OCBC TREASURY RESEARCH

Daily Market Outlook

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Rates Themes/Strategy

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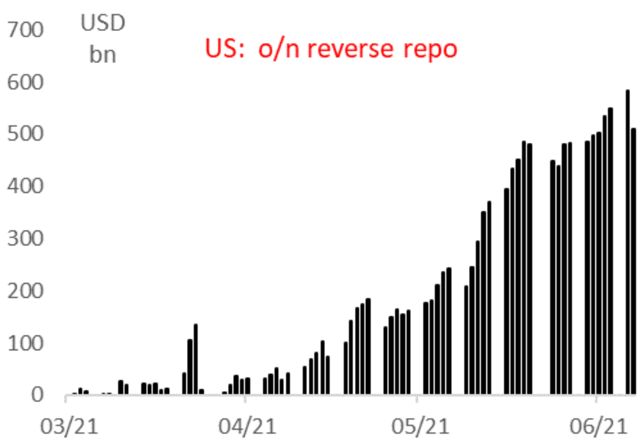
- There were muted price actions overnight in USTs, with the 10Y yield in an intraday range of 1.48-1.51% ending the day virtually unchanged. The 20Y auction went well, but it failed to lift long end bonds as investors stayed nimble ahead of FOMC. Focuses are on the tapering narrative and the dotplot, while it is widely expected inflationary pressure will be downplayed as transitory – such stance shall not move the market further.

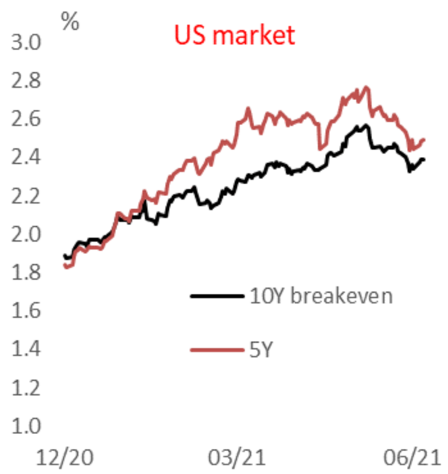
- Any hikes in administered rates are understood to be not reflecting a monetary tightening; effective Fed fund rate at 5bp or above appears to be a hurdle for this policy action. Usage at the Fed's o/n reverse repo eased, to a still large amount of USD509.6bn on Tuesday.

- The latest TIC data for April show foreign investors net bought USD49.6bn of treasuries, with most of the demand coming from the private sector. T bills holding fell, partly because there was fewer bills supply. This also shows foreign investors did not aggressively bid for bills which yielded around zero; while asset swap into USTs (hedged at shorter tenors) was appealing to some foreign investors, helping explain the private sector flows. Overall flows were smaller in April than in March.

- In Asia, the outcome of the sukuk auction in the IDR market is supportive of bond market sentiment; The 3Y SGD-USD rates spread appears slightly wide compared with the rest of the curve; Bias to back-end CNH points remains neutral to mildly upward.



Source: Bloomberg, OCBC



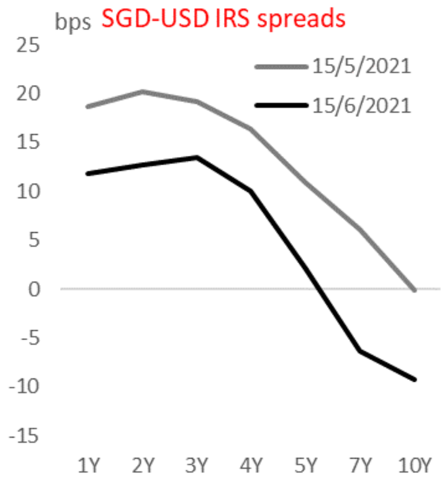
Source: Bloomberg, OCBC

IDR:

IndoGBs were resilient on Tuesday despite the higher UST yields. The sukuk auctions attracted incoming bids of IDR46.67trn, while IDR10trn was awarded meeting target. The auction result – meeting target with decent demand but without an upsize – is supportive of bond market sentiment. Meanwhile, nothing was awarded at the DNDF in the morning despite the DNDF maturity, as the point level was not favourable. Spot IDR was relatively stable amid opposing flows; Indonesia's trade balance was at USD2.36bn in May, higher than in April and a year ago. Foreign inflows into IndoGBs since 24 May has amounted to IDR30.9trn, with total foreign holdings at IDR983.7trn as of 14 June.

MYR:

MGS were generally offered while IRS got paid on Tuesday, initially following USD rates movement, and later upon the news that the government was to announce a recovery plan in the evening. The 5Y and 10Y bonds underperformed. The plan turned out to be focusing on reopening, rather than fiscal support, which shall be a small relief to the market for now. Trading is likely to be quiet today ahead of FOMC.



Source: Bloomberg, OCBC

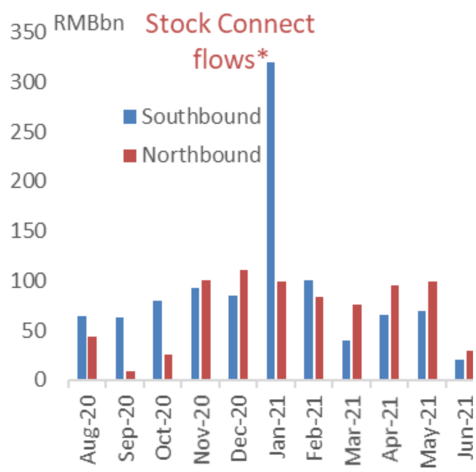
SGD:

SGS yields and SGD IRS were trading in ranges as investors awaited FOMC. SGD-USD rate spreads have narrowed over the past weeks across the curve; with the 3Y spread appears slightly wide compared with the rest of the curve. Further narrowing in front-end rates spreads hinges on USD liquidity, which may normalise somewhat upon a resolution of the US debt ceiling, expected by end-July.

CNH:

The PBOC fully rolled over the CNY200bn of maturing MLF on Tuesday. The outcome might be disappointing to some in the market who were expecting more support, but we see limited market impact.

The spread between 12M CNH and CNY swap points widened, with the offshore market turning volatile during London hours. Bias to back-end CNH points remains neutral to mildly upward – the points are roughly in line with CNY-USD rates differentials and already higher than onshore, but there has been minimal addition to offshore CNH liquidity, with Northbound stock flows outpacing Southbound flows. The offshore liquidity situation shall improve when the Wealth Management Connect and the southbound trading under Bond Connect kick start in later in the year.



Source: CEIC, OCBC
*as of 15 June 2021

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