

Daily Market Outlook

18 June 2021

Rates Themes/Strategy

- Mid- to long-tenor USTs recouped part of the losses on Wednesday with yields ending Thursday lower by 2-12bp across the curve in a flattening manner. Eurodollar futures have also adjusted further to the latest Fed dotplot; rate implied from the December 2023 contract went up by a full rate hike cumulatively from the low in early June.
- Driver to the UST market is likely to shift back onto supply, while investors await more details of the tapering plan which may not come soon. Next week brings 2Y, 5Y, and 7Y coupon auctions. The 10Y yield is hovering around the 100DMA, with the next level to watch being the 50DMA at 1.59%; near-term trading range is likely at 1.50-1.59%.
- Usage at the Fed's o/n reverse repo surged to a fresh record high of USD756bn, as the higher RRP rate attracted demand to park funds at the facility. This helps prevent front-end bill yields from falling much further; yesterday's 4W bill auction resulted in a high yield of 0.045%, versus 0.005% at the previous auction.
- While the higher RRP rate appears effective in absorbing more liquidity, this also plainly reflects that liquidity is flush. There is unlikely to be much follow-through from the scattered LHS flows observed at FX swap points in Asian markets near-term. A resolution of the US debt ceiling (expected before end-July), and a tapering in the Fed's asset purchase longer-term, will address the root causes of the flush USD liquidity.
- The BoJ is widely expected to keep its policy rate unchanged today, while there is some expectation for a push back to the deadline of its COVID-related spending. After the previous narrowing in UST-JGB yield spreads, a reversal to a widening move may be coming.

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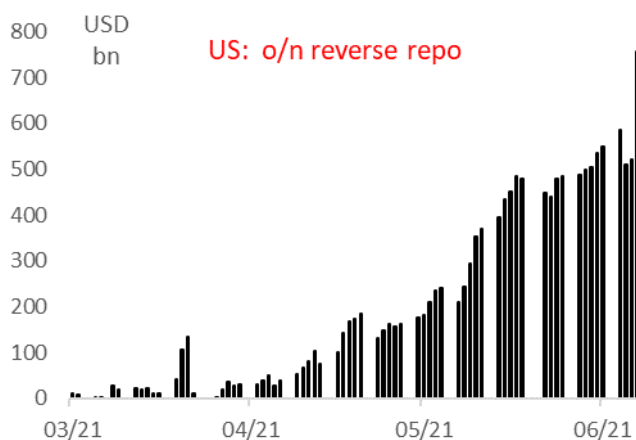
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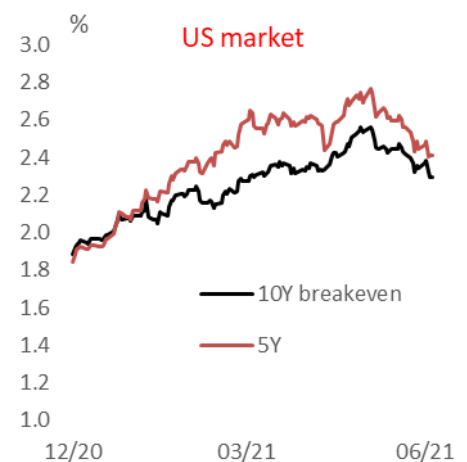
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Source: Bloomberg, OCBC



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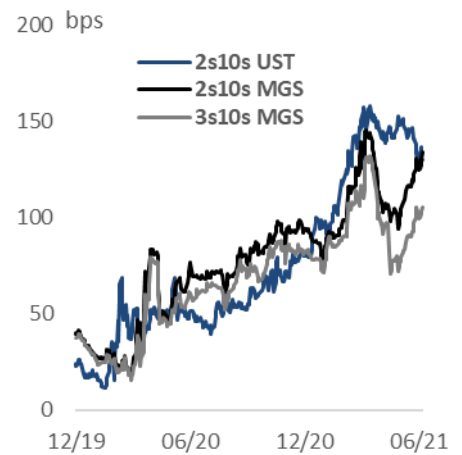
IDR:

The IndoGB curve moved higher by 5-15bp across the curve on Thursday. The 5Y bond outperformed with yield up by 5bp only despite the bigger move in USTs, probably supported by banking books which look to buy at the mid to short tenors but liquidity is not ideal at the front-end. The long end underperformed ahead of supply next week.

As the global backdrop has again turned more constructive, while USD/IDR continues to be stuck between opposing flows, IndoGBs shall stabilise upon favourable real yield differentials over USTs. Bank Indonesia kept its policy rate unchanged as widely expected, resulting in little market reaction.

MYR:

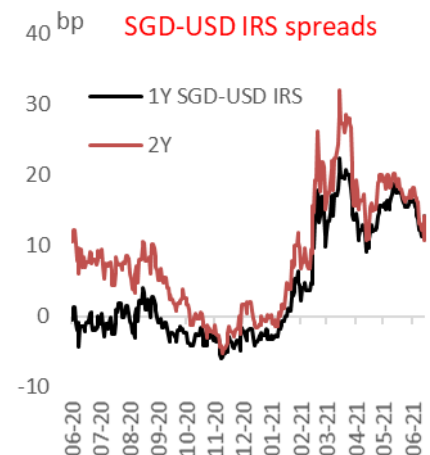
MGS was resilient, with the long-end outperforming probably with sentiment supported by potential index re-balancing, and also upon pension flows. Still, our bias is to shorten duration, amid uncertainty over reopening and fiscal support. Despite the flattening in the UST curve of late, the 3s10s MGS segment is still mildly flat vis-à-vis the UST curve.



Source: Bloomberg, OCBC

SGD:

SGS outperformed USTs on Thursday, with yields up by 4-6bp across, with some buying interests seen at the longer end. T/n was paid up, while the 6M was relatively stable. Looking further ahead, front-end SGD-USD rates 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.



Source: Bloomberg, OCBC

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