OCBC TREASURY RESEARCH

Daily Market Outlook

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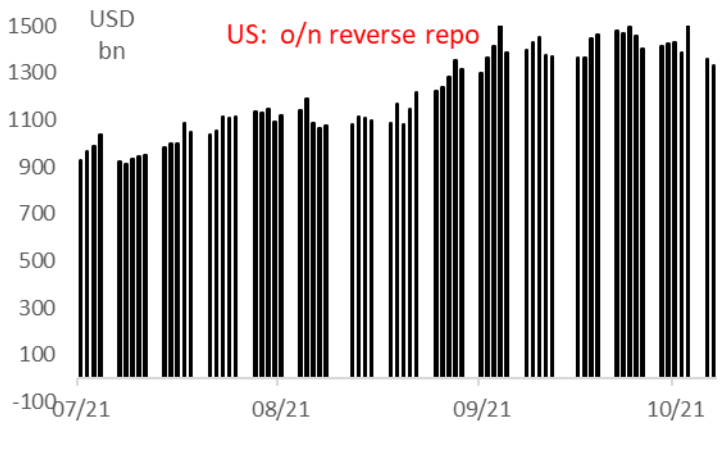
Rates Themes/Strategy

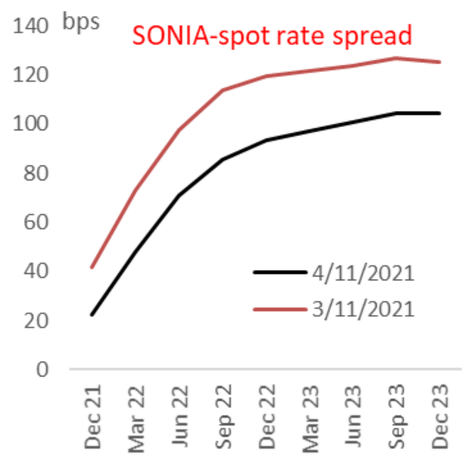
- Global bonds rallied led by Gilts upon BoE's decision to keep its key policy rate unchanged, against market pricing of a rate hike. Gilts outperformed, as the pricing in the sterling market had been the most overly hawkish compared to markets such as the USD or EUR. With Powell reiterating the set of criteria for a rate hike is different from that for taper, and with his emphasis on the labour market, investors are likely to quickly shift focus onto tonight's NFP.

- The BoE kept its key policy rate unchanged at a 7-2 vote. The central bank warned inflation would rise more than expected and said it was likely to be necessary to increase rates "over the coming months". Market simply trimmed its expectation mostly in a parallel fashion across SONIA futures contracts through to December 2022, i.e. still a similarly aggressive tightening path between now and end 2022. This probably points to risk for a further dovish adjustment.

- A recap on the FOMC: on taper, although the Fed did leave themselves a small flexibility in that the taper pace can be adjusted depending on changes in the economic outlook, the Committee judges that "similar reductions in the pace of net asset purchases will likely be appropriate each month". The base case is in line with market expectations and the "illustrative path" as stated in the September FOMC minutes. On inflation, the latest statement has it that those factors behind the rise in inflation "are expected to be transitory" – a somewhat watered down phrase seemingly as a hedge against the risk of an outcome that is different from their core scenario. Market reactions on Wednesday suggested that the Fed did little to dampen market rate hike expectations, but nevertheless the BoE decision helped. Meanwhile, the subtle tweaks in language surrounding inflation have led to a steeper Treasury yield curve.



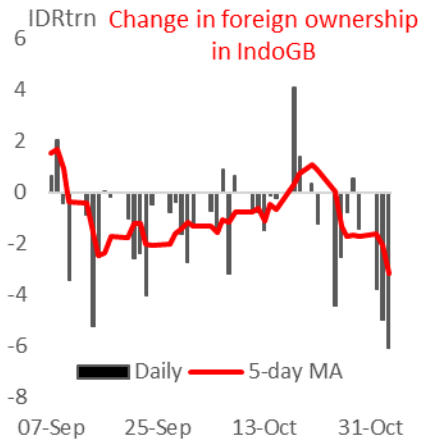
Source: Bloomberg, OCBC



Source: Bloomberg, OCBC

IDR:

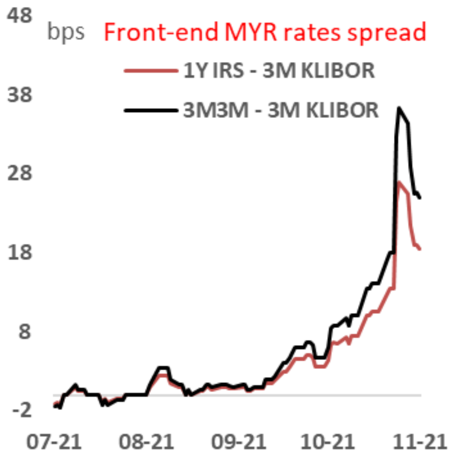
IndoGBs were stable on Thursday post-FOMC as the outcome was pretty much in line with expectations. In the afternoon, MoF confirmed that the funding for this year has been fulfilled, and hence there will be no more auctions for the rest of this year to fund the 2021 budget. While the cutback on auctions had been expected, the absence of supply nevertheless shall support IndoGBs. Given softer global yields, there may also be a chance for a comeback of foreign inflows. Cumulative outflows amounted to IDR56trn since the start of the recent trend on 9 September. Foreign holdings stood at IDR960trn as of 4 October. Q3 GDP is due out today; OCBC economists expect growth to have slowed to 4%yoy on pandemic resurgence and restriction measures; the economic momentum should have picked up since then.



Source: Bloomberg, OCBC

MYR:

BNM kept its policy rate unchanged on Wednesday as widely expected. It appeared to remain comfortable with the current level of monetary policy accommodation. The central bank sees inflation pressure staying benign in 2022, signaling that it intends to keep its policy rate unchanged for as long as it can. This policy backdrop underlines our view for the 3Y and 5Y MGS to consolidate around or below current yield levels, with the potential for a retracement to 2.6% and 3.1% respectively; these bonds had followed USTs in previous sell-off in the absence of a hawkish domestic monetary policy outlook. Front-end MYR rates pricing has adjusted lower, a fair move in our view.



Source: Bloomberg, OCBC

CNY / CNH:

The PBoC further boosted its OMOs this morning, to CNY100bn. While the operations over the past days reflect that the PBoC is responsive to market demand, there was still sizable liquidity withdrawals of CNY780bn this week. The PBoC appears to be trying to make its liquidity withdrawals – which followed previous upsized injections – less drastic. Whether the market will stay supported depends on the operations in the coming days, and on the rollover of the maturing MLF this month. We remain of the view that if only short-term liquidity tools are deployed, any downside to CNY rates will likely be limited. The focus on fiscal measures and use of short-term liquidity tools have continued to suppress market hope for a near-term RRR cut.

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