

## Daily Market Outlook

4 May 2021

### Rates Themes/Strategy

- UST yields fell upon a soft ISM print, while shrugging off a bigger borrowing plan - for now. The reaction to the ISM print is likely to be short-lived, with inflation expectations little changed. The deeply negative real yields point to more catch-up by nominal yields. Meanwhile, although more borrowing in the quarters ahead had been expected as implied by the fiscal stimulus package, the supply headwind is there. We continue to see the 10Y yield to trade in a range of 1.55%-1.75% with an upward bias.
- The Treasury also updated projections of its cash balance with the Fed (TGA), now expecting the balance to be reduced to USD800bn by end June, versus an earlier estimate of USD500bn. The earlier estimate was unrealistic, in our view, given maturity profile. That said, the latest estimate was lower than expected, which points to a lower pace of weekly reduction, with USD103bn over two months. Beyond this, the Treasury expects its cash balance to rise back to USD750bn by end-September, assuming some kinds of resolution – such as a further suspension, or an increase of the debt ceiling.
- While a slower cash reduction in the coming weeks can help alleviate downward pressure on front-end rates, the Fed’s continued purchases nevertheless keep liquidity flush. The effective Fed fund rate edged further lower to 5bp on Friday. The liquidity situation keeps the debate on potential tweaks to administered rates alive.
- The Bank of England is widely expected to keep its bank rate and asset purchase target amount unchanged on Thursday. At the current pace of gilt purchase of GBP4.4bn per week, the purchase program will be finished in 20 weeks, ahead of the year-end schedule. There is a possibility for a hint on tapering. SONIA pricing has become more hawkish over the past couple of weeks, from the June 2022 contract onwards; any tapering talk is unlikely to push the market further.

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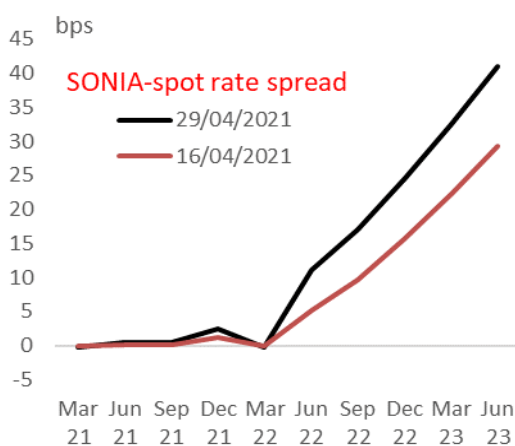
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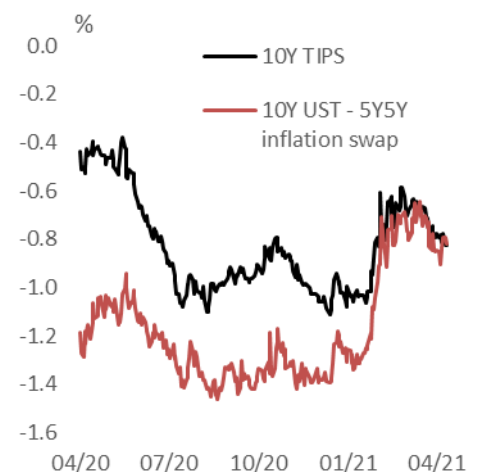
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Source: Bloomberg, OCBC



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### IDR:

The domestic bond market was quiet on Monday, along with a relatively stable USD/IDR. DNDF was auctioned at a lower-than-market level of 14514, absorbing USD50mn of demand, which helped cap spot USD/IDR. April CPI inflation came in below expectation, at 1.42%yoy, and core CPI at 1.18%yoy; market did not react to these prints. Foreign flows slowed to IDR312bn on 30 April. The 10Y yield is likely to be stuck in a range of 6.4%-6.55% near-term.

### SGD:

As USD liquidity stays flush, there seems to be a lack of buy/sell flows. This keeps SGD forward points and front-end IRS supported. SOR-SORA basis has been stable without additional impetus for trading direction. Data-wise, this week brings April PMI and Mar retail sales which are unlikely to move the market. Further out the month, the size of the upcoming 5Y reopening and the mini auction will be announced - we do not see much supply pressure from there.

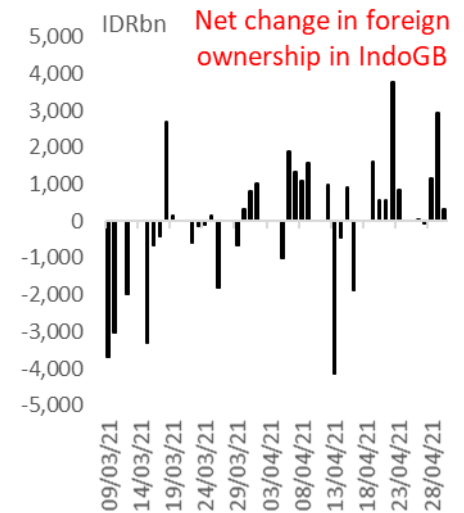
### CNH:

We believe the PBoC will try to ensure adequate liquidity so LGB supply can be readily absorbed; reverse repo maturity continues to be light and there is CNY100bn of MLF on 17 May, both are well manageable. Back-end CNY swap points shall continue to face downward pressure when the onshore market reopens. In the offshore market, however, with a lack of additional CNH liquidity during the holidays, there is a mild upward bias to CNH points near-term.

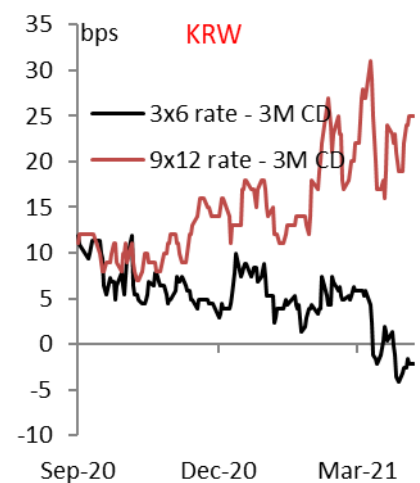
Provision of short-term liquidity cannot prevent longer end yields from rising as the supply hits the market. On balance, we expect a mild upward bias to CGB yields, with the next support for the 10Y bond at 3.23%.

### KRW:

CPI inflation came in higher than expected, at 2.3% yoy, and core CPI at 1.4% yoy. The government expect inflation to exceed 2% for Q2, but unlikely to exceed 2% for the full year, again attributing price pressure to supply-side factors. Near-term pricing by KRW rates stays neutral, but the 9x12 rate has erred on the hawkish side, reflecting the expectation that Korea is probably among the first to tighten in the region. Rates at the longer end softened this morning, taking cue from the global market. With favourable yield differentials and supportive asset swap pick-up, we continue to expect KTBs to outperform USTs.



Source: CEIC, OCBC



Source: Bloomberg, OCBC

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