OCBC TREASURY RESEARCH

Daily Market Outlook

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Rates Themes/Strategy

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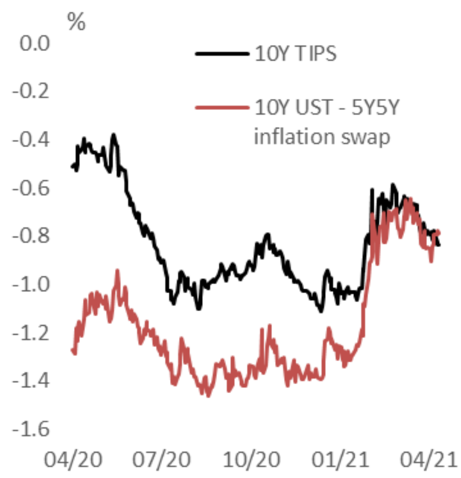
- Treasuries pared back early gains upon Yellen's comment that interest rates will have to rise somewhat, with the 10Y bond trading in an intraday range of 1.55%/1.62%; yields still ended the day mildly lower on bearish equities. Market awaits supply schedule for the coming months, and NFP/jobless claims on the data front. The risk sentiment, however, appears to be the driving forces for the bond market near-term.

- The Fed's o/n reverse repo operation absorbed USD147.8bn, still a relatively big amount. The effective Fed fund rate edged back up to 6bp on Monday. These were against the uptick in Treasury's cash balance in recent days which will not last. On balance, liquidity stays flush and there are more injections via bill supply reduction/Fed purchases down the road. The liquidity situation keeps the debate on potential tweaks to administered rates alive.

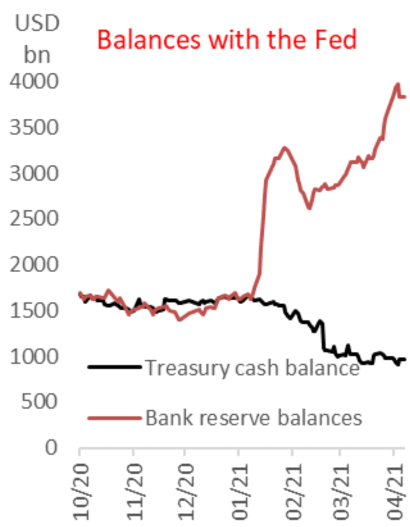
- The Bank of England is widely expected to keep its bank rate and asset purchase target amount unchanged on Thursday. There is a possibility for a plan to taper the weekly purchases, to avoid an early end to the purchase program. SONIA pricing is already hawkish; any tapering intention to bring down the weekly amount to a level above GBP3.0bn appears unlikely to push the market further. A weekly purchase of GBP3.0-3.5bn means another taper is probably required later in the year for the program to run through year-end.

- RBA said to consider whether to keep the April 2024 bond as the target at its July meeting. Yield on the Nov 2024 bond edged up mildly. Remaining tenors shift along with time and a switch will come ultimately – hence it is no longer much of an early move by July. Nevertheless, there is scope for the 20bps spread between the Nov 2024 and Apr 2024 bonds to narrow. The central bank also said it will, at the July meeting, consider future bond purchases beyond September.

- The Bank of Thailand is widely expected to stay put on policy rate later today. After the recent flattening move, the 3s10s part of the LB curve is less than one standard deviation wider than 6M average, which ranks in the middle of Asian peers and looks fair.



Source: Bloomberg, OCBC



Source: Bloomberg, OCBC

IDR:

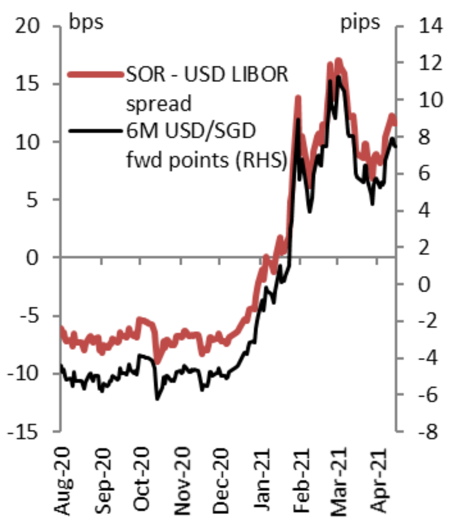
IndoGBs traded slightly on the bid side on Tuesday, upon lower UST yields the day before and the lower USD/IDR. DNDF continued to come as an affordable alternative. Meanwhile, the sukuk auctions drew an incoming bid of IDR19.9trn, while the issuance met target, finally, at IDR10trn. Despite these pieces of good news, yields appear to be lacking momentum to push lower, as onshore investors may stay on the sidelines ahead of the holiday. The 10Y IndoGB yield is likely to be stuck in a range of 6.4%-6.55% near-term.

MYR:

MGS yields edged lower on Tuesday taking cue from the UST market. The long-end underperformed amid supply concerns. The curve has steepened back mildly of late in line with our view; the steepening momentum appears to have further to go, and we continue to expect the 3s10s segment to trade in a range of 75-90bps. April saw another month of bond inflows.

SGD:

The tightening of social distance measures together with the soft April PMI print this morning may lend marginal support to the rates/bond market. SGD forward points appear to have settled at current levels, with a lack of buy/sell flows amid the flush USD liquidity while SGD liquidity is not tight either. 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; the 5Y bond, being of a slightly longer tenor than the current benchmark, may garner decent demand looking for a yield pick-up.



Source: Bloomberg, OCBC

TWD

The 10 TGB auction cut off at 0.4%, with a b/c ratio of 1.84x. Yields are likely capped by demand from major investors, while the subdued risk sentiment is hurting risk assets at the moment. TWD swap points, meanwhile, have been stuck in a range of late. Flush USD liquidity and potential RHS pressure from FX operations are supporting the points. However, TWD liquidity is not tight, while lifer flows shall be counteracting over the medium term especially given that the hedging costs are not high. On balance, despite short-term factors being supportive of the swap points, investors may choose not to chase the points higher from here. April CPI is expected to have edged mildly higher. Latest MPC minutes revealed that members were generally not concerned about inflation risk.

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