

Daily Market Outlook

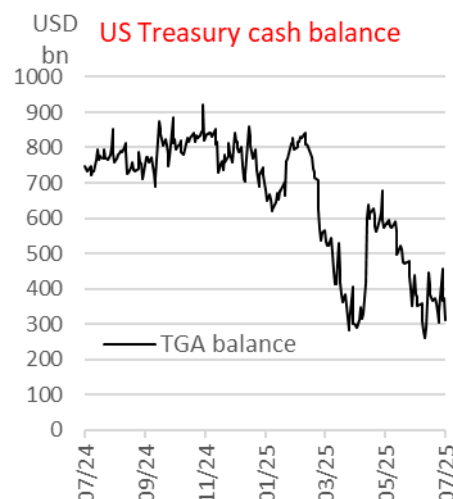
8 July 2025

Mixed implications of tariff headlines on bonds

- USD rates.** UST yields rose ahead of coupon bond auctions this week, while the latest tariff headlines have mixed implications on the bond market. Fed funds futures slightly pared back rate cut expectation and 10Y breakeven traded higher, as tariffs are expected to bring about inflation pressure for the US. Shorter-end USTs may nevertheless benefit from safe haven flows. At T-bills auctions overnight, the 6M bills fared better than the 3M bills, garnering a bid/cover ratio of 3.00x versus 2.77x prior with indirect accept slightly higher at 64.3%. T-bills supply is well expected and understood to pick up after the debt ceiling is raised, as US Treasury looks to replenish its cash position after a period of bills paydown. TGA balance stood at USD313bn as of 3 July, while US Treasury has a target of USD850bn for end Q3 and end Q4. USD58bn of 3Y coupon bond is auctioned tonight, followed by USD39bn of 10Y and USD22bn of 30Y tenors later in the week. The 30Y sales is the key test to market demand, more so given the passage of the One Big Beautiful Bill Act. FOMC minutes are released on Wednesday (Thursday morning Asia time); given the divided FOMC, market will look for the rationale of the different dots and clues on the triggers for the next rate cut. Near-term range for 10Y UST yield is seen at 4.33-4.45%.

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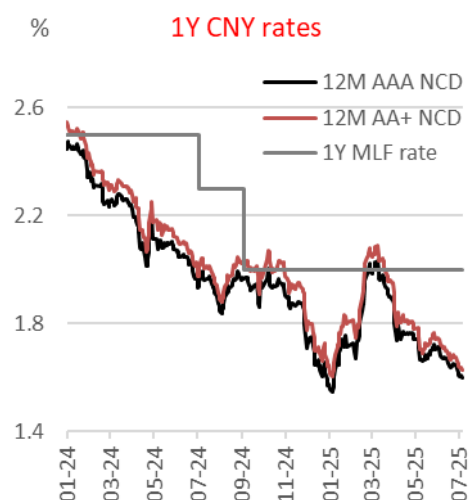


Source: Bloomberg, OCBC Research

- IndoGBs** were resilient in the face of higher US yields and higher USD/IDR. Today's sukuk auction has an indicative target of IDR9trn with the potential to be upsized to IDR18trn, comprising the reopening of PBS003 (2027 bond), PBS030 (2028 bond), PBSG001 (2029 green bond), PBS034 (2039 bond), PBS038 (2049 bond) and bills. Again, PBSG001 can be used to support the macroprudential inclusive financing ratio (RPIM). Issuance target for the quarter has been set at IDR252trn; with 7 conventional and 7 sukuk auctions in the quarter, individual auction sizes of IDR27trn and IDR9trn, respectively, will be consistent with overall target. The conventional bond auction on 1 July was upsized to IDR32trn and we continue to expect upsizes when market demand is strong. Funding position is comfortable. Foreign holdings of IndoGBs have been generally on an uptrend thus far this year, with holdings standing at IDR931trn or 14.68% of outstanding as of 4 July, compared to IDR919trn at end-June. Foreign investors have increased allocation to bonds of tenors 5-10Y and reduced allocation to shorter tenors (in % share terms) over the past

months. Looking ahead, some rebuilding of short-tenor position cannot be ruled out amid the favourable monetary policy backdrop and still supportive yield differentials.

- CNY rates.** PBoC continued with liquidity withdrawal having passed mid-year, draining a net CNY62bn this morning via daily OMOs. 7-day reverse repo maturity turns lighter over the coming five days, totalling CNY365.2bn. Liquidity appears adequate/ample, with NCD rates having fallen over recent days; 12M AAA NCD rate fell below 1.6% on Monday. The flip side is that pick-up narrowed, to around SOFR+30bps only, which may mean foreign inflows will slow. It was reported that Bond Connect would be extended to non-bank investors with increased quota. As and when this measure is implemented, this will potentially add to the offshore CNH liquidity pool. Meanwhile, Southbound Stock Connect flows recovered to HKD80bn in June versus HKD46bn in May, although still smaller than those in previous months. Front-end CNH rates are likely to stay anchored, as prospect remains for inflows to come to the HKD market through various Connect programs – and these will bring in CNH, while onshore monetary policy remains supportive. Front-end CNH rates may stay below onshore levels, before materialisation of additional monetary easing by then onshore CNY rates may react more. At back end (12M), there appears not much room for further narrowing in offshore-onshore spread.



Source: Bloomberg, OCBC Research



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