Daily Market Outlook

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Progress in CPI and steepening momentum

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- **USD rates**. UST yields slid as June CPI cooled on various aspect. The curve steepened as short-end bonds are more sensitive to monetary policy outlook while investors added to rate cuts expectations. Fed funds futures last priced 62bps of rate cuts by year-end with a 25bp cut by the September FOMC meeting fully priced in; market also priced more than 110bps of cuts for 2025. US CPI outcome is encouraging – Fed's Goolsbee even describe it as "profoundly encouraging". In particular, year-on-year core services inflation, rent of shelter inflation, and services less rent of shelter inflation all eased. We do turn a bit cautious against the potential for core good price inflation to go further deeper into deflation in the months ahead though. Daly commented after the latest CPI release that given the recent data and the outlook for the economy, she sees it as "likely that some policy adjustment will be warranted. At the longer end of the curve, the adjustment in the 10Y UST yield was driven by falls in both breakeven and real yield instead of being primarily driven by real yield; if 10Y breakeven moves nearer the Fed's 2% target, that would open up room for a further 10-20bps of downside to the 10Y UST yield, but we suspect long-term inflation expectation would mostly stay somewhere above 2% for now on the general assumption that inflation shall be structural higher in the longer term. Upon additional soft data prints, the curve is more likely to react in a steepening manner.

- **MYR rates**. MGS yields opened a tad lower this morning following the soft US CPI prints, but in a timid manner compared to the moves in USTs in line with our view for relative MGS stability. Domestically, BNM kept OPR unchanged as widely expected; the central bank has maintained a sanguine outlook on domestic growth and noted inflationary pressures remain manageable. Market reaction was limited as there was no surprise. We continue to expect OPR to be kept unchanged for the rest of 2024. A steady policy rate, combined with some investor demand for duration, may render any steepening momentum on the MGS curve not as strong as our expected steepening on the UST curve. Today's focus is the reopening of the 10Y MGII which shall garner solid demand. The bond supply outlook has stayed neutral; key swing factors are net bills issuance and the fiscal outcome itself. Net bills issuance was virtually flat year-to-June, versus a reduction of MYR11.5bn in the whole of 2023; if there is no

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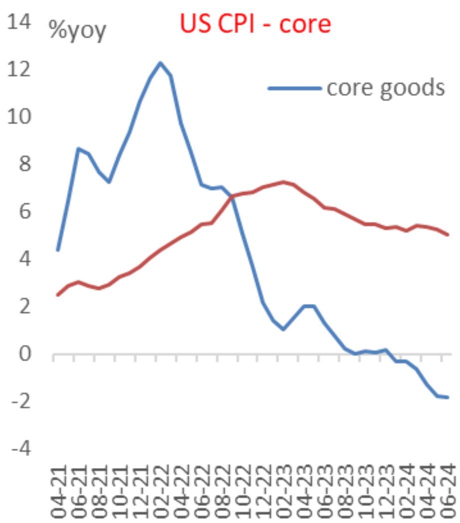
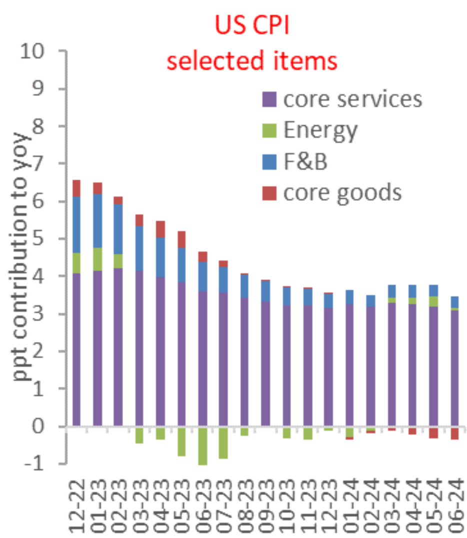


Source: CEIC, OCBC Research



Source: CEIC, OCBC Research

material reduction in net bills issuance (i.e. net bills paydown), then it will be marginally favourable for MGS+MGII supply.

- **SGD rates**. SGS traded little changed on Thursday ahead of US CPI prints. Scatters of selling at long-end SGS were seen, probably as investors position for the upcoming reopening of 15Y SGS, the size of which will be announced on 23 July and auction is to be held on 29 July. Asset swap pick-up was last at around SOFR+85bps (before bid/offer spreads) at 15Y SGS, and at around SOFR+93bps at 20Y SGS; pick-up has narrowed mildly compared to a month ago but remained favourable. On rates side, SGD OIS were offered down by 5bps and 8bps thus far this morning, underperforming USD rates which is in line with historical observation; nevertheless, the underperformance is very mild.

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