OCBC TREASURY RESEARCH

Daily Market Outlook

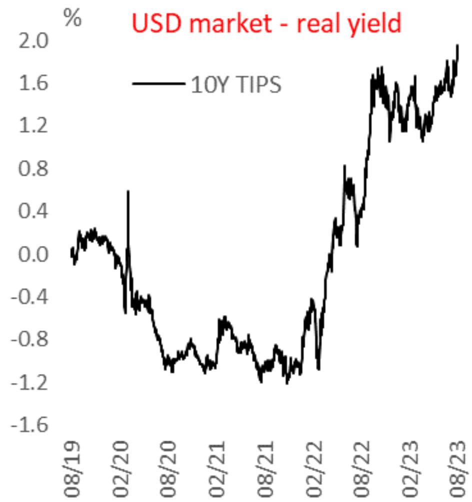
18 August 2023

Mixed Sentiment

Frances Cheung, CFA
Rates Strategist
+65 6530 5949
FrancesCheung@ocbc.com

Treasury Research
Tel: 6530-8384

- **USD rates.** USTs ended the NY session mixed with the curve steeper. Yields retraced from session highs with the 2Y yield ending lower but the 10Y yield continued to be supported by real yield which rose to 1.943%. Initial jobless claims and continuing claims released overnight were mostly in line with expectation; next week brings existing and new home sales, and PMIs. The 4W and 8W bill auctions went well, with b/c ratios at 2.67x and 2.89x respectively, similar to previous levels; indirect award went higher to 54.5% from 49.5% at the 4W bill sales. Net bill supply has been planned at USD70bn next week while there is also the auction of USD24bn of the 2Y FRN (reopening). UST yields edged lower during Asia morning. Again, it is difficult to pin down where the equilibrium real yield level should be and it depends to a large extent on which episodes are used for comparison. On balance, the recent upticks in yields appear overly rapid and risk-reward may not justify chasing yields higher. We maintain a downward bias to UST yields on a multi-month horizon.



Source: Bloomberg, OCBC Research

- **CNY and CNY rates**. PBoC said in its Q2 monetary policy report that it would correct for cyclical and one-sided market movement in the RMB if need be – this is seen as a fairly explicit statement saying that they will be (or have been) intervening. USD/CNH fell by more than 450pips upon news headline on the PBoC comment itself and also on unidentified report saying the authorities told state banks to escalate yuan intervention. USD/CNH fell further at Asia open and stayed at the lowered range shortly after USD/CNY fixing came in around 1000pips lower than expected. However, the pair has since edged higher amid the local equity sell-off. How the risk sentiment can be supported on a more sustained basis remains to be seen. Apart from the fixings and intervention, market contemplates the possible tools that may be deployed to slow RMB weakness, which include reserve ratio cut at foreign currency deposits, increase in FX risk reserve requirement, or a tightening in CNH liquidity. The latter two – if deployed - would exert upward pressure on CNH points and as such we prefer to stay on the side-lines on the FX swap curve. On the monetary policy front, the stance remains pretty much the same and focuses on targeted measures which do not point to substantial, across-the-board measures. Nevertheless, since MLF rate has been cut, market is looking for LPR cuts as well; asymmetric cuts cannot be ruled out to support the property sector.

- **GBP rates**. Gilts underperformed again as market continued to react to the inflation data prints earlier in the week – wage growth and core CPI, which show that the disinflation path may not be a one-way train, with risk of second-round effects staying persistent. We expect a further 25bp hike likely to be delivered at the September MPC meeting, with risk that more tightening may come. GBP OIS pushed up pricing of peak rate to 6.07% which looks hawkish, although market may be happy to hold onto this expectation.

- **MGS** stayed resilient on Thursday with short-end yields little changed while long-end yield only edged up by 1-2bps. The domestic bonds are trading on the strong side this morning, while the MYR also strengthened as the RMB support may have a spillover effect. Malaysia Q2 current account came in strong at MYR9.1bn, versus MYR4.3bn in Q1 and MYR4.4bn in Q2-2022. BNM opined that it sees limited risks of future financial imbalances; this supports our view that the OPR is likely to stay unchanged for the rest of the year. We remain of the view that the 3Y MGS yield shall be well anchored as its spread with OPR appears fair while the bond supply outlook is neutral.

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau
cindyckeung@ocbcwh.com

Herbert Wong
Hong Kong & Macau
herberthtwong@ocbcwh.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
JonathanNg4@ocbc.com

Ong Shu Yi
ESG
ShuyiOng1@ocbc.com

FX/Rates Strategy

Frances Cheung
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Chin Meng Tee
Credit Research Analyst
MengTeeChin@ocbc.com

Co.Reg.no.:193200032W