OCBC TREASURY RESEARCH

Daily Market Outlook

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FX Themes/Strategy

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- Overnight risk events gave rise to some choppy intra-day action, especially for the FX space. Early gains in the US equities space were pared by close. Biggest mover was again in the UST space, with nominal yields broadly searching lower. Overall, the **FX Sentiment Index (FXSI)** edged back in the Risk-On direction.

- After a choppy session following the ECB decision and US CPI print, the broad **USD** closed marginally softed in DXY terms, but nevertheless held above the 90.00 mark. The GBP and antipodeans outperformed within the G-10 space, but major pairs failed to see a range break despite intraday volatility.

- US CPI prints outperformed expectations, but the market again chose to wipe it off as transitory after looking at the individual components. The ECB decided to continue PEPP purchases at a "significantly higher pace" (though not unanimously), side-skirting a less-dovish tilt that some were expecting. As expected, the ECB decision weighed marginally on the EUR, resulting in its overnight unperformance, while not sparking a significant directional cue.

- Another round of event risks come and went without shifting Fed tapering / rate hike expectations materially. Clear directional cues are again not forthcoming – expect the upcoming sessions to again be rather listless and sideways until the June FOMC provide further cues. On net, the backdrop for the broad USD may have turned more negative, considering the floor on the nominal 10y UST yield is now off and has impinged on real yields themselves.

- **USD-Asia:** The USD-CNH was relatively subdued in the face of USD volatility overnight. Nevertheless, the USD-North should track broad USD gyrations higher in the interim. More fundamentally, softer back-end UST yields may make the relatively better yielding South Asian assets more attractive. In turn, expect the likes of the THB and IDR to enjoy some implicit support going forward.

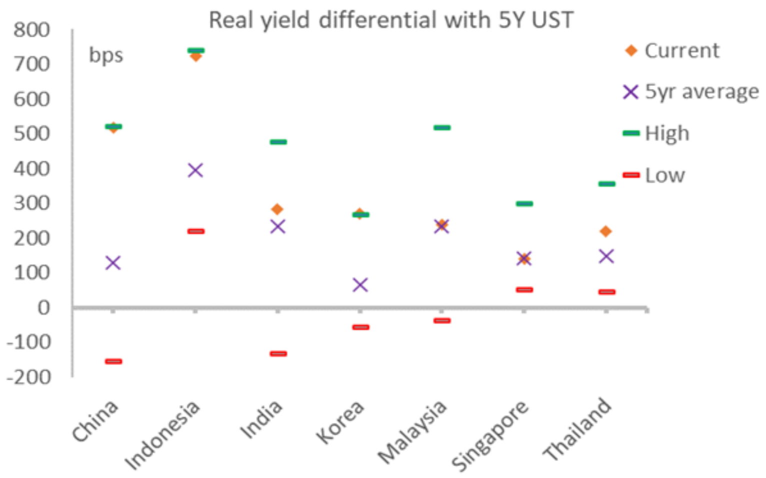
- **USD-SGD:** The SGD NEER is marginally firmer this morning at +1.06% above the perceived parity (1.3366). The USD-SGD opens implicitly heavy on Fri alongside the rest of USD-Asia. Nevertheless, downside remains protected by the 1.3200/200 support.

Rates Themes/Strategy

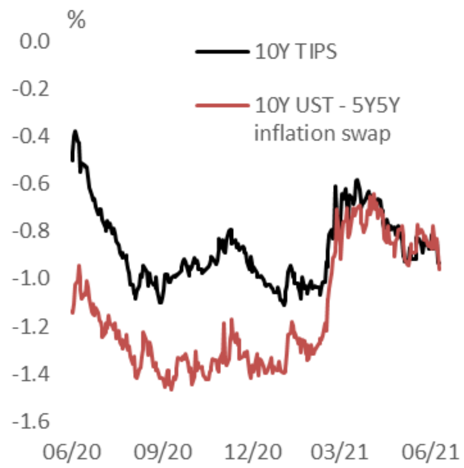
- Treasury yields ended the day lower despite the stronger-than-expected CPI prints and the somewhat lukewarm 30Y auction. 10Y yield did climb to an intraday day high of 1.53% post CPI, but later on retraced to close at session low of 1.43%, below the 100DMA of 1.48%. Liquidity has stayed flush, with the o/n reverse repo attracting USD502.9bn of funds, a fresh record high. Given how market reacted to the CPI overnight, upcoming PPI, import and export prices releases are unlikely to push yields higher meaningfully. Treasury yields are likely to trade in a lowered range in the run-up to next week's FOMC.

- The next major catalyst that will be able to guide the direction of yields will likely come only in July, on two fronts. First, a resolution to the debt ceiling is expected by end-July, which will help normalize the flush USD liquidity situation, thereby removing some demand for USD assets. Second, the June FOMC is unlikely to be a live one for an explicit tapering discussion; we probably need to wait till the July meeting at the earliest for an explicit discussion. To be sure, we do expect the strong trends in consumer prices to continue, which will fuel market expectation of tapering.

- The ECB maintains the "significantly higher" pace of PEPP for the coming quarter. However, there was reportedly debate on the pace of purchases in view of the usually thin market liquidity during the summer, hence the decision was only "broadly agreed" on and not unanimous. The economic assessment has also turned mildly more upbeat, that the central bank now sees the risks to economic growth as "balanced". Weekly PEPP was at EUR14.6bn during Q1, at EUR19.6bn during Q2 so far, while the run-rate for the existing envelope to be fully utilized by March 2022 is EUR17bn. Higher weekly purchases mean there will be a slowdown in Q4. Bunds underperformed USTs.



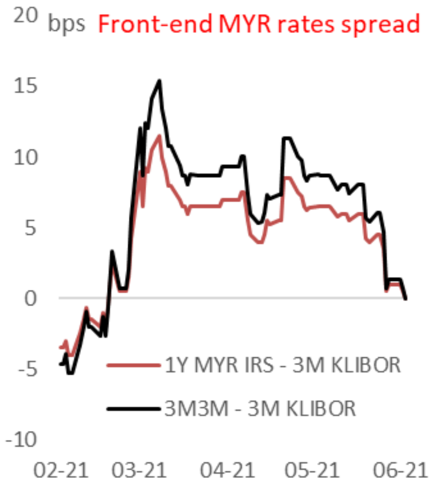
Source: Bloomberg, OCBC



Source: Bloomberg, OCBC

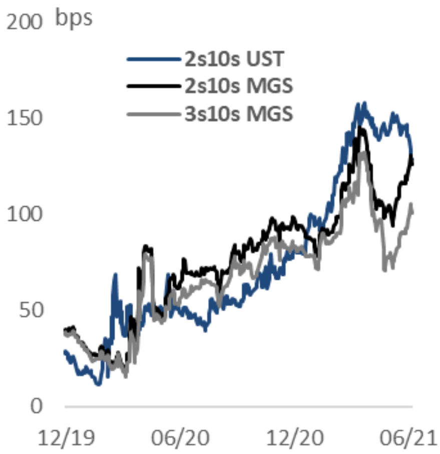
- With the global market backdrop turning more constructive for bond investments, investors may re-focus on yield differentials. Real yield differentials of CGBs and IndoGBs over USTs are trading at the upper end of their respective 5-year ranges across the 2Y, 5Y and 10Y tenors, which may look attractive to foreign investors. This is followed by ThaiGBs, which have its real yield differentials over UST mildly higher than 5-year average across.

IDR:
The IndoGB curve bull steepened on Thursday, with some of the demand probably coming from replenishment need upon the maturity of IDR15.73trn of bonds (FR34) next week. Foreign interests were seen in recent bond auctions, while foreign inflows into IndoGBs since 24 May has amounted to IDR19.2trn, with total foreign holdings at IDR972trn as of 9 June. Real yield differentials are supportive, which may sustain foreign interest.



Source: Bloomberg, OCBC

MYR:
MGS has benefited from the rally in USTs in recent sessions, but the 10Y underperformed on Thursday probably as investors remained cautious towards potential fiscal stimulus. The 3s10s segment widened over the past weeks as we had expected, to around the upper end of our near-term expected range; although this part of the curve is still mildly flat vis-à-vis the UST curve, we have turned neutral on this slope for now. Front-end rates shall stay better anchored on monetary policy expectation. The 1Y MYR IRS continued to trade around 3M KLIBOR level.



Source: Bloomberg, OCBC

CNY / CNH:
May aggregate financing data showed net government bond issuance did pick up during the month, to CNY670bn; however, this was still short of the amount of a particularly heavy month which had been up to above CNY1trn in some months last year. The supply outcome has delayed our expected steepening move in the CGB curve. Market is still awaiting heavier supply in the months ahead, but before these issuances materialise, yields are likely to trade in ranges with the 10Y yield at 3.05-3.15%.

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