenor and beyond) to be less affected by the liquidity situation. We expect 1Y and 2Y SGD-USD OIS spread to gradually turn less negative over the coming months. Within the SGD market, SORA OIS have broadly outperformed SGS over the past weeks, leading



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to lower (more negative) bond/swap spreads. With the recent moves in bond/swap spreads, asset swap pick-up at SGS have in general improved. We see room for a potential reversal in the bond/swap spread moves.

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