Daily Market Outlook

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Rates and yields in ranges

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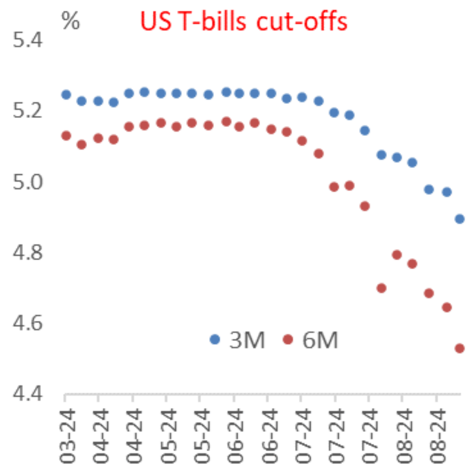
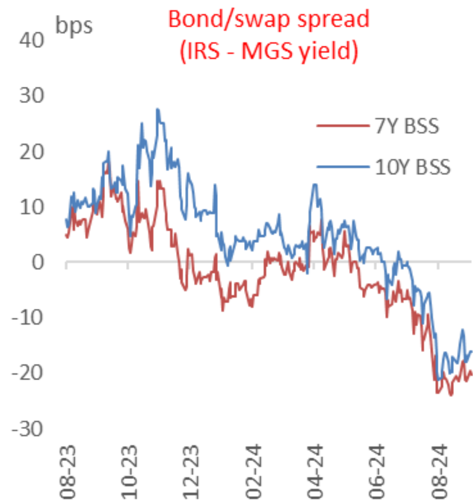
- **USD rates**. USTs traded in ranges during Asia and London sessions through to NY session on Monday. Fed funds futures pricing was little changed, with a 31% chance seen for a 50bp cut next week, a total of 112bps of cuts before year end, and a total of 137bps of cuts for 2025. Overnight, the 3M and 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%.



Source: Bloomberg, OCBC Research

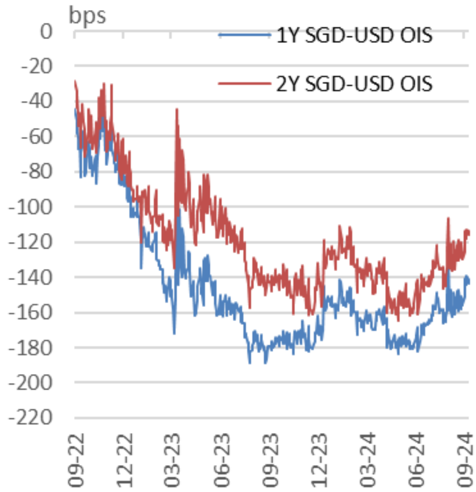
- **MYR rates**. MGS has been fairly stable in the face of the more volatile USTs; MGS yields and MYR IRS were little changed over the past couple of days. Monday's reopening of 20Y MGII garnered a bid/cover ratio of 1.922x; although not as overwhelming as some of the earlier auctions, demand was still 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



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

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