

Daily Market Outlook

14 June 2021

Rates Themes/Strategy

- Treasury yields ended Friday higher, paring some of the aggressive move earlier last week, but stayed at relatively low levels. TIPS underperformed and breakevens/inflation expectation edged lower. Liquidity has stayed flush, with the o/n reverse repo attracting USD547.8bn of funds on Friday, a fresh record high, while the 3M USD LIBOR fell to a record low of 0.1189%. Given how the market reacted to the CPI release last week, PPI tomorrow is likely to be shrugged off as reflecting transitory inflation pressure. Treasury yields are likely to trade in lowered ranges in the absence of catalyst going into the FOMC.
- The focus at this week's FOMC are the tapering talk and any technical adjustments in administered rates, in addition to the dotplot. The April FOMC minutes already revealed that members talked about a potential tapering discussion, hence the question is whether the FOMC will progress onto an explicit discussion itself. As for the administered rates, it appears that effective Fed fund rate being at 5bp or higher is a hurdle. Regardless, the underlying causes are Fed purchases, bill reduction and fiscal spending. A reassessment of the asset purchases program, and a re-calibration of the SLR calculation may be more appropriate tools.
- In Asia, foreign interest into IndoGBs is likely to be sustained given favourable real yield differentials over USTs, as long as USD/IDR is capped. Front-end MYR rates shall stay better anchored on monetary policy expectation, while the extended lockdown shall keep investors cautious towards duration. The CNH swap point curve is likely to maintain the current steepness, after having caught up with the onshore curve in the recent steepening move; but trading is likely to be thin given the holiday today.

Frances Cheung, CFA

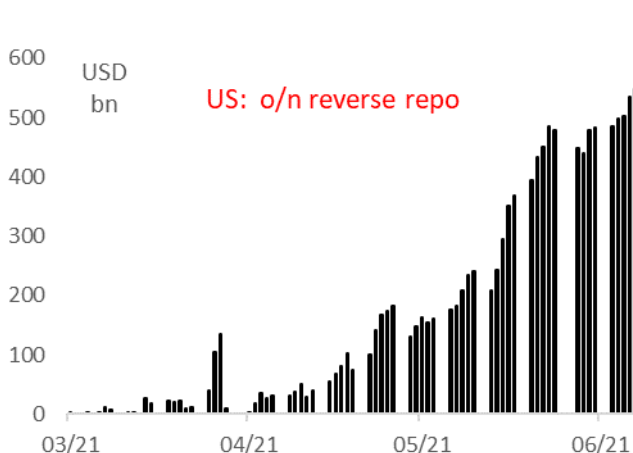
Rates strategist

+65 6530 5949

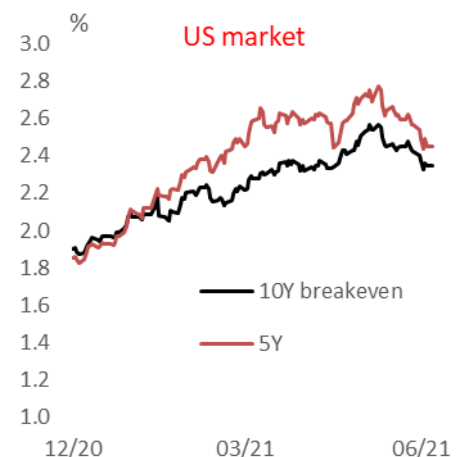
francescheung@ocbc.com

Treasury Research

Tel: 6530-8384



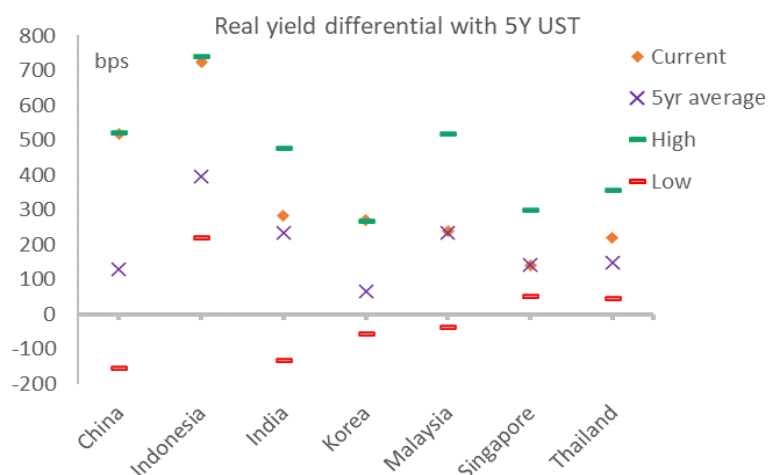
Source: Bloomberg, OCBC



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IDR:

IndoGBs benefited from rallying Treasuries on Friday, with yields closing 4-7bp lower as USD/IDR fell as well. Bond market sentiment is likely to be supported as long as USD/IDR is capped at around 14280. There may still be some residue demand from replenishment need upon the maturity of IDR15.73trn of bonds (FR34) on Tuesday. Foreign interests were seen in recent bond auctions, while foreign inflows into IndoGBs since 24 May has amounted to IDR25.7trn, with total foreign holdings at IDR978.5trn as of 10 June. Real yield differentials over USTs are supportive, which are trading at the upper end of 5-year ranges across the 2Y, 5Y and 10Y tenors, likely sustaining foreign interest.

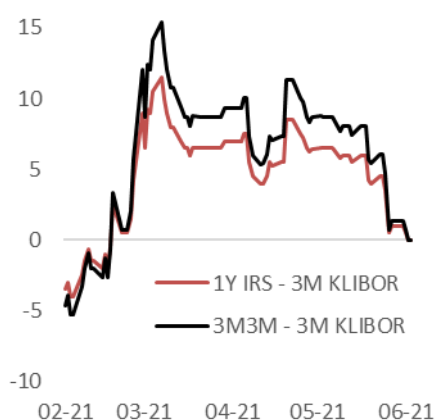
MYR:

MGS yields edged lower on Friday taking cue from UST yields. The 3s10s segment has narrowed since we switched to a neutral from a steepening view. Front-end rates shall stay better anchored on monetary policy expectation, while the extended lockdown shall keep investors cautious towards duration. The 1Y MYR IRS has continued to trade around 3M KLIBOR level. That said, with the recent UST flattening move, investors may need to be patient in another leg of steepening move in the MGS curve.

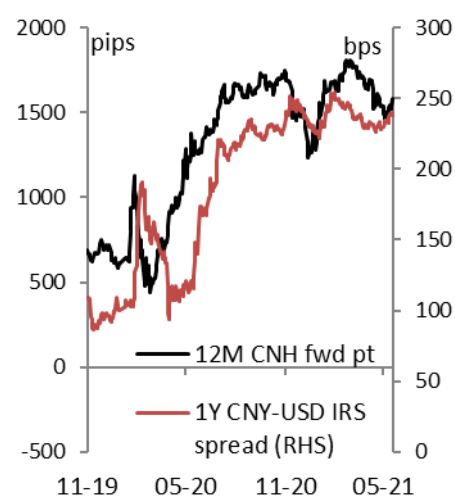
CNH:

The CNH swappoint curve is likely to maintain the current steepness, after having caught up with the onshore curve in the recent steepening move. Liquidity is flush at the front-end, while back-end points are no longer high compared with CNY-USD rates differentials. Trading is likely to be thin today given the holiday.

20 bps Front-end MYR rates spread



Source: Bloomberg, OCBC



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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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