Rates Themes/Strategy

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- Treasury yields edged down further across the curve, amid of lack of coupon supply, with the 5Y bond again outperforming as market pared back slightly its aggressive pricing of Fed hikes. Auctions resume next week, and our view remains that the main driver for yields (to go higher) is supply headwinds, when inflation expectation is peaking.

- Liquidity stays ample at the front-end, with repo operations receiving no bids again. There will be a net reduction of USD19bn in bills supply this week, which shall bring the Treasury's cash balance mildly lower to USD1trn. We believe a situation of sustained negative front-end rates across instruments is unlikely, as the Fed will likely react to such a situation.

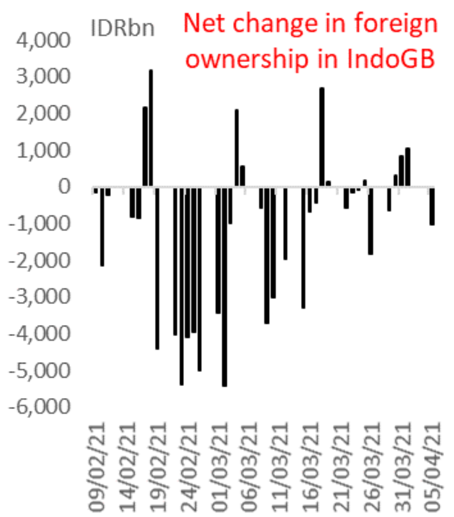
- The RBA kept both its cash rate and 3Y yield target unchanged at 0.1% as widely expected. It also maintained its forward guidance, saying not to increase the cash rate until inflation is sustainably within the 2-3% target – a condition expected to be met in 2024 the earliest. The decision as to whether to include the November 2024 bond in its yield curve control is, however, left for upcoming meetings. Still, the yield spreads between the November 2024 bond and the April 2024 bond narrowed, in line with our expectation. There is a few more bp points to go, for the spread to revert to January/February levels.

- The RBI is expected to keep its policy rates unchanged later today. Liquidity is flush which has extended the net reverse repo operations. Focus will be on whether the central bank will extend the forward guidance on its accommodative policy. Normalization of the interest rate corridor – as in narrowing it – does not look imminent at this meeting, amid surging covid cases. This is an issue that has to be addressed down the road; and more likely at a time when raising the reverse repo rate is judged not derailing economic recovery.

- Supply and the unstable risk sentiment may cap the gains in IndoGBs, when foreign inflows have yet to make a strong comeback. The 5Y and 10Y bonds face near resistances at 5.65% and 6.50% respectively.

- CNY-USD IRS spreads and CNY money market rates reflect a more supportive liquidity condition than the swap points do – which points to some downward adjustment in back-end CNY points.

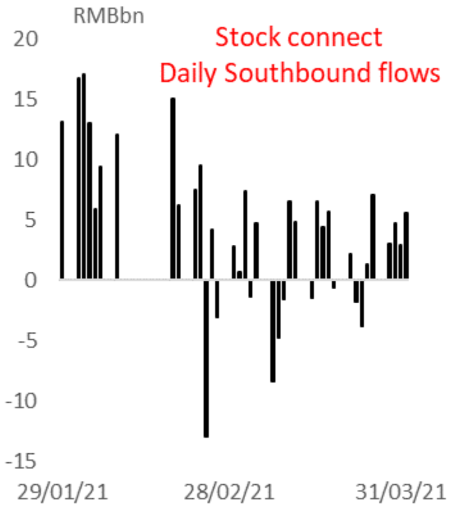
IDR:
IndoGBs were relatively stable on Tuesday, while the auction missed target again, selling IDR7.3trn of bonds versus a target of IDR10trn and incoming bids of IDR14.56trn. With the room for Bank Indonesia to buy from the primary market falling (without fresh commitment), there needs to be a convergence between appropriate yield levels seen by the government and market levels. Meanwhile, BI was quoted as saying the Rupiah is very undervalued and it expects the currency to be supported by low inflation and higher growth. IndoGB yields have fallen in recent sessions, but foreign inflows have yet to make a strong comeback. Gains on IndoGBs are likely to be capped by supply and the unstable risk sentiment; 5Y and 10Y bonds face near resistances at 5.65% and 6.50% respectively.



Source: CEIC, OCBC

MYR:
MGS are to be driven mainly by the domestic supply-demand dynamics, while reverting to a lower beta response to US yield movement. Our view remains that the impact of EPF withdrawals on MGS is manageable; when the market gets more clarity on the withdrawals pattern, there is room for further flattening of the curve as investors take advantage of the still steep curve.

SGD:
Front-end SGD rates have adjusted lower in recent sessions, ahead of MAS policy meeting. Arguably, investors might have positioned for some upbeat/hawkish comments from the MAS. The risk is indeed for a more upbeat economic assessment and/or a less dovish message. However, this rhetoric alone may not exert too much additional downward pressure on front-end SGD rates. We would rather seen the lower swap points as a normalization in the liquidity condition. And when the USD liquidity dynamic changes as well, there will be further narrowing in SGD-USD rates spreads.



Source: CEIC, OCBC

CNY / CNH:
CNY-USD IRS spreads and CNY money market rates reflect a more supportive liquidity condition than the swap points do. We expect some downward adjustment in back-end CNY forward points. In offshore, southbound flows under Stock Connect are gradually coming back, albeit not as heavy as earlier in the year. We watch if southbound flows will turn heavier today, as equity may catch up with Hong Kong reopening. These flows, coupled with the narrowed CNY-USD rates spread shall also point to some stabilization in back-end CNH forward points.

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