

Daily Market Outlook

15 June 2021

Rates Themes/Strategy

- Treasury yields rose for a second day as investors prepared for potential hawkish surprises from the FOMC. The 20Y sector unperformed ahead of the USD24bn reopening. The 10Y yield went back up to around the 100DMA at 1.50%, with the next level to watch at the 50DMA of 1.59%. TIPS outperformed and breakevens/inflation expectation edged higher. Liquidity has stayed flush, with the o/n reverse repo attracting USD583.9bn of funds on Monday, a fresh record high, while the 3M USD LIBOR fell to a record low of 0.1180%. The Treasury is to pay down another USD27bn of bills on Thursday.
- Surprises may come from two fronts – the tapering narrative and the dotplot, while it is widely expected that the MPC members will again downplay inflationary pressure as transitory, and any hikes in administered rates are understood to be not reflecting a monetary tightening. 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 dotplots, market pricing is less dovish than Fed's own expectation for 2023 and 2024, but more dovish beyond that. Hence, any signal that the tightening path will be steeper than expected may trigger some market reaction.
- Trading was quiet in Asia ahead of FOMC. The sukuk auctions today in the IDR market will be a test to market sentiment and as to whether foreign interest is sustained. The 3s10s segment of the MGS curve has hovered around the upper end of our near-term expected range. Back-end CNH points is neutral to exhibiting a mild upside bias.

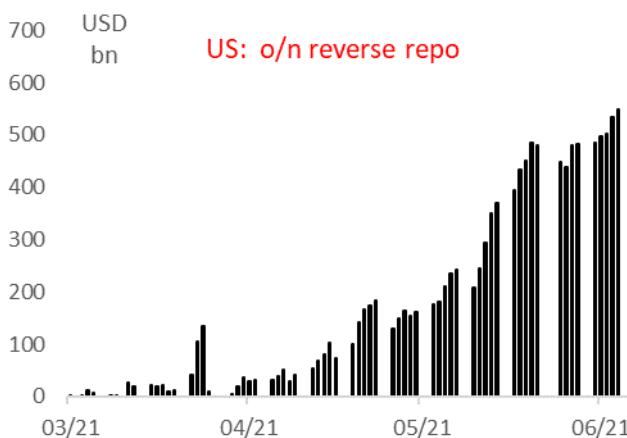
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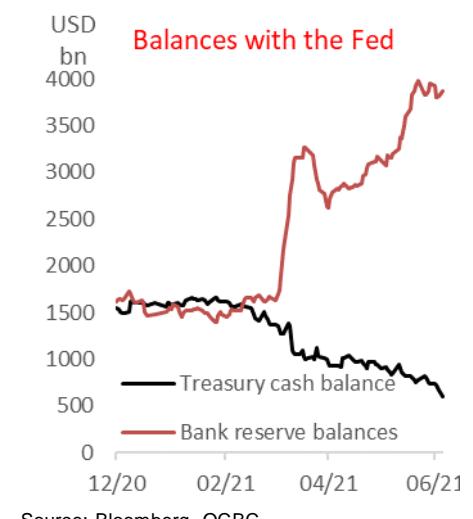
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Source: Bloomberg, OCBC



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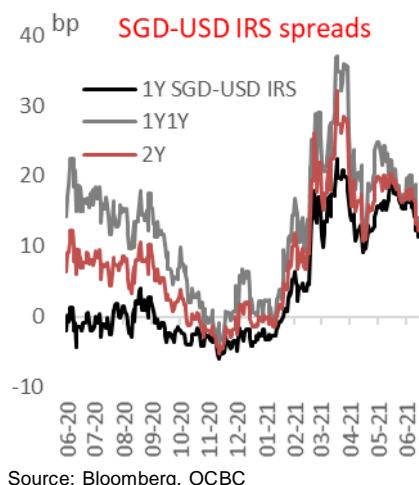
IndoGB edged up on Monday amid profit-taking flows, but overall price action was muted. Today's sukuk auctions will be another test to market sentiment, and to reveal if foreign interests are sustained. Foreign inflows into IndoGBs since 24 May has amounted to IDR28.5trn, with total foreign holdings at IDR981.3trn as of 11 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. BI's Governor noted that the BI rate is "already low"; the central bank is widely expected to keep rate on hold on Thursday.

MYR:

A very quiet day for MGS ahead of FOMC. The 3s10s segment has hovered around the upper end of our near-term expected range. Front-end rates shall stay better anchored on monetary policy expectation; the 1Y MYR IRS has continued to trade around 3M KLIBOR level. Meanwhile, fiscal support shall keep investors cautious towards duration. Finance Minister said to up spending on fuel and cooking oil subsidies; the amount is not huge but it reflects the government do not hesitate to provide support.

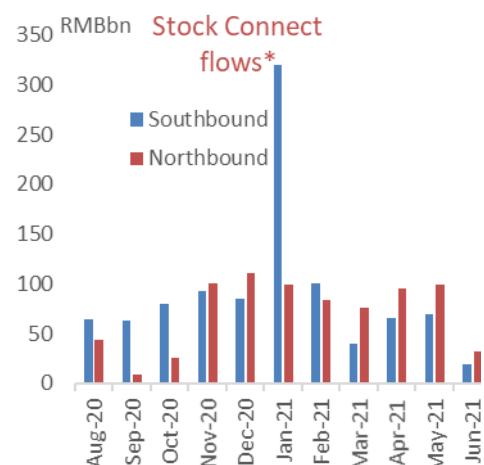
SGD:

SGS yields were flat to 1-2bp higher on Monday following – but outperforming - USD yields. IRS also saw some paying interest, but forwards were offered amid flush liquidity. Spot and short-dated forward front-end SGD-USD rate spreads have narrowed over the past weeks amid flush SGD liquidity. Further narrowing hinges on USD liquidity, which may normalise somewhat upon a resolution of the US debt ceiling, expected by end-July.



CNH:

Bias to back-end CNH swap points is neutral to a mild upside. The points have already caught up with their onshore counterparts, while being in line with CNY-USD rates differentials. However, there has been minimal addition to offshore CNH liquidity, with Northbound stock flows outpacing Southbound flows. As front-end points got paid up of late, the curve shape may stabilise for now.



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