OCBC TREASURY RESEARCH

Daily Market Outlook

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Rates Themes/Strategy

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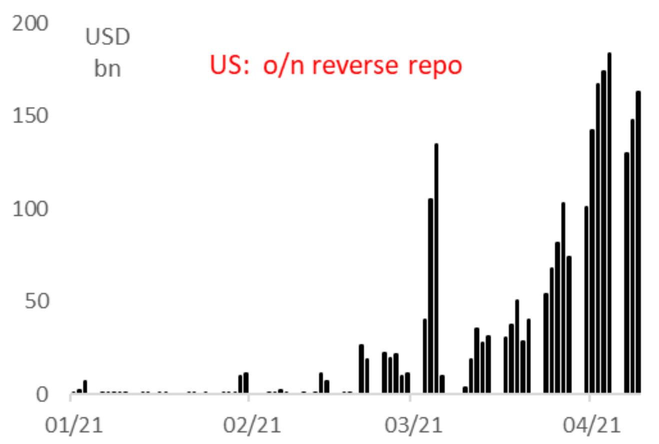
- The Treasury quarterly issuance plan came in as expected, with no change to nominal coupon and FRN auction sizes in May-Jul. Yields went up initially, before softening back as ADP report came in below expectation and upon dovish Fed remarks. Friday's NFP and jobless claims shall present a better gauge of the labour market condition.

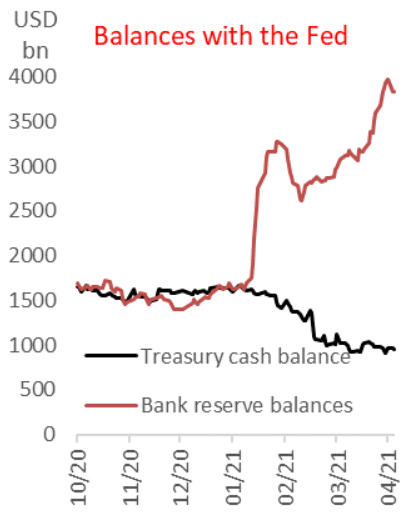
- The Fed's o/n reverse repo operation continued to absorb big amount of liquidity, at USD162.8bn on Wednesday. The Treasury expects a USD150bn reduction in bill outstanding between now and end-July. The slower bill reduction, however, is unlikely to lift ultra front-end rates which continue to hover around zero. Liquidity is likely to stay flush upon continued Fed purchases, and despite a slower reduction in net bill supply – which still means net injection of liquidity.

- The Bank of England is expected to keep its bank rate and asset purchase target amount unchanged. There is a possibility for a plan to taper the weekly purchases, to avoid an early end to the purchase program. SONIA pricing is already hawkish; any tapering intention to bring down the weekly amount to a level above GBP3.0bn appears unlikely to push the market further. A weekly purchase of GBP3.0-3.5bn means another taper is probably required later in the year for the program to run through year-end.

- In Asia, the additional measures announced by the RBI focused on promoting credits, which shall have limited impact on G-Sec and the forward points. We maintain our steepening bias to the MGS curve. We expect front-end CNY rates to be well anchored, but mid to long-end CGB yields may face a mild upward pressure.



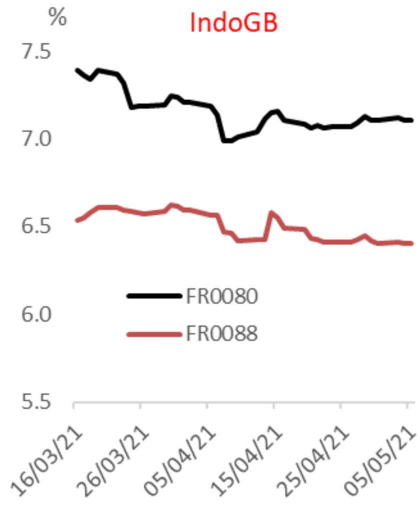
Source: Bloomberg, OCBC



Source: Bloomberg, OCBC

IDR:

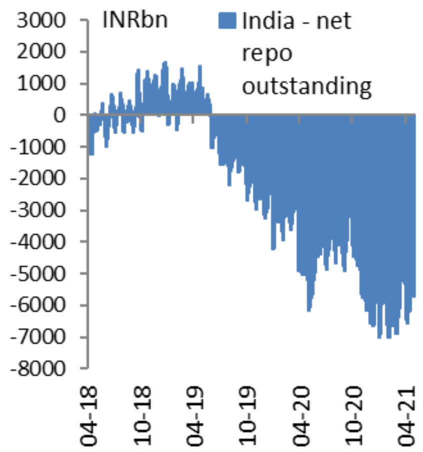
IndoGBs were little changed, with USD/IDR trading in a tight range. Q1 GDP came in a tad weaker than expected but did not trigger much market reaction. With supply on the light side, and subdued risk sentiment upon resurgence in COVID cases, IndoGB yields look to be stuck in ranges. The yield spread between the FR80 and the FR88 bonds has stayed wide for an extended period, with the 15Y benchmark FR88 particularly supported by retail demand. The FR80 bond may attract institutional demand from time to time looking for relative value.



Source: Bloomberg, OCBC

INR:

The RBI announced additional measures to promote credits including a INR500bn term liquidity facility that banks can top for lending to a wide range of entities. Impact on G-Sec and the forward points shall be limited - with the total G-SAP unchanged at INR1trn in fiscal Q1; and the absence of specific liquidity measure to the money market. The Governor in his speech mentioned that the central bank already absorbed a daily average of INR5.8bn of liquidity, without further elaboration. We take it as an indication there is not much extra that can be done on the liquidity front, as INR liquidity is flush but probably USD liquidity is flusher hence the forward points are supported.



Source: Bloomberg, OCBC

MYR:

MGS yields fell across the curve on Wednesday, with the long end catching up partially with the front-end in the recent bond rally. The resurgence in COVID cases and potential setback in vaccine rollout are hurting the risk sentiment, lending support to bonds. We expect a steepening bias to the yield curve on supply concerns, while demand appears to be clustering around the front- to mid-tenors; the 3s10s segment is likely to trade in a 75-90bp range near-term. BNM is widely expected to stay put on the policy rate later today, with neutral market pricing; investors watch out for any dovish tweaks.

CNY:

Onshore CNY market reopens today. The PBoC conducted CNY10bn of reverse repo, against a maturity of CNY50bn, net withdrawing CNY40bn. Market also braces for a pick-up in LGB issuance in the coming months, and this together with the usual CGB supply and reserve payment shall exert pressure on the overall liquidity condition. On balance, we expect front-end rates to be well anchored given room for liquidity injections if needed, but mid to long-end CGB yields may face a mild upward pressure. Support for 10Y CGB is at 3.21/3.23%.

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