OCBC TREASURY RESEARCH

Daily Market Outlook

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Rates Themes/Strategy

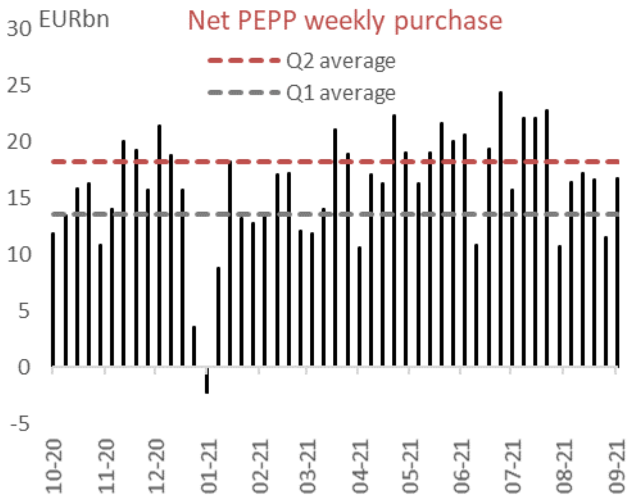
Frances Cheung, CFA
Rates strategist
+65 6530 5949
francescheung@ocbc.com

Treasury Research
Tel: 6530-8384

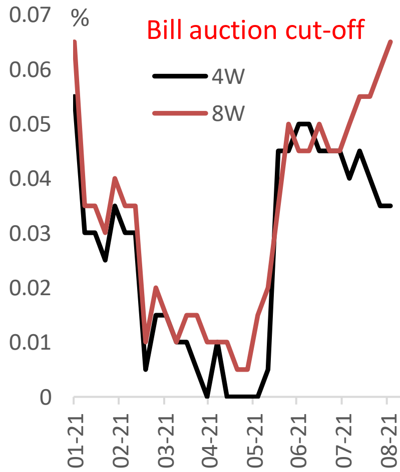
- Treasuries rallied amid renewed growth concerns and upon a strong 10Y coupon auction, with yields ending the day higher by 3bp across the long-end but still within ranges. The 10Y auction yielded 1.4bp lower than WI level, with indirect allotment high at 71.1% and bid/cover at 2.59x. The 10Y yield has eased back to around the 200DMA level with real yield fallen even more rapidly on growth concerns. The Fed's Beige Book noted the economy "downshifted slightly" in August; Job openings rose to a fresh record high in July in the latest JOLTS report, supporting the notion that the weak NFP was partly due to supply-side issues. Near-term range for the 10Y yield shifts back to 1.28%/1.40%.

- Treasury's Yellen called for Congress to increase or suspend the debt ceiling, and said the Treasury would exhaust its extraordinary measures in October. The bills market appears to be pricing the deadline around end October/early November, as suggested by the recent relative performances at the 4W and 8W bill auctions. Tonight, there are the 4W and 8W bill auctions again and focus is on whether the cut-off gap will widen further from 3bp.

- There has been no further clue from the ECB overnight as to whether they will scale back their PEPP in Q4, while Bund yields ended the day little changed. The "significantly higher pace" is made with reference to the pace in Q1, i.e. the bar is not high. The actual net purchases were at EUR17.2bn per week so far in Q3 and the net purchased amounts in August were smaller than those in July.

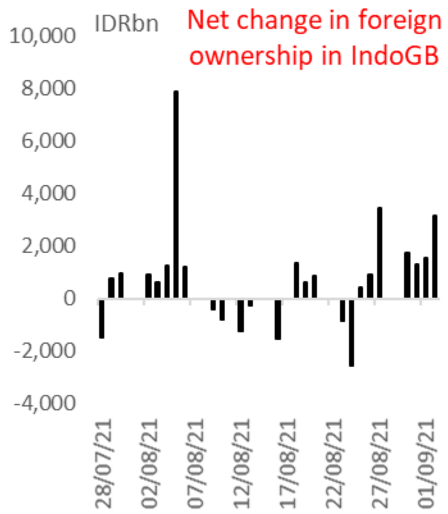


Source: Bloomberg, OCBC



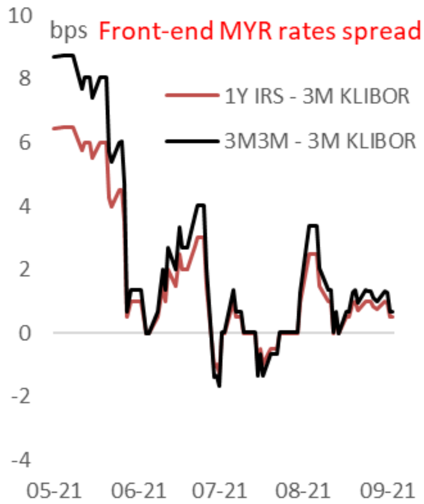
Source: Bloomberg, OCBC

IDR:
IndoGB yields followed UST yields higher on Wednesday, with the 10Y bond underperforming. We remain of the view that supportive factors shall lead to IndoGB outperformance over UST in a rising yield environment, but not an extended downtrend in the absolute yield levels. These supportive factors include a favourable supply outlook, fluish domestic liquidity, and a stable Rupiah. INdoGBs saw seven days of inflows in a row, with foreign holdings standing at IDR985trn as of 2 September. Foreign ownership has skewed further towards the 5-10Y sectors over the past few months.



Source: CEIC, OCBC

MYR:
MGS yields edged up in a quiet trading session ahead of BNM decision. While the consensus is for BNM to keep its OPR on hold later today, we think there is a chance that BNM may cut the rate by 25bps on lingering impact of the virus resurgence. Front-end rates, while being soft, are not pricing in an imminent rate cut. As such, our view remains for the MGS curve to be biased to steepening mildly, also on supply risks. The 3s10s segment of the MGS curve is at around 0.8 standard deviation narrower than its three-month average.



Source: Bloomberg, OCBC

CNY:
CGB yields moved higher but outperformed USTs on Wednesday, as investors waited for policy action – or the absence of it - 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, and expect a trading range of 2.8% to 3.0% on a multi-week horizon.

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

Co.Reg.no.:193200032W