OCBC TREASURY RESEARCH

Daily Market Outlook

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Rates Themes/Strategy

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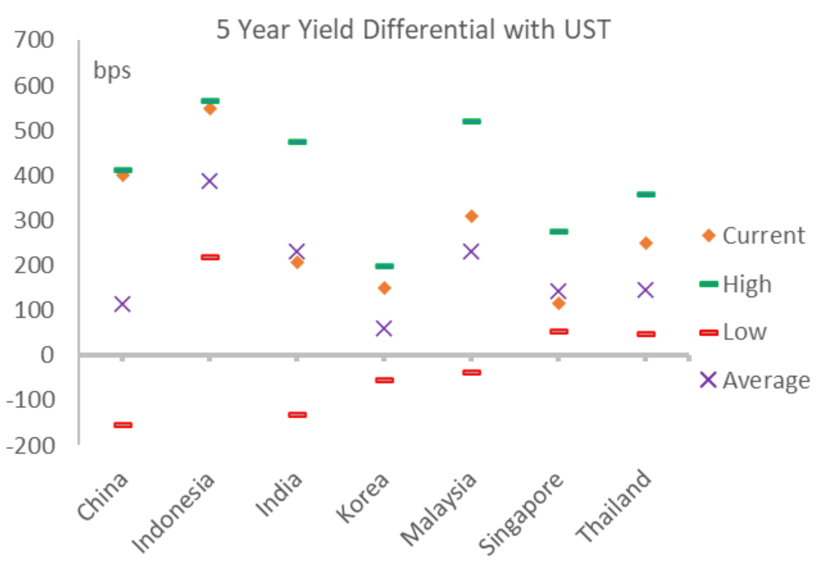
- UST yields are stuck in ranges ahead of NFP/jobless claims tonight. Investors require reassurance that the economic recovery is on track, after a couple of soft data prints. Next week brings a slew of US data including April CPI where the consensus is at 3.6%yoy supporting the TIPS payout. Meanwhile, front-end liquidity has stayed flush.

- The Bank of England kept its bank rate and total asset purchase target amount unchanged as widely expected. The central bank plans to slow the weekly purchase to GBP3.4bn between now and the first week of August, from previous amount of GBP4.4bn. The slowdown is on the mild side of expectation; SONIA pricing turned slightly less hawkish and market reaction is probably done by now. Another reduction in the weekly purchase is required later in the year if the goal is to let the program run through year-end. BOE said it would need to see some kind of negative shock before it would consider expanding quantitative easing next year - a signal that it is on course to end the program.

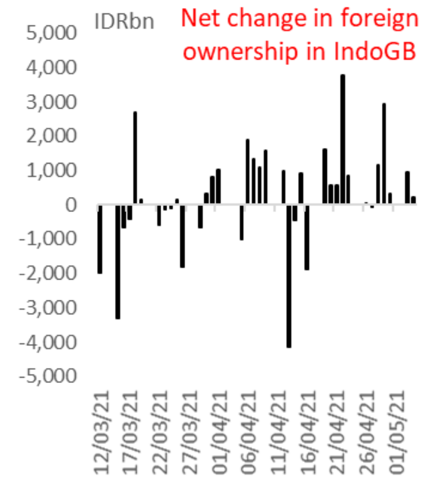
- In Asia, the IndoGB and MGS curves are flat on a historical basis vis-à-vis regional peers; and after all supply is a lingering concern. We see a steepening bias to these two curves. Real yield differentials are the most favourable for CGBs, IndoGBs and KTBs; adding FX volatility and hedging cost considerations, CGBs and KTBs appear more appealing cross-sectionally. In China, money market liquidity has stayed supportive; we continue to see downside to back-end CNY forward points.



Source: Bloomberg, OCBC

IDR:

The bond market sentiment was supported by USD/IDR breaking lower; but the yield movement was more timid than FX upon profit-taking flows. There appears to be some buying interest in the FR80 bond likely looking for yield pick-up. With near-term supply on the light side, and subdued risk sentiment upon resurgence in COVID cases, IndoGBs look to garner some support with yields likely stuck in ranges. Foreign investors have added IDR5.6trn to their holdings in the past five days.

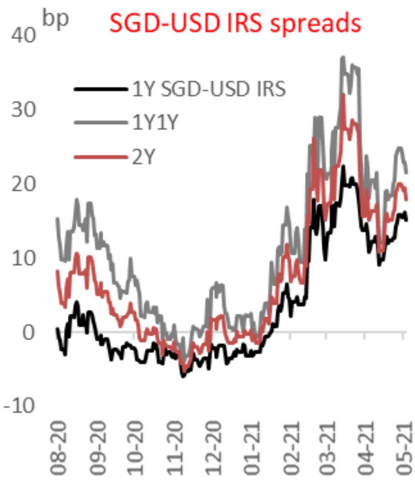


Source: CEIC, OCBC

MYR:

BNM was on hold as widely expected; overall its stance was fairly neutral versus expectation for a potential dovish tweak. MGS yields rose in response in a steepening manner. The central bank maintained that the balance of risks to growth remains tilted on the downside, but it also tried to telegraph how growth momentum remains strong.

Nevertheless, the resurgence in COVID cases and potential setback in vaccine rollout shall lend some 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.



Source: Bloomberg, OCBC

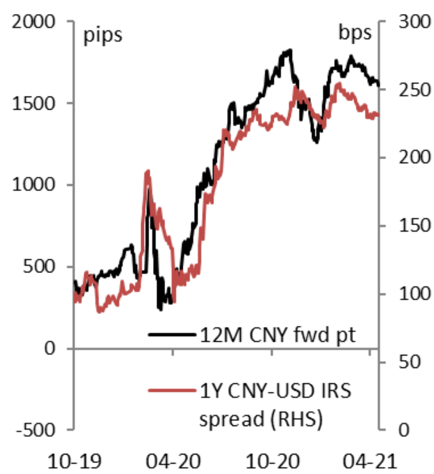
SGD:

SGS yields edged down across the curve with the belly to 15Y outperforming. SGD IRS edged down alongside, outperforming their USD counterparts. SGD-USD IRS spreads are historically wide, and we expect a correction narrower when the USD liquidity situation normalizes, probably upon a resolution of the US debt ceiling cause by then the US Treasury's cash balance is expected to stabilise.

CNY:

Front-end CNY rates have stayed well anchored, supporting our view for back-end CNY forward points to be biased downward. The offshore CNH forward points shall also ease as onshore has reopened providing some additional liquidity. There may be further downside to CNH points later in the year when the wealth management connect kicks start.

Supportive front-end liquidity aside, 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 a mild upward pressure on mid to long-end CGB yields. Support for 10Y CGB is at 3.21/3.23%.



Source: Bloomberg, OCBC

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