

## Daily Market Outlook

17 July 2024

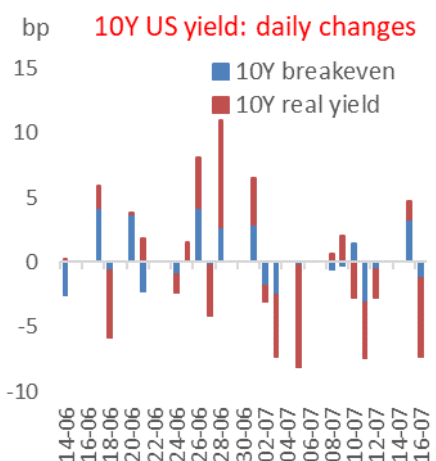
### UK inflation; Fedspeak before blackout

- USD rates.** The UST curve bullish flattened overnight, as the lower-rate view gained traction which might have led to some buying of duration. The fall in the 10Y UST yield was led by lower real yield, despite the somewhat neutral retail sales prints. 10Y real yield has fallen by a cumulative 25bps since the recent high on 1 July; it has been our view that *downside to nominal yield would require real yield to go lower*. The downward adjustment in real yield came earlier than we had expected, with the 10Y nominal yield having moved near our end-year target of 4.05%. We next wait for short-end USTs shall catch up in rally to add back to the steepening momentum on the curve. There is a line-up of Fed officials speaking before the blackout period, while the Beige Book may also shed more light on the latest information collected from local contacts. Range for 10Y yield is seen at 4.10-4.25% and for 2Y yield at 3.34-3.46%, before the next catalyst.
- GBPUSD** continues to be enjoying a moment of relative outperformance as the new Labour government arrives, but we suspect the rally may be losing some momentum over the near term as market had moved in advance. Nonetheless, New Prime Minister Starmer’s dropped some hints on re-engaging with the EU on goods and services and positive outcome could have meaningful upside to GBP in the medium term. With improving UK economy and somewhat hawkish comments from BoE officials of late, today’s CPI print will be scrutinized as investors contemplate whether BoE will start the rate cut cycle in August and our base case is a total of 50bps of cuts in the Bank Rate by year-end. While heavy deflation in the energy component should keep the headline inflation near the 2% target in June, core inflation may have remained sticky. Focus will again be on services inflation which was 5.7% YoY in May. For now, we expect GBPUSD to trade with a consolidation pattern before breaking through the next medium-term resistance at 1.3000-1.3141.
- CNY rates.** Long-end CGBs continued to underperform mildly on the curve, with a steepening bias seen at various segments. Expectation, while being somewhat pared back, remains for some form of monetary policy support down the road; meanwhile, bond supply and policy makers’ guidance are weighing on long-end bonds. The upward adjustments in longer-end yields have been slow, not least because of the subdued risk sentiment leading to safe-haven flows to bonds. In offshore, front-end implied CNH

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Global Markets Research and Strategy



Source: Bloomberg, OCBC Research

Source: CEIC, OCBC Research

rates spiked up intra-day on Tuesday, with the 1W rate touching 4.5% for example. As the CNY and CNH underperformed regional peers amid a soft dollar backdrop, CNH liquidity may still be deployed from time to time as a tool to smooth spot movement.

- SGD rates.** SGD OIS faced a fair bit of receiving interests on Tuesday, outperforming USD OIS. We do not expect this outperformance when rates fall to become a trend. Cut-off at the 4W MAS bill was at 3.84%, and that at the 12W MAS bills was at 3.80%; these were within our expected range of 3.80-3.85%. As for Thursday’s 6M T-bills auction, the offer amount is SGD6.8bn which is a tad higher than those at the previous two auctions. 6M implied SGD rates has dropped by a cumulative 11bps since the last T-bills auction. T-bills cut-off may fall to the 3.60-3.65% area probably nearer the 3.60% handle. The size of the upcoming reopening of 15Y SGS is to be announced on 23 July. We expect this issue to attract some foreign interest on the asset-swap pick-up which was last at around SOFR+78bps (before bid/offer spread).
- MYR rates.** MYR IRS were offered down by 2-5bps on Tuesday, while the movements in MGS were more timid, leading to swap outperformance. Bond swap spreads (IRS – bond yields) appear narrow (negative for some tenors) and we see room for bond/swap spreads to widen mildly from here. Demand is likely to be solid at Friday’s reopening of 15Y MGS; investor preference for duration was seen at recent auctions. This preference, couple with our stable OPR outlook, may mean any steepening momentum on the MGS is unlikely to be strong.



Source: Bloomberg, OCBC Research

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