OCBC TREASURY RESEARCH

Daily Market Outlook

8 September 2021

Rates Themes/Strategy

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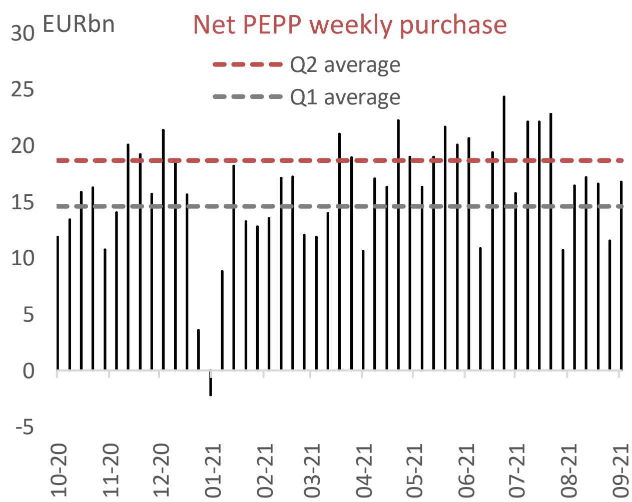
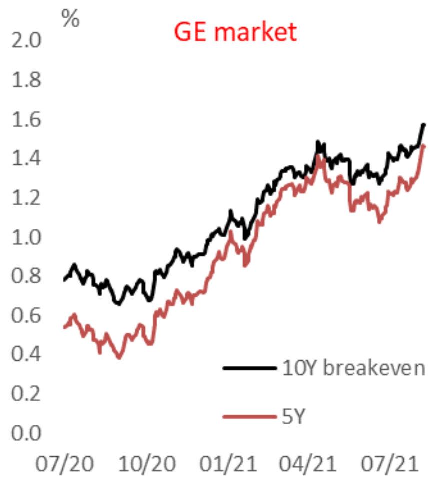
- Treasuries extended the losses made during Asian hours, with yields ended Tuesday 1-5bp higher in a steepening manner. Breakevens and real yields both edged up. The 3Y coupon auction went well, but that was after some concession. Next lining up are the sales of USD38bn of 10Y bond tonight and USD24bn of 30Y bond on Thursday. The supply is not particularly heavy, although there are some corporate bond sales as well. UST yields are likely to trade in ranges with a lack of impetus near-term, with the 10Y yield likely at 200DMA/100DMA of 1.33%/1.43%. The Beige Book will be released tonight.

- RBA maintained its plan to reduce the amount of bond purchases, but also extended the purchases until at least mid-February 2022. It appears to support the notion – in general for major central bankers – that recent virus outbreak may slow taper but taper is there. Bond market reaction was muted and this morning ACGB yields already opened higher following global yields. Bank bill futures were a tad weaker.

- Next to watch is ECB decision. 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 EUR17.2bn 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 – and mind the market interpretation by then. Inflation expectations have continued to rise.

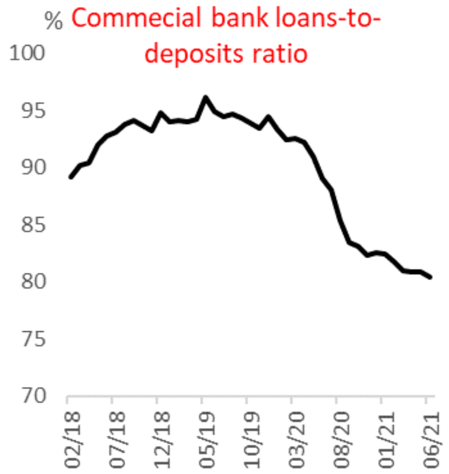


Source: Bloomberg, OCBC



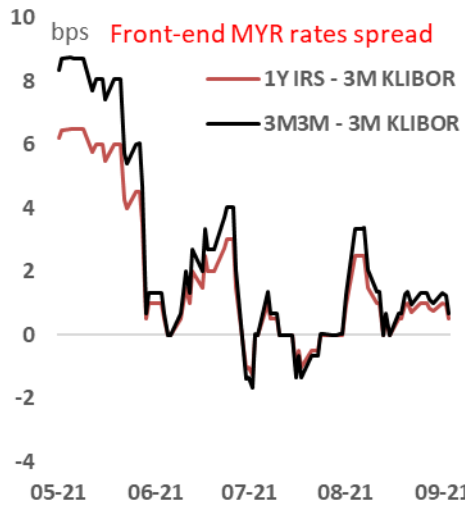
Source: Bloomberg, OCBC

IDR:
IndoGB yields were little changed on Tuesday. The sukuk auctions drew decent incoming bids of IDR56.6trn, while IDR10trn of the bonds – the indicative target - were awarded. More interest was seen at the 13Y and the 3Y bonds, probably reflecting foreign demand and local demand respectively. Tenors of 5Y and below may continue to be supported by local liquidity, before a rebound in the loan-to-deposit ratio. The IDR outperformed regional peers on Tuesday, likely on the back of inflows into local assets. The 1M DNDF also absorbed a relatively big IDR175mn of demand, probably reflecting demand for local assets as well.



Source: CEIC, OCBC

MYR:
MGS and MYR rates were fairly quiet ahead of the MPC decision. 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:
During a regular State Council press conference, PBoC officials reassured that liquidity would remain basically balanced and there would not be a big gap or large fluctuations in the coming months. While Pan said the PBoC will not impose flood-style stimulus measures, he also mentioned there is ample room for policy makers. These comments, against the backdrop of heavy MLF maturity and LGB issuances, will likely lead to the interpretation that there will be liquidity injections in some forms. Market awaits policy action in response to the CNY600bn of MLF maturing on 15 September. As the PBoC will not flood the market and our view remains that even with an RRR cut the liquidity situation will not become a loose one, we continue to see the 2.8% handle as a strong resistance for the 10Y CGB.

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