Daily Market Outlook

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Rates Themes/Strategy

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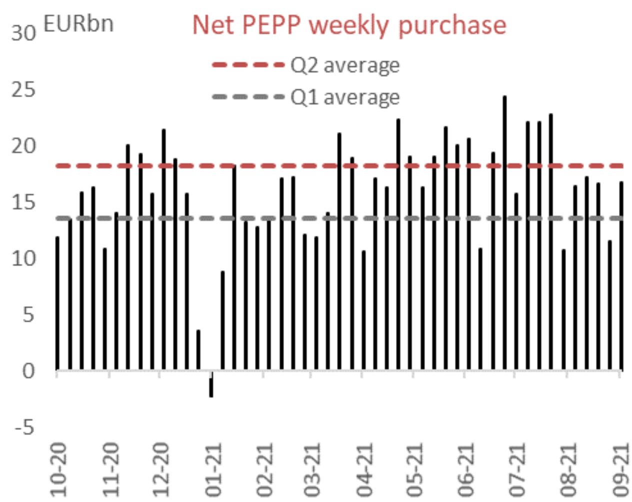
- USTs outperformed Bunds on Thursday, upon a strong 30Y coupon auction. The 30Y reopening was awarded at 1.91%, 1.8bp lower than WI level which itself already represented a rally in the bond, with a decent bid/cover of 2.49x. The UST subsequently flattened. Elsewhere, Bunds yields fell across the curve as well, as the ECB emphasized its decision to reduce the pace of net purchase under the PEPP was not a taper but a recalibration. Near-term range for the 10Y UST yield is at the 50DMA/200DMA of 1.29%/1.34%, while a wider range is at 1.25%/1.40%.

- The ECB decided to shift its asset purchases under the PEPP to "a moderately lower pace" than in the previous two quarters. The pace of purchases in Q2 and Q3 so far were higher than in Q1, and a moderately lower pace likely still means a higher pace than in Q1, in our view. From "significantly higher" to "moderately lower", it would be fair to interpret it as going only half-way back. This may help explain the market reaction, when market focused on the continued support. We had also noted the pace of net purchases was already lower in August than in July, and hence these fluctuations primarily reflect the flexible nature of the PEPP.

- Granted, all these purchases are done within the existing envelope of EUR1.85trn which has not been altered. As of 3 September, the ammunition left was EUR538bn, which translates into a monthly purchase of around EUR77bn if the envelope is to be fully utilized by March 2022, which looks unlikely unless the ECB reverses to a pick-up in purchases in Q1 2022.



Source: Bloomberg, OCBC

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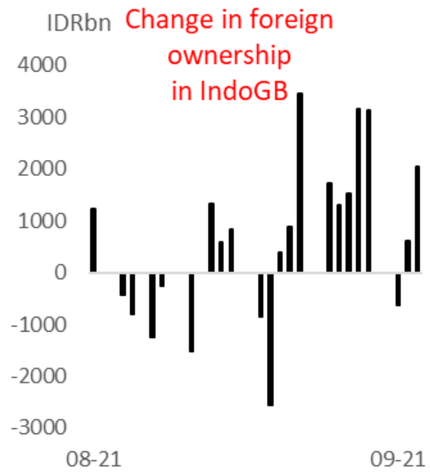
IDR:

IndoGBs stabilized on Thursday after a few days of selling pressure. 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. The recent upticks in IndoGB yields help maintain the domestic bonds' attractiveness. IndoGBs have seen daily inflows for most of the days over the past couple of weeks, with foreign holdings standing at IDR990trn as of 8 September. Foreign ownership has skewed further towards the 5-10Y sectors over the past few months.



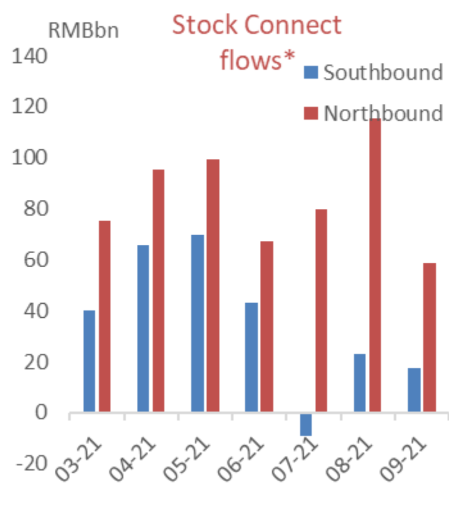
Source: Bloomberg, OCBC

MYR:

BNM kept its OPR unchanged at 1.75% in line with consensus. MGS yields rose running into the decision and retraced lower afterwards to end the day a tad lower. The 1Y IRS stayed near 3M KLIBOR. With the BNM decision out of the way, supply factor is the main domestic factor driving the curve going forward. While supply has proved manageable so far, investors may still stay cautious towards duration with the prospect of a higher debt ceiling. Also, the 3s10s segment of the MGS curve looks mildly flat compared with the UST curve. The MGS curve may either stay stable or steepen mildly.

CNH:

PBoC's Pan said the Wealth Connect and southbound Bond Connect will start in the near future. While we have been waiting for these schemes to potentially bring in more liquidity to the CNH market, it will be a slow start for flows, because approval of individual products under the Wealth Connect take time, while the southbound Bond Connect is said to target only certain bonds initially. On the other side of the liquidity equation, China is to issue a total of 20bn of offshore CGBs during the rest of this year, in three tranches, while RMB7bn of bonds are maturing, translating into a net supply of RMB14bn; meanwhile, initially offshore LGB supply is planned at RMB5bn. Supply is bigger than in previous years, but still dwarfed by equity flows – where Southbound flows continued to be outweighed by Northbound flows. On balance, the offshore CNH liquidity situation is unlikely to materially change yet, and back-end CNH points may stay at elevated levels for now, although the points deviate from CNY-USD rates differentials.



Source: CEIC, OCBC
*as of 9 September.

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