OCBC TREASURY RESEARCH

Daily Market Outlook

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Rates Themes/Strategy

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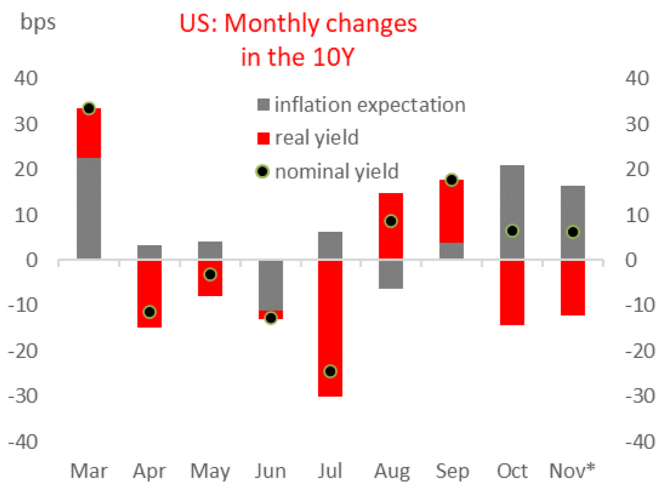
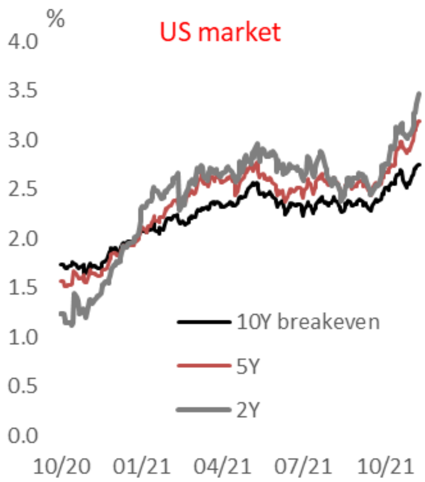
- UST curve bearish steepened overnight on heightened inflation concerns. Front-end breakevens jumped, rendering the breakeven curve more inverted. Market pricing is back to pre FOMC high, with a slew of hawkish remarks from current and ex Fed and Treasury officials adding to the tightening expectations. Bullard, and ex officials Dudley and Summers came up with similar comments recently, opinionating that the pace of taper can be or shall be quickened. Across the Atlantic, BoE's Bailey said he is "very uneasy about the inflation situation.".

- To recap, the Fed has left themselves with a flexibility in that the taper pace can be adjusted depending on changes in the economic outlook; they have thus far committed to the reduction pace of USD15bn each month for November and December only. This "depending on changes in the economic outlook" ties in nicely with the tweak in the wordings surrounding inflation – which is "expected" to be transitory. Both appear to be a hedge against the risk of an economic/inflation outcome that is different from the Fed's core scenario.

- Month to date, the 10Y real yield fell while inflation expectations went higher, leaving the 10Y nominal Treasury yield mildly higher so far. The recent downward drift in real yields may be more appropriately seen as a by-product of higher inflation expectations, rather than investors becoming more pessimistic towards the growth outlook. From here, bias is for nominal yields to edge further higher given the deeply negative real yields, while inflation expectations may be sustained. The inverted breakeven curve suggests that the market has somewhat priced in the transitory nature of inflation already.



Source: Bloomberg, OCBC *as of 15 November



Source: Bloomberg, OCBC

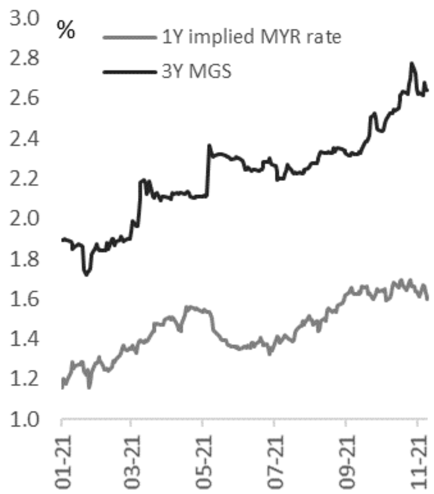
IDR:

IndoGBs were still traded in ranges on Monday, with intraday yield movement being in tandem with USD/IDR movement. At current levels, investors may not chase the domestic yields lower when global yields are on the rise. Foreign investors may also hesitate to invest substantially in the domestic bonds where nominal yield spreads had been compressed. We remain of the view that the resistance for the 10Y bond (FR91) at 6.0% is not easily broken despite the favourable domestic conditions.

On the macro front, Indonesia's monthly trade surplus rose to a record high of USD5.74bn in October, providing a solid fundamental backdrop which shall help curb FX and bond volatility. 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.

MYR:

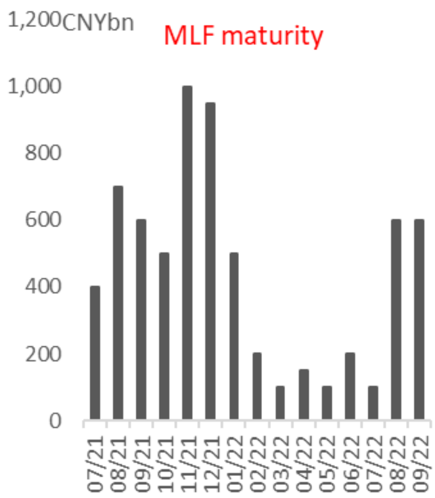
MGS yields fell on Monday with the 10Y outperforming after a decent 15Y auction. The 15Y MGS sales garnered a strong bid/cover ratio of 3.063x, with cut-off a tad lower than WI level. Although MGS yields may follow UST yields higher today, the front-end and belly of the curve shall still stay relatively anchored, in the absence of a hawkish monetary policy outlook domestically. We expect the 3Y and 5Y MGS yields to consolidate around our year-end targets of 2.6% and 3.1%. FX swap points were a tad lower again, probably on the back of year-end funding need, which is supporting asset swap trades.



Source: Bloomberg, OCBC

CNY:

The PBoC increased today's OMO to CNY50bn, thereby net withdrawing a smaller amount (CNY50bn) of liquidity from the market. The supportive OMOs, together with yesterday's full rollover of MLF, shall help mitigate the upward pressure on rates/yields arising from the better-than-expected economic data and a lack of more broad-based easing. CNY950bn of MLF matures in December; after which the MLF maturity profile becomes lighter. On LGB supply, new LGB in October was CNY614bn, in line with our forecast of CNY609bn based on the amount of annual quota "deployed". Remaining issuance quota is CNY605.4bn based on the "deployed" annual quota of CNY4267.6bn; and is CNY807.8bn based on the initially announced annual quota of CNY4470bn. We believe it is more likely the case of the former.



Source: CEIC, OCBC

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