OCBC TREASURY RESEARCH

Daily Market Outlook

6 September 2021

Rates Themes/Strategy

Frances Cheung, CFA
Rates strategist
+65 6530 5949
francescheung@ocbc.com

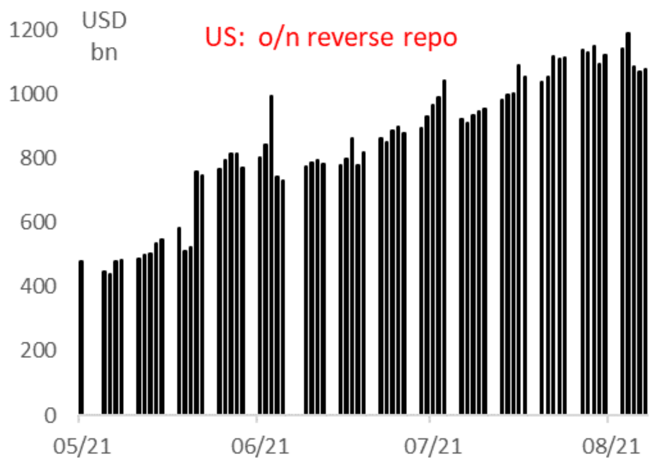
Treasury Research
Tel: 6530-8384

- UST reaction to the labor market report suggests that the bond market chose to relate the weak payroll to supply-side issues especially with the growth in the average hourly earnings. While the weak headline NFP may mean a higher uncertainty as to whether there will be a taper announcement at the September FOMC, market consensus for taper to start by year-end appears intact, which is also our base-case scenario. The 10Y yield is trading around the 50DMA and 200DMA, with the next upside at 1.44% while downside is at 1.288%.

- The recent hawkish remarks from a couple of ECB officials have sparked debate on the potential scaling back of pandemic era stimulus. The run-rate for the PEPP to end in March 2022 is around EUR20bn per week, higher than the average net weekly purchases of EUR17bn so far in Q3. The net purchased amounts in August were smaller than those in July. If the ECB does not step up the actual purchase, then it may end up not fully utilizing the existing envelope.

- In China, after increasing the quota of relending facilities, the market seems to have scaled back expectations for an imminent RRR cut. Our view remains that even upon an RRR cut, the liquidity situation will not become a loose one amid heavy MLF maturity and LGB issuances. The 2.8% handle for the 10Y CGB yield is not easy to be broken.

- Our view remains for the MGS curve to be biased to steepening mildly, on the back of our non-consensus call for BNM to cut its policy rate, and on supply risks.



Source: Bloomberg, OCBC

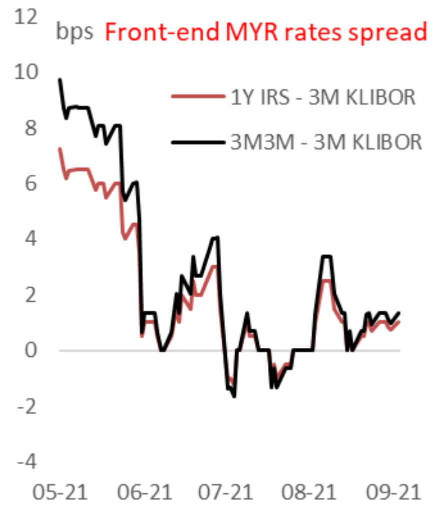
Source: Bloomberg, OCBC

IDR:

IndoGBs continued to garner investor interest on Friday, supported by a stable Rupiah, but yields were little changed. Supportive factors remain, including flows (trade surplus and investment into IDR assets) capping USD/IDR, availability of DNDF and well-behaved onshore swap points for hedging, and a favourable supply outlook. That said, given the rapid downward move in long-end yields, we expect consolidation rather than another meaningful leg lower in yields. The favourable factors shall lead to IndoGB outperformance over UST in a rising yield environment, but not an extended downtrend in the absolute yield levels. The auctions on Tuesday have an indictive target of IDR10trn which shall be well received.

MYR:

Our view remains for the MGS curve to be biased to steepening mildly, on the back of our non-consensus call for BNM to cut its policy rate by 25bps this Thursday, and on supply risks. Front-end rates, while being soft, are not pricing in an imminent rate cut. On relative curve shape, the MGS curve has flattened more than most Asian peers in z-score term over the past three months, with the 3s10s segment around one standard deviation narrower than its three-month average.

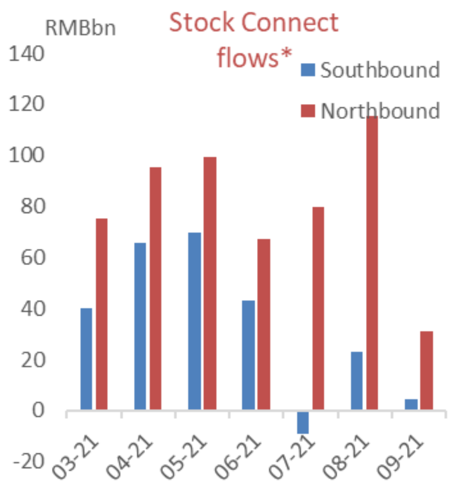


Source: Bloomberg, OCBC

CNY:

After the quota of relending facility has been increased, market seems to have scaled back expectation for an imminent RRR cut. Liquidity pressure remains however, with CNY600bn of MLF maturing on 15 September. Our view remains that even upon an RRR cut, the liquidity situation will not become a loose one amid heavy MLF maturity and LGB issuances. The 2.8% handle for the 10Y CGB yield is not easy to be broken.

China is to issue a total of 20bn of offshore CGBs during the rest of this year, in three tranches. The amount is higher than in 2019 and 2020 each, and on top of it some offshore LGBs are coming as well. Nevertheless, the size is comparable to a few days of Stock Connect flows and as such bond supply is not a dominating factor in the driving CNH liquidity. On stock flows, Northbound flows have continued to outpace Southbound flows, meaning negative or minimal addition to the offshore CNH liquidity pool. Meanwhile, local media reported southbound Bond Connect may be announced within this week. On balance, the back-end off-onshore CNH-CNY forward point gap may stay around current levels for now, while market prepares for the golden week holidays mainly around the 1M tenor.



Source: CEIC, OCBC
*as of 3 September.

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Howie Lee
Thailand & Commodities
HowieLee@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Herbert Wong
Hong Kong & Macau
herberthtwong@ocbcwh.com

FX/Rates Strategy

Frances Cheung
Rates Strategist
FrancesCheung@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W