GLOBAL MARKETS RESEARCH

Daily Market Outlook

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RBA rate cut delayed; HKMA discount window tapped

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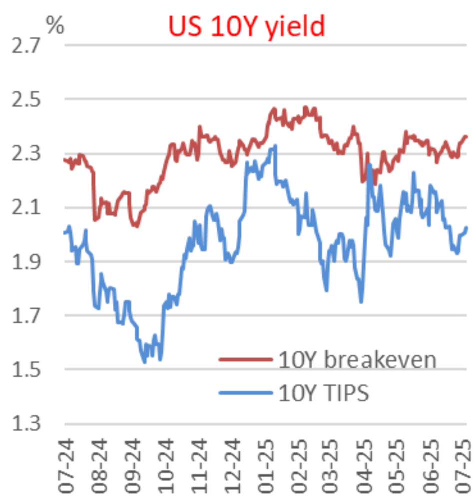
Global Markets Research and Strategy

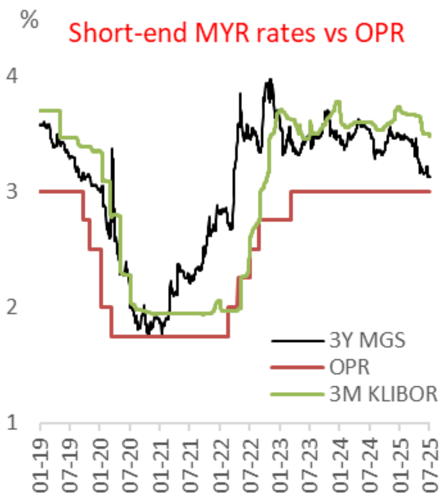
- **USD rates**. UST yields retraced from intra-session highs to end the day a tad higher. Yields rose in the run-up to the 3Y coupon bond auction. Demand turned out to be fair, with cut-off very near WI level (tailed marginally) and with a bid/cover ratio of 2.51x which was similar to the 2.52x prior but indirect accepted was lower at 54.1% versus 66.8% prior. Separately, NY Fed's measure of 1-year inflation expectations eased by more than expected, to 3.02% from 3.20% prior. Yields retraced partially from intraday highs subsequently. Investors stay cautious ahead of the 10Y and 30Y coupon bond auctions later this week. Nevertheless, following this week's auctions, net coupon bond settlement is at USD31.4bn next week which is not a high level. FOMC minutes are released tonight; 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 remains at 4.33-4.45%. On a multi-month horizon, there is room for both 10Y breakeven and 10Y real yield to adjust mildly lower.

- **AUD rates**. Bank bills futures fell (implied rates around 13-15bps higher across contracts) upon the status quo decision by the RBA, as a 25bp cut had been fully in the price going into the decision. Market mildly pared back initial reactions as the overall outcome turned out to be less hawkish – with a split vote of 6-3. The statement commented "June quarter inflation…were, at the margin, slightly stronger than expected. With the cash rate 50 basis points lower than five months ago… could wait for a little more information to confirm that inflation remains on track to reach 2.5 per cent on a sustainable basis". While we had expected a cut on Tuesday, our overall forecast profile has been less dovish than market pricings – we expect additional 50bps of cuts for the rest of the year versus previous market pricing of 75bps or more cuts. Governor Bullock during the press conference said the Bank decided to wait a few weeks, when it has more data. This "a few weeks" has reinforced market expectation for an August cut. The information that the RBA is waiting for is likely Q2 CPI to be released on 30 July, as they see the monthly gauge as volatile. Cash rate futures last priced additional 61bps of cuts for the rest of the year. We expect BBSW to trend lower as additional rate cuts materialises, but with 3M BBSW normalising back to a level that is a tad above OCR towards year end.



Source: Bloomberg, OCBC Research

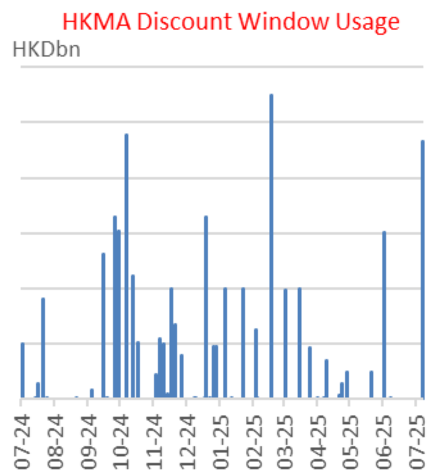
- **MYR rates**. BNM decision today is a close call. MYR IRS price in a 25bp rate cut on a 3-month horizon, and more than an even chance for another 25bp rate cut on a 6-month horizon. We expect KLIBORs to follow OPR lower when rate cuts materialise, but potentially not entirely, resulting in a mild re-widening in KLIBOR-OPR spread. For one, outstanding Ringgit liquidity placed with BNM have been settling at around the MYR100bn level versus higher levels at around MYR140bn level in previous years. Spread between 3Y MGS yield and OPR has already been much compressed and hence any bond rally in response to monetary easing may also be contained. After rebounding from the lows in April, bond/swap spreads (IRS - yield) have been trading in ranges over the past month. Bond outperformance against swaps has been our view, but at current levels of bond/swap spreads, while there may still be incentive to be long bond versus pay swap, the room for further bond outperformance has become more limited.



Source: Bloomberg, OCBC Research

- **IndoGBs** stayed supported on Tuesday. The sukuk auction attracted incoming bids of IDR40.8trn, the biggest amount for sukuk auction this year thus far, while IDR12trn of bonds were awarded representing an upsize from indicative target of IDR9trn. We commented "we continue to expect upsizes when market demand is strong". Most of the incoming bids went to PBS030 (2025 bond), followed by PBS003 (2027 bond) in line with the usual pattern. To recap, 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, with potential upsizes. Funding position is comfortable. IndoGBs (including bills) received relatively strong inflows over recent days, with foreign holdings having risen to a record high of IDR935.9trn as of 7 July.

- **HKD rates**. HKMA's discount window was tapped at a relatively big amount of HKD4.67bn on Tuesday. While again it likely reflected demand from limited number of market participants, it suggested that at current Aggregate Balance level, distribution of liquidity can still be uneven. Meanwhile, spot t/t continues to trade very near 7.8500 level as the carry remains appealing with t/n at -9pips. While it may take a while for FX intervention to be triggered with profit-taking likely being put at 7.8499/7.8500, this process of spot being pushed to 7.8500 with subsequent FX intervention is likely to repeat until more material increases in short-end HKD interest rates happen. As aggregate balance has adjusted to a lower level, short-end HKD rates may become more responsive to additional liquidity drainage from here. We expect HIBORs to normalize upward – but likely to below pre-May levels - upon further FX intervention. At this juncture, we do not expect HKMA to pro-actively shift liquidity to the bills market.



Source: CEIC, OCBC Research

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