

Rates Themes/Strategy

- After two weeks' absence of coupon supply, auctions of Treasury bonds resume this week, with USD58bn of 3Y, USD38bn of 10Y and USD24bn of 30Y bonds lining up. UST yields rose by 1-4bp across the curve on Friday. Our view remains that the main driver for yields (to go higher) is supply headwinds. Inflation expectation appears to be peaking for now, with investors awaiting confirmation of faster CPI on Tuesday, albeit on base effects. PPI released last Friday picked up markedly, in line with the global trend; while Powell sounded upbeat on the growth outlook though citing Covid as a risk.
- The 20Y UST yield stabilized after initial reaction lower to speculation that the Fed will purchase more of this tenor as technical adjustments. Meanwhile, USD liquidity stays ample at the front-end as bill supply reduction and the increases in bank reserve balances continue, with net reverse repo operations again. Our view remains that a situation of negative front-end rates across instruments is unlikely to be sustained, as the Fed will likely react to such situation. To recap, the Fed minutes revealed that the potential for an inter-meeting tweak to the IOER was discussed – "it might be appropriate to implement adjustments to administered rates at upcoming meetings or even between meetings".
- The adjustment lower in front-end SGD rates in preparation for the MAS policy meeting appears mostly done; the expectedly upbeat rhetoric alone is unlikely to exert too much additional downward pressure on front-end SGD rates. That said, when the USD liquidity dynamic changes, there will be further compression in front-end SGD-USD rates spreads.
- The Bank of Korea is widely expected to stay put on Thursday. The KRW rates market has also turned neutral from mildly hawkish. Our earlier expected adjustment at front-end rates/monetary policy pricing appears done.

Frances Cheung, CFA

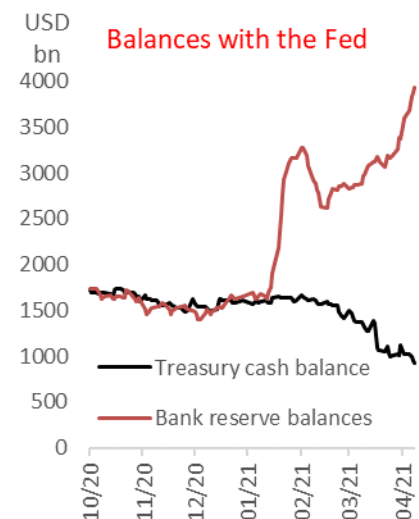
Rates strategist

+65 6530 5949

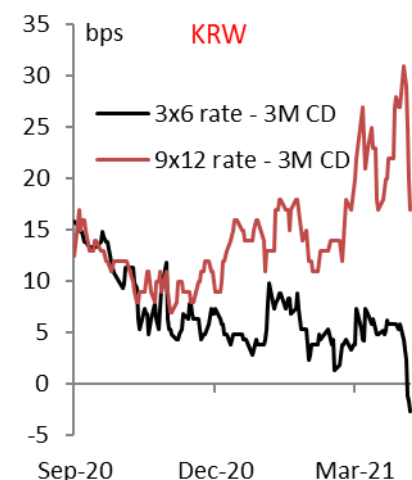
francescheung@ocbc.com

Treasury Research

Tel: 6530-8384



Source: Bloomberg, OCBC



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Daily Market Outlook

12 April 2021

IDR:

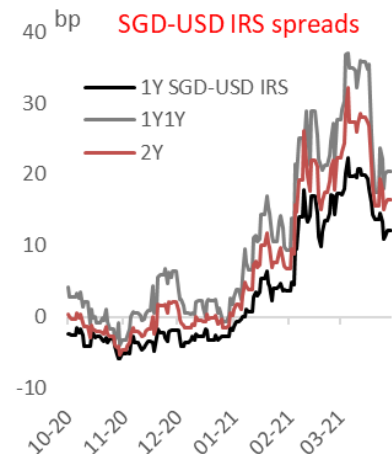
IndoGBs pared back some of the earlier gains on Friday as USD/IDR rose late in the session. Investors have probably also turned cautious ahead of the IDR30trn of supply (which can be upsized to IDR45trn) on Tuesday. As local yields have adjusted lower, the yields acceptable by the government may be more aligned with market levels now; market waits to see if more bonds will be sold at the auctions, reducing the reliance on the greenshoe option. C/A surplus (March data to be released on Thursday) continues to act as a stabilizer for FX.

MYR:

Sentiment in the MGS market held up with the 10Y yield testing the 3% handle. While MGS appears to have reverted to a lower beta response to US yield movement, this 3% becomes a resistance in the face of higher US yields. Range-trading is the most likely scenario today. Meanwhile, CCS and FX swaps are supported by flush USD liquidity.

SGD:

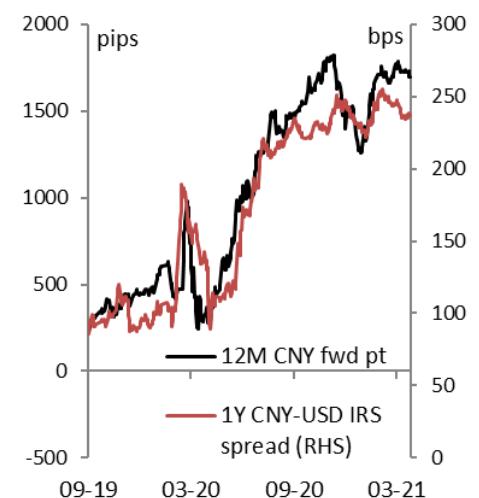
The SGD liquidity situation has been normalizing with front-end points trading at around/towards par. On the IRS side, receiving flows might have arisen from investors positioning for some upbeat/hawkish comments from the MAS. The adjustment lower in front-end rates in preparation for the MAS policy meeting appears mostly done; the expectedly upbeat rhetoric alone is unlikely to exert too much additional downward pressure on front-end SGD rates. That said, when the USD liquidity dynamic changes, there will be further narrowing in SGD-USD rates spreads.



Source: Bloomberg, OCBC

CNY / CNH:

Money market liquidity shall stay supported given room for OMO injections if needed, despite tax payment seasons and likely pick-up in LGB issuance after a relatively quiet Q1. OMOs have been light for weeks, leaving a meagre CNY40bn maturing this week; meanwhile, CNY100bn of MLF matures on Thursday which can also be easily rolled over if the PBoC chooses to do so. Front-end CNY IRS has edged lower over the past weeks, compressing CNY-USD rates spread, deviating from the forward points. Back-end points shall face downward pressure, while any liquidity tightness due to tax payment may be reflected more at the front-end, potentially leaving the curve flatter across the 1-12M and/or 3-12M segments.



Source: Bloomberg, CEIC

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*herberhtwong@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**Seow Zhi Qi***Credit Research Analyst*ZhiQiSeow@ocbc.com

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