

Daily Market Outlook

17 June 2021

Rates Themes/Strategy

- UST yields surged upon the FOMC outcome, with the belly underperforming and hence the 2s5s10s fly higher. The hawkish dotplot triggered knee-jerk reaction across the curve, and yields closed off – but still near - intraday highs. TIPS underperformed and hence breakevens moved lower/real yields higher.
- On the tapering narrative, Powell himself described it as “talking-about-talking-about”, saying officials would begin a discussion; literally it means no progress onto an explicit discussion itself. Nevertheless, market interpretation is hawkish, as the discussion after all will kick in and Powell’s comment can already be taken as preparing the market for it.
- The 10Y UST yield closed at 1.57% overnight and has since stabilized this morning. Granted, the yield is simply going back to where it was two weeks ago. The key takeaway from the fluctuation in yields over the past couple of weeks, is probably that the short-lived buying in Treasuries may not repeat itself easily, as it seems not rewarding to fight against an expected uptrend in yields.
- The Fed also raised the o/n reverse repo rate and IOER each by 5bp, to 5bp and 15bp respectively. These hikes do not solve the underlying issue of flush USD liquidity, but will help absorb it for the moment. A resolution of the debt ceiling near-term, and a tapering in the Fed’s asset purchase longer-term, will address the root causes.
- Asian market is unlikely to escape from knee-jerk reaction today, despite that on a medium-term horizon we expect outperformance in a number of Asian LCY bonds over USTs. Correlation with US yield changes is generally higher for the IDR and INR markets, followed by the KRW and SGD markets. CNY and TWD yields/rates usually have lower beta responses.

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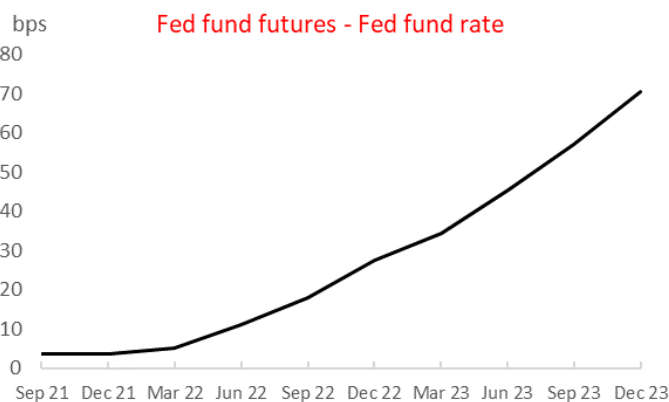
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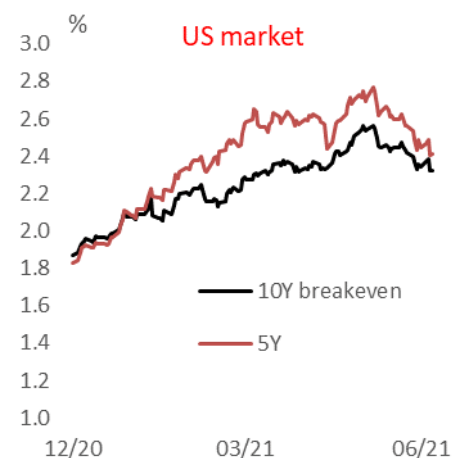
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Source: Bloomberg, OCBC



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IDR:

While the domestic backdrop has turned more constructive for IndoGBs, investors may use the overnight market development as a pretext to take profits for now. In particular, the 5Y IndoGB has seen buying interest, likely from banking books which look to buy at the mid to short tenors but liquidity is not ideal at the front-end. Hence, given overnight's underperformance in the 5Y UST, market observes if these buying flows will be deterred. The domestic bond market has usually suffered from a double whammy when global yields rose, through the impact on USD/IDR. Nevertheless, foreign bond ownership has fallen which may help mitigate volatility this time round. Bank Indonesia is widely expected to keep its policy rate unchanged later today, while the hawkish Fed may complicate the consideration for any further easing down the road.

MYR:

MGS were quiet on Wednesday ahead of FOMC. Today, curve shall trade higher, probably in a steepening manner across the 3s10s segment – following the 2s10s UST curve and on the dovish domestic monetary policy outlook. Latest EFP outcome revealed only a small reduction in their investment assets during Q1, which may be able to support sentiment at the margin.

SGD:

SGS yields adjusted slightly higher on Wednesday upon some last-minute repositioning ahead of FOMC. This morning, t/n was already paid up. While SGD IRS are also likely to be paid up, we expect SGD-USD IRS spreads to trade a tad narrower, reflecting some resilience in the SGD rates market. Further ahead, front-end spreads may be able to move towards par when USD liquidity normalise somewhat, upon a resolution of the US debt ceiling, expected by end-July.

CNY:

The CNY rates market has usually exhibited a relatively low beta response to USD rates movement. CGBs shall outperform regional peers today. That said, the curve is biased to steepening, as market is still awaiting more LGB supply. The next level to watch for the 10Y yield is 3.20/3.25%.

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