OCBC TREASURY RESEARCH

Daily Market Outlook

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Rates Themes/Strategy

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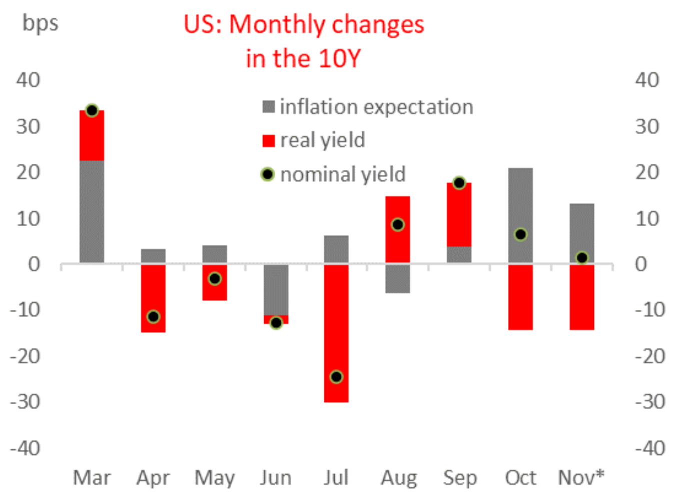
- Yield curves were mildly steeper in major DMs over the weekend but price actions were overall limited. The Fed released its first monthly purchase schedule after they decided to taper. Total planned purchases are reduced from USD80bn to USD70bn according to their taper plan; purchases will be reduced across sectors except the 10Y-22.5Y sector. The 20Y bond pared losses after the release of the schedule. While there is no guarantee the taper pattern will repeat itself in the months ahead, continued purchase of the same amount of the 10Y-22.5Y sector for the month is likely to help in the near-term, when there is a 20Y coupon auction this week.

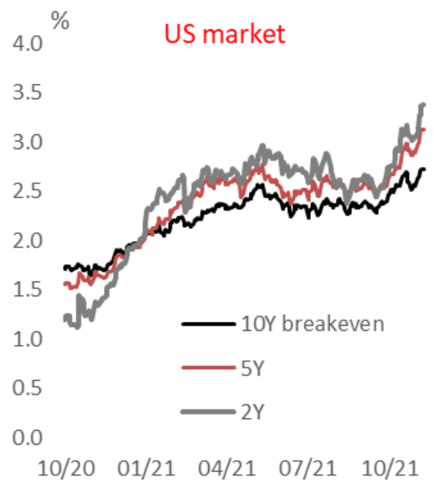
- Inflation concern appears to remain as the main driver in the DM bond space, with breakevens on the rise including those in the USD and AUD markets. In USTs, the 10Y real yield fell while inflation expectation went higher, leaving the 10Y nominal yield little changed on the month so far. The recent downward drift in real yield may be more appropriately seen as a by-product of higher inflation expectations, rather than investors becoming yet more pessimistic towards the growth outlook.

- That said, today's focus in Asia may indeed be on growth. This morning Japan's Q3 GDP surprised a lot to the downside, while China is due to release its October economic activity data – slowdown is already expected but again investors watch out for surprises.

- In China, the PBoc fully rolled over the total of CNY1trn MLF maturing this month. Although there was OMO withdrawals, the provision of longer-term liquidity via MLF shall be supportive of money market sentiment.



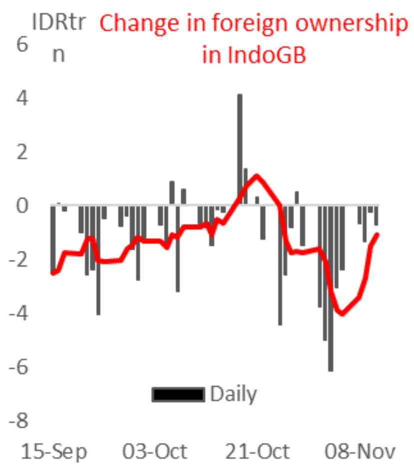
Source: Bloomberg, OCBC *as of 12 November



Source: Bloomberg, OCBC

IDR:

IndoGBs were traded in ranges on Friday, while USD/IDR faced some selling pressure on profit-taking flows and expected equity inflows. Meanwhile, bond outflows continued. Cumulative outflows from IndoGBs amounted to IDR64trn since the trend started on 9 September; foreign holdings of IndoGBs stood at IDR926trn as of 11 November. As global yields remain unsettled, foreign investors may hesitate to invest substantially in the domestic bonds where nominal yield spreads had been compressed. Stuck between a favourable domestic conditions and global uncertainty, the resistance for the 10Y bond (FR91) at 6.0% is not easily broken. Bank Indonesia is widely expected to keep its key rate unchanged at the MPC meeting on Thursday; the central bank has signaled they are in no rush to tighten.



Source: Bloomberg, OCBC

MYR:

MGS initially traded on a cautious tone on Friday following USTs; upon the weak Q3 GDP report, MGS got supported which ended the day with yields lower across the 3Y to 7Y segment. The Malaysia economy shrank by 4.5% yoy in Q3, worse than consensus of a 2.6% contraction. The downside surprise came from exports, which fell short of customs data. The 3Y and 5Y yields are trading around our year-end targets of 2.6% and 3.1%, which shall continue to consolidate around these levels, in the absence of a hawkish monetary policy outlook domestically. FX swap points were a tad lower, probably on the back of year-end funding need.

CNY:

The PBoC fully rolled over the total of CNY1trn of MLF that mature on Tuesday and on 30 November. Meanwhile, the daily OMO stays at CNY10bn this morning, thereby net withdrawing CNY90bn from the market. The reverse repo maturity profile remains heavy for the rest of the week; if CNY10bn daily patterns continue, there means a total net OMO withdrawal of CNY450bn on the week. On balance, the provision of longer-term liquidity (via MLF) shall outweigh the OMO withdrawals which mostly respond to daily fluctuations in the market liquidity conditions, and be supportive of money market sentiment.

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