

Daily Market Outlook

23 June 2021

Rates Themes/Strategy

- Treasury yields edged down across the curve with mild underperformance at the long end. The 2Y auction tailed by 0.5bp which only led to a transient reaction. TIPS outperformed and hence breakevens edged higher. Eurodollar futures were little changed for 2023 contracts, while rates edged down from recent peak at the September 2022 and December 2022 contracts. These reflect the recent round of adjustment is done; investors stopped short of getting too much ahead of itself in terms of rate hike expectations. Market focus shall shift to supply, economic data, and tapering details, looking past the June FOMC. We expect the 10Y yield to mostly trade in a range of 1.40-1.60% on a multi-week horizon, with an upward bias.
- Usage at the Fed o/n reverse repo facility reached fresh record high of USD791.6bn on Tuesday, while T-bill yields and general collateral repo were mostly trading below the RRP rate of 5bp. USD liquidity may only start to normalize upon a resolution to the debt ceiling, and further when the Fed's tapering kicks in.
- Gilt underperformed, especially at tenors 30Y and beyond. The focus at the MPC meeting on Thursday is the vote on asset purchases. The weekly purchase has already been reduced to GBP3.44bn at the last meeting, through the first week of August; there is likely to be no further change yet. However, market awaits members' stance on the target stock and the timeline of the program. Another reduction in the weekly purchase is required later in the year if the goal is to let the program run through year-end. Recent comments from outgoing Chief Economist Haldane were hawkish, who opined that the balance of risks to inflation is now tilted very decisively to the upside. SONIA pricing has brought forward the first expected rate hike to the September 2022 contract, which looks hawkish enough for now.

Frances Cheung, CFA

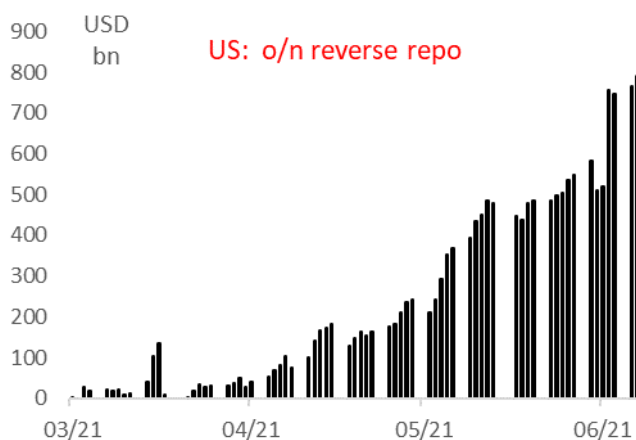
Rates strategist

+65 6530 5949

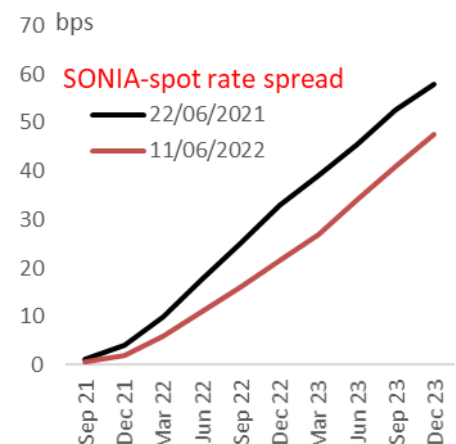
francescheung@ocbc.com

Treasury Research

Tel: 6530-8384



Source: Bloomberg, OCBC



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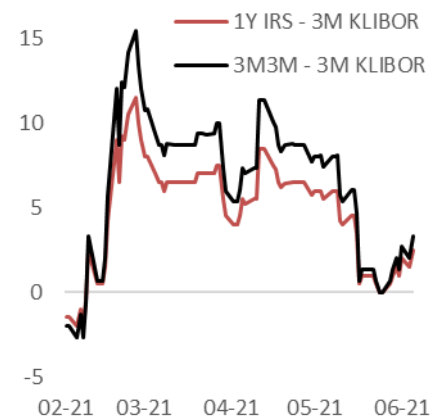
IDR:

IndoGBs held up well on Tuesday despite higher global yields, ending the day little changed. The conventional auctions attracted strong incoming bids of IDR69.95trn, with most demand and award at the 5Y and 10Y bonds. IDR30trn was awarded meaning no upside. The outcome shall again support bond market sentiment. The morning roll DNDF auction was not particularly attractive; nevertheless USD/IDR traded in a tight range amid opposing flows. 18 June and 21 June registered net foreign outflows; with favourable real yield differentials, a relatively stable USD/IDR, and the foreign interests seen at auctions, inflows will likely come back. The long-end shall not underperform further.

MYR:

MGS ended Tuesday with yields up by 2-3bp across the curve. The 3Y MGII drew decent demand with a b/c ratio of 2x, although yields came in a tad above WI levels. S&P affirmed Malaysia's sovereign credit rating while keeping the negative outlook; this still came as a relief. Front-end rates spreads widened further mostly following global move which does not seem to represent a significant shift in domestic expectations.

20 bps **Front-end MYR rates spread**



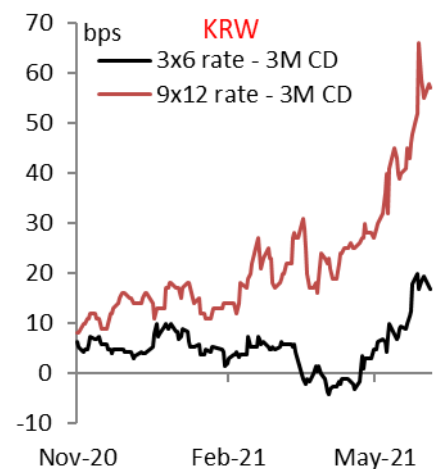
Source: Bloomberg, OCBC

CNH:

We do not chase back-end CNH points higher. The points have started to diverge from CNY-USD rates spreads again and are mildly above onshore points. While addition to the CNH liquidity pool has stayed minimal, CNH liquidity situation shall improve when the Wealth Management Connect and southbound flows under the Bond Connect kick start later this year. Any liquidity tightness, both onshore and offshore, may be more likely to be reflected at front-end points for now.

KRW:

Comments from the BoK that it needs "to normalise policy in an orderly manner at the right time" did not push the market further, as this represented a reiteration without providing a time line, and came on the back of the financial stability report. Pricing at front-end KRW stays hawkish on a 3 to 9-month horizon, leaving limited room for the market to turn yet more hawkish. Separately, the BoK plans to issue 3Y MSB and reduce the issuance of 2Y MSB, to "better control liquidity".



Source: Bloomberg, OCBC

Treasury Research & Strategy

Macro Research

Selena Ling*Head of Research & Strategy*LingSSSelena@ocbc.com**Tommy Xie Dongming***Head of Greater China Research*XieD@ocbc.com**Wellian Wiranto***Malaysia & Indonesia*WellianWiranto@ocbc.com**Howie Lee***Thailand & Commodities*HowieLee@ocbc.com**Carie Li***Hong Kong & Macau*carierli@ocbcwh.com**Herbert Wong***Hong Kong & Macau*herberhtwong@ocbcwh.com

FX/Rates Strategy

Frances Cheung*Rates Strategist*FrancesCheung@ocbc.com**Terence Wu***FX Strategist*TerenceWu@ocbc.com

Credit Research

Andrew Wong*Credit Research Analyst*WongVKAM@ocbc.com**Ezien Hoo***Credit Research Analyst*EzienHoo@ocbc.com**Wong Hong Wei***Credit Research Analyst*WongHongWei@ocbc.com**Seow Zhi Qi***Credit Research Analyst*ZhiQiSeow@ocbc.com

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