

Daily Market Outlook

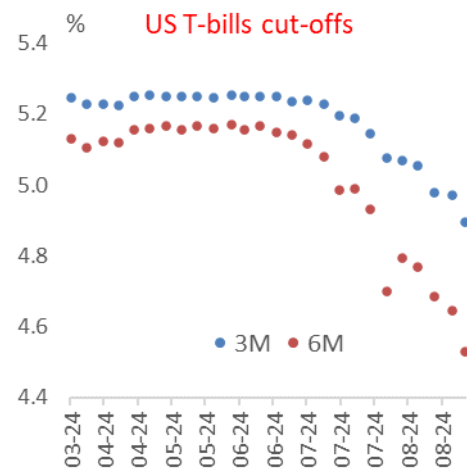
10 September 2024

Rates and yields in ranges

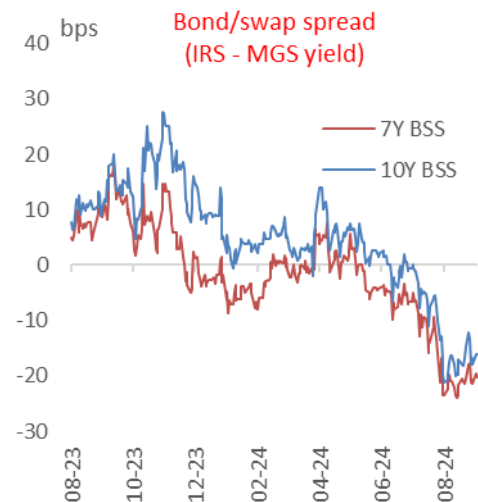
- USD rates.** USTs traded in ranges during Asia and London sessions through to NY session on Monday. Fed funds futures pricing was little changed, with a 31% chance seen for a 50bp cut next week, a total of 112bps of cuts before year end, and a total of 137bps of cuts for 2025. Overnight, the 3M and 6M T-bills continued to garner decent demand, with the cut-off at the 6M T-bills coming in at 4.530% which was 11.5bps lower than that at the previous auction. The spread between 6M and 3M cut-offs widened to 36.5bps, implying a 3M3M rate of around 4.11% reflecting expectation for the 3M yield to fall by 79bps in three months' time which looks roughly fair. Our base case remains for a 25bp Fed funds rate cut at the September FOMC, but we have added one 25bp rate cut back to our expected profile for this year, now expecting 75bps of cuts by year-end, with a 25bp cut expected at each of the meetings in September, November, and December. We maintain our expectation for 125bps of cuts for 2025. At the longer end, the 2% level proved to be sticky for the 10Y breakeven, but the 10Y real yield stays under downward pressure, pushing the 10Y UST yield to our near-term expected floor of 3.70%. Next on the economic data calendar is August CPI, but this is unlikely to move the needle for the monetary policy outlook given activity data dominate the rate cut narrative. We expect headline inflation to have eased on base effects, while core inflation may have held steady. USTs are likely to stay rangy in the next couple of days, in the absence of major catalysts while the FOMC is in a blackout period. Near-term range for the 10Y yield is now seen at 3.65-3.75%.
- MYR rates.** MGS has been fairly stable in the face of the more volatile USTs; MGS yields and MYR IRS were little changed over the past couple of days. Monday's reopening of 20Y MGII garnered a bid/cover ratio of 1.922x; although not as overwhelming as some of the earlier auctions, demand was still decent. Cut-off came in at 4.091%, within expected range; the bond was trading at a similar level after auction. Onshore MYR bonds registered strong inflows of MYR9bn during August, with inflows into MGS/MGII amounting to MYR6.95bn (including bills it was MYR8.3bn). MGS have underperformed USTs in rallies, in line with our medium-term view. Yield differentials became more favourable for the domestic bonds as a result. Meanwhile, MYR basis have edged lower while bond/swap spreads (IRS – bond yield) are negative, supporting asset-swap pick-up for foreign

Frances Cheung, CFA
 FX and Rates Strategy
FrancesCheung@ocbc.com

Global Markets Research and Strategy



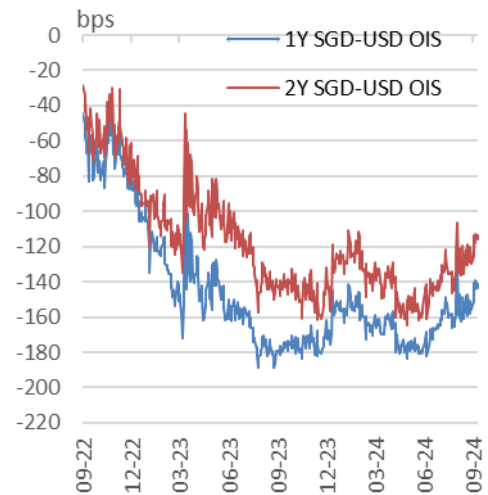
Source: Bloomberg, OCBC Research



Source: Bloomberg, OCBC Research

investors. BNM Deputy Governor was quoted as saying “there’s no real compelling reason or any pressure on interest rates to move in either direction at this stage, though we have to be open to consider the risks going forward”. OCBC economists continue to expect BNM to maintain status quo until there is further clarity on the fiscal front. In terms of data releases, wholesale and retail sales value growth accelerated to 6.7%YoY in July; number of unemployed persons was lower by 1.6K to 563.7K in July with the jobless rate held at 3.3%.

- SGD rates.** In the latest leg of downward move in rates since mid-August, SGD rates underperformed USD rates in line with historical pattern and our medium-term view. The passthrough rates from the falls in USD rates onto SGD rates were around 50%-70% across the 1Y to 20Y tenors. As a result, SGD-USD OIS spreads became less negative. This spread normalization may be extended should MAS ease its S\$NEER policy. Today brings the auctions of 4W and 12W MAS bills. 1M and 3M implied SGD rates were trading at 3.12% and 3.06% respectively this morning, which were 14bps and 13bps lower than the levels around the time of last week’s auctions. Range for the 4W cut-off is seen at 3.38%-3.45% and that for the 12W cut-off is seen at 3.33%-3.39%. On Thursday, SGD6.9bn of 6M T-bills are auctioned. 6M implied SGD rate has fallen by 11bps since the last T-bill auction; the 6M T-bill may probably cut off at around the 3% handle as per this morning’s market level.



Source: Bloomberg, OCBC Research

Macro Research

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

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

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

Herbert Wong
Hong Kong & Taiwan Economist
herberhtwong@ocbc.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 Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
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

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.: 193200032W