OCBC TREASURY RESEARCH

Daily Market Outlook

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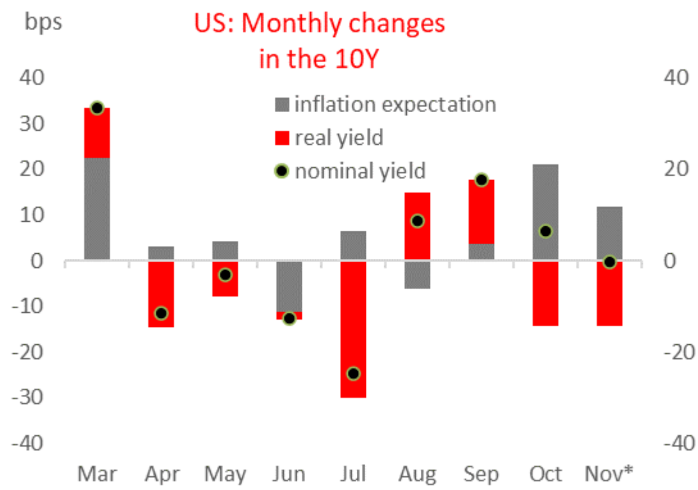
Rates Themes/Strategy

- UST yields jumped across the curve upon the high CPI print and a lackluster 30Y coupon bond auction. Earlier, China's PPI also printed a 26-year high of 13.5% yoy. In the USD market, both inflation expectations and real yields rose, pushing up nominal yields. The gap between market expectations and central bank rhetoric renders the bond and rates market more volatile than usual, especially upon any potential adjustment on either side, with this ongoing debate on inflation. The latest has been a synchronized move across major markets; ACGB yields opened 9bp to 16bp higher this morning.

- Yields are back to around the levels before Powell spoke last week. Powell's reiteration that the decision on taper is separated from the decision on rate hikes, and that the central bank would be patient in raising rates, did not shed much light on the rate hike timeline itself, in our view. The taper decision has been made already, while market is pricing in the rate hike decision to be made around/after the mid-2022, which does not necessarily contradict the stance that the criteria for taper and for rate hike are different. This underlies our view that the gap between market pricing and Fed prospect is not particularly wide.

- The 30Y bond cut off at 1.94%, 5.2bp above WI level. Although indirect bid stayed high at 71%, the fat tail added to the bond sell-off in the market. Meanwhile, the spread between the cut-offs at the 4W bills and 8W bills auction narrowed further, reflecting investors are not particularly worried about the debt ceiling issue at the moment.

- Month-to-date the 10Y nominal yield is little changed upon the higher breakeven and lower real yield. From here, the bias is for inflation expectations to be sustained, and for some potential for real yield to edge higher, a combination that may push up nominal yield.



Source: Bloomberg, OCBC *as of 11 November

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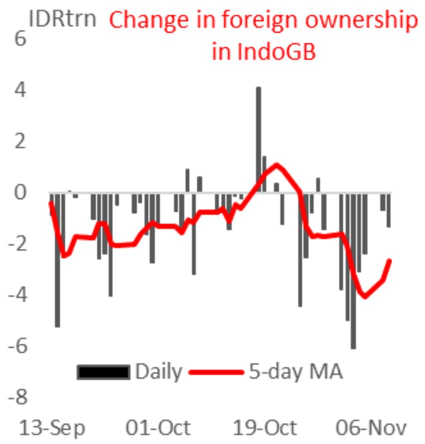
IDR:

IndoGBs were trading within ranges on Wednesday, while USD/IDR was also stuck between opposing forces. Domestic conditions have stayed favourable for bonds, including a lack of supply through year-end and supportive liquidity. However, the risk-off sentiment and the overnight jumps in global yields are likely to set a floor to IndoGB yields for now.

Foreign outflows continued. Cumulative outflows amounted to IDR63trn since the trend started on 9 September; foreign holdings of IndoGBs stood at IDR927trn as of 9 November. Foreign investors may hesitate to make a strong comeback as long as global yields remain volatile, while IndoGBs had already outperformed. Foreign investors may choose to focus on (the narrowed) nominal yield differentials, rather than (the still very supportive) real yield differentials as the latter can become more unstable than usual being distorted by the "transitory" inflation.



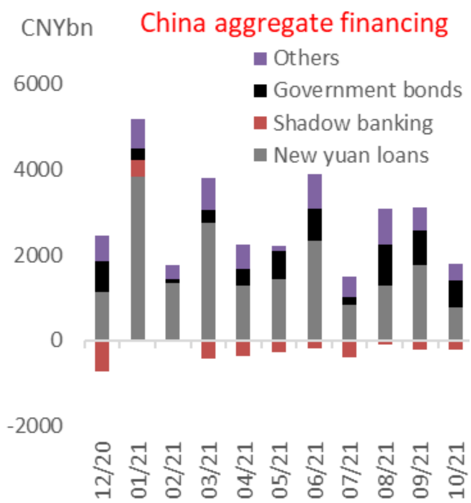
Source: Bloomberg, OCBC

MYR:

MGS was trading sideways on Wednesday ahead of US CPI print. Given the pattern of following USTs in terms of direction, MGS yields are likely to trade higher today. Despite some expected fluctuations, we maintain our year-end targets for the 3Y and 5Y MGS yields at 2.6% and 3.1% respectively, in the absence of a hawkish monetary outlook domestically. On the economy, Malaysia and Indonesia have agreed to allow fully vaccinated travelers to fly between the two countries, aiming to start early next year.

CNY / CNH:

The PBoC continued with its daily CNY100bn of OMO this morning, net injecting CNY50bn to the market. This amount of daily operations will allow for a smooth transition back to neutral OMOs which is possibly the case. We remain of the view that if only short-term liquidity tools are deployed, any downside to CNY rates cannot be huge. The latest aggregate financing data revealed government bond issuance at CNY617trn in October, still heavy but not as much as in September and August.



Source: CEIC, OCBC

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