

Daily Market Outlook

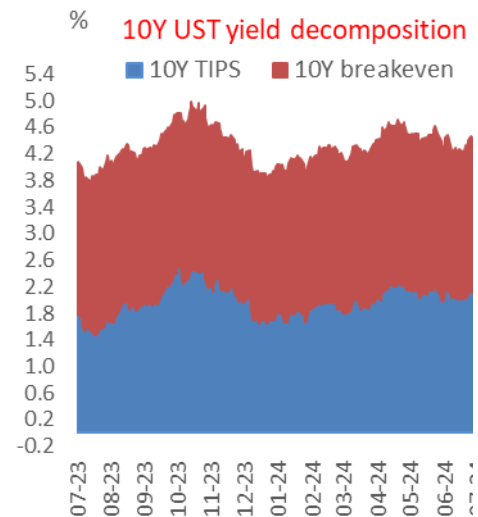
15 July 2024

Rangy US yields near-term

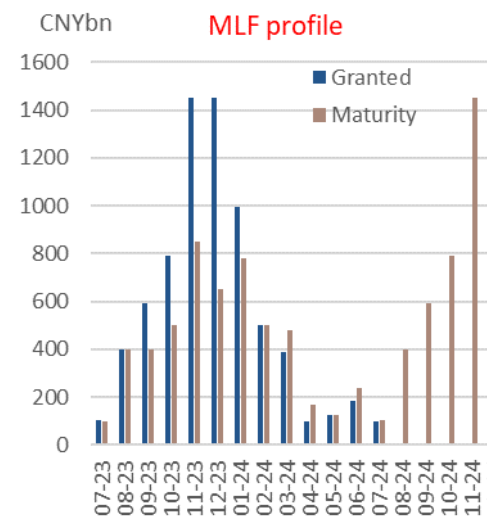
- USD rates.** UST yields fell further on Friday as market held onto rate cuts expectation, despite the higher-than-expected PPI as the earlier CPI outcome was apparently a heavier weight. Fed funds futures last priced 62bps of rate cuts by year-end with a 25bp cut by the September FOMC meeting almost fully priced in; market also priced more than 110bps of cuts for 2025. UST futures fell at Asia open, given development in US domestic politics over the weekend which was perceived to have added to inflation and fiscal pressure. Examining market performances in past election cycles, we however do not make generalised conclusions on market implications of certain election outcome. Our view is that wide fiscal deficits are here to stay, regardless of which candidate wins. For the next couple of quarters, we assume additional funding needs to come mainly from bill issuances which shall be manageable (next quarterly update by US Treasury is scheduled for 29 July). That said, we see long-end UST yield as sticky downward. First, investors may still want to assume a higher term premium in the interim; second, 10Y breakeven at 2.25% looks fair while further downside to real yield may require additional evidence on the softness in the US economy – and this takes time to show up in the data. For this week ahead, there are releases of second-tier data, including retail sales, housing starts and jobless claims, among others. Range for the 10Y UST yield is seen at 4.10-4.30% near-term. At the short end, given the recent dovish adjustment, yields may also trade in ranges this week before the next trigger.
- CNY rates.** PBoC granted CNY100bn of MLF, virtually fully covering the CNY103bn that matured; MLF rate was kept unchanged as expected. While the MLF rate has become increasingly irrelevant, outstanding MLF may decline only gradually over time with still some market demand for the facility. The maturity amounts are relatively high in some of the months ahead; unless the liquidity is replaced by one that is released by an RRR cut, some partial rollover will likely be needed. Q2 GDP printed 4.7%YoY against consensus of 5.1%. June retail sales came in weak at 2.0%YoY while property investment was down 10.1%YoY year-to-June in line with expectations; these underline the current pain point in the domestic economy. CGB yields were a tad higher this morning despite the GDP miss, probably as investors stay cautious amid a slew of guidance from the policy makers. Repo-IRS traded on the

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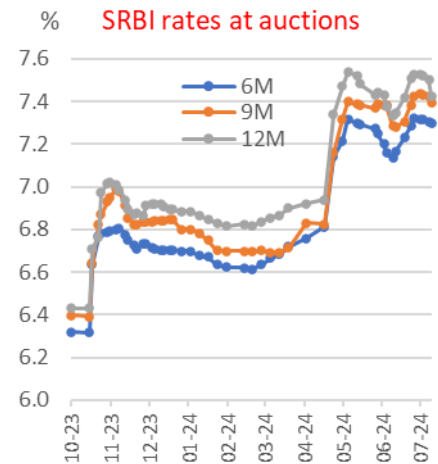
Source: Bloomberg, OCBC Research



Source: CEIC, OCBC Research

soft side, but price action is limited, as investors hold low conviction of a near-term rate cut. In offshore, as pressure on spot stays, CNH liquidity remains as a tool that will be deployed; 1W implied CNH rate was higher and last at 3.771%. The whole CNH DF curve has been well supported with spillover from the front-end and as USD rates fell.

- IndoGBs** trading was quiet on Friday, with some bonds being offered amid profit-taking flows. At Friday's SRBI auction, the rates came in lower at 7.29783%, 7.3951% and 7.42592% for 6M, 9M and 12M SRBIs respectively. The 12M SRBI rate has fallen by a cumulative 10bps since the auction on 3 July. Bank Indonesia is expected to keep its key BI Rate unchanged at 6.25% this week; the mild easing in SRBI rates of late may add to the view that peak rate has been reached and the next move is more likely to be a rate cut rather than a rate hike. On supply, Tuesday's sukuk auction has a target of IDR10trn; with 6 conventional bond auctions and 7 sukuk auctions this quarter, a IDR24trn/10trn combination (we had earlier assumed IDR22trn/12trn) is consistent with quarter-target of IDR215trn. Over the five business days to 11 July, foreign holdings of IndoGBs (including bills) edged up by IDR4trn; holdings by banks fell, while holdings by Bank Indonesia and non-bank domestic investors rose. Again, the dilemma is that domestic demand is capping domestic yields, resulting in a lack of material improvement in IndoGB-UST yield differentials.



Source: Bank Indonesia, OCBC Research

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