

Daily Market Outlook

7 September 2021

Rates Themes/Strategy

- Global yields were a tad softer on Monday while Treasury futures opened steady this morning as investors further digested the payroll report. Overall, it appears market expectations for taper to start by year-end remain intact, but the risk of an imminent announcement at the September FOMC may be seen as having fallen.
- The focus this morning is the RBA decision, where market awaits the decision on the pace of asset purchases. The recent virus outbreak may mean a pause in the central bank's scaling back of purchases (i.e. no further reduction), but probably not a reversal in the process – we do note it is a close call. The central bank sees fiscal policy as better positioned to lend further support to the economy.
- Further out the week, there are ECB and BNM monetary policy decisions. 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 purchases, then it may end up not fully utilizing the existing envelope.
- In the MYR space, our view remains for the MGS curve to be biased to steepening mildly, on the back of our non-consensus rate cut call and on supply risks, while the MGS curve is also relatively flat.
- Inflows into onshore CNY bond (on Chinabond only) amounted to CNY30.5bn in August, not particularly heavy. On the funding side, market awaits policy action in response to the CNY600bn of MLF maturing on 15 September.

Frances Cheung, CFA

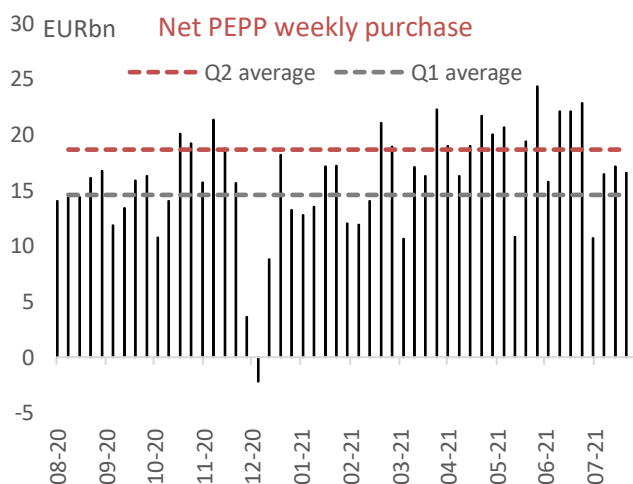
Rates strategist

+65 6530 5949

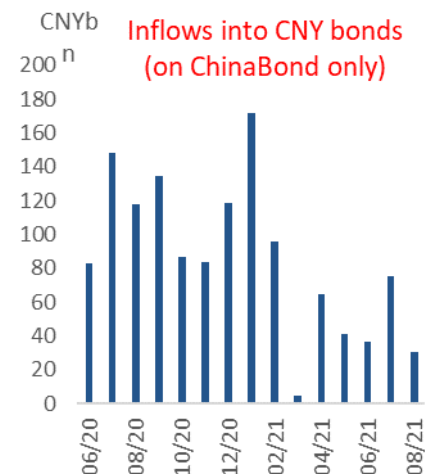
francescheung@ocbc.com

Treasury Research

Tel: 6530-8384



Source: Bloomberg, OCBC



Source: CEIC, OCBC

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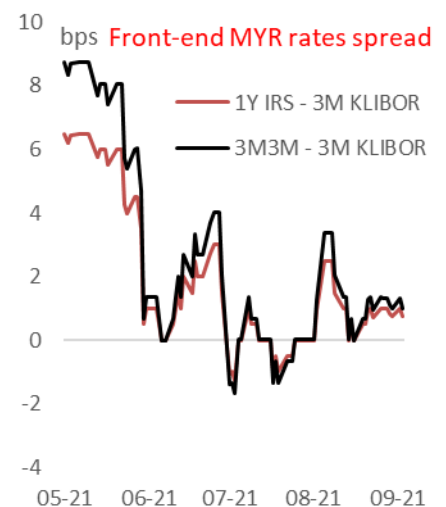
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IDR:

IndoGBs continued to be supported by a stable to mildly lower USD/IDR which itself probably benefited from asset inflows. The onshore swap points have been well-behaved, and even the NDF points have softened, facilitating hedging activities if needed. Today's auctions have an indicative target of IDR10trn which shall be well received as supply is on the light side. Supportive factors shall lead to IndoGB outperformance over UST in a rising yield environment, but unlikely to an extended downtrend in the absolute yield levels.

MYR:

MGS yields tracked global yields higher on Monday with the long-end underperforming. 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. Meanwhile, there were some RHS flows in FX swap/basis, reflecting a still flush USD funding environment.

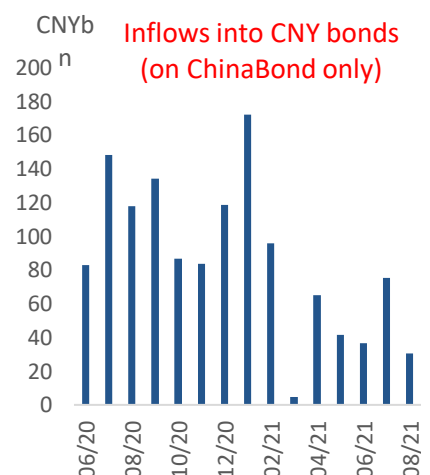


Source: Bloomberg, OCBC

CNY:

Inflows into onshore CNY bond (on Chinabond only) amounted to CNY30.5bn in August, not particularly heavy. Foreign interest again concentrated on CGBs and PFBs, with inflows into these bonds accounting for 85% of total inflows. Nevertheless, inflows into LGBs picked up, from a low base, probably upon more supply. Inflows are likely to continue, on supportive real yield differentials and index inclusion-induced passive flows. That said, the index inclusion-induced passive flows – if they follow the increases in the weighting - will be paced out much more gradually than the previous round.

On the funding side, market awaits policy action in response to the CNY600bn of MLF maturing on 15 September. Market has already pared back expectation for an imminent RRR cut. Further out, 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. On the FX swap curve, market continues to prepare for the golden week holidays via tenors up to 1M, while back-end points appear stable for now.



Source: CEIC, OCBC

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*herberhtwong@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

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