Daily Market Outlook

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BoJ to further normalise policy; MAS bills results and 15Y SGS size

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- **DM rates**. The UST curve pivotal steepened overnight, with short-end bonds outperforming as the 2Y coupon bond auction went well. Otherwise, data releases overnight were of second tier underpinning our near-term range-trading view before Friday's PCE. July Philly Fed non-manufacturing activity index printed a minus 19.1, Richmond Fed manufacturing index printed a minus 17, and existing home sales fell by 5.4%MoM in June. The 2Y coupon bond sales garnered decent demand, with a bid/cover ratio of 2.81x; indirect accepted was higher at 76.6% versus 65.6% prior. For the rest of the week, there are sales of USD30bn of 2Y FRN (a small upsize from the previous USD28bn), USD70bn of 5Y bond (same size), and USD44bn of 7Y bond (same size). Settlement of these bonds is on 31 July at a net USD76.4bn. **Bunds** outperformed on Tuesday, reversing the previous day's underperformance. ECB Vice President Guindos commented that they are already seeing wages starting to slow down and "September is a much more convenient month for taking decisions than July was". Granted, Guindos did not hint on what decision is to be made. Our base case remains for 50bps of additional rate cuts by the ECB before year end, with the next 25bp cut expected in September. EUR OIS pricing was little changed, suggesting there was a mild narrowing in the bond yield premium. This fits into our notion that there is further downside to short end yields even if market pricing of policy rates stays steady in the respective market, as the yield premium can vary while the present value of expected short-term rates will change over time.

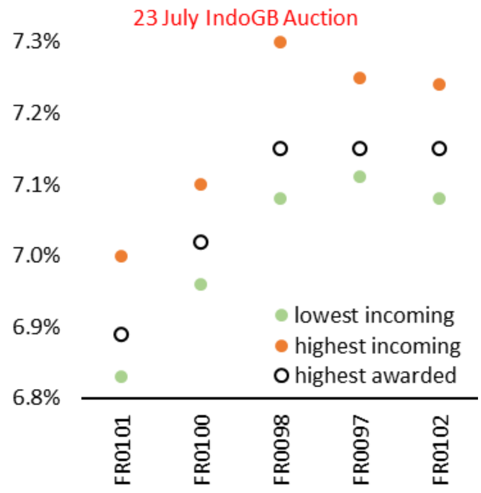
- **JPY rates**. JGB yields continued to grind higher. The macro backdrop is constructive for BoJ to go ahead with further monetary policy tightening in terms of both the policy rate and its balance sheet. Our base-case is a 10bp hike in the BoJ target rate at the July MPC, which is not fully priced by the market. Meanwhile, to achieve "a sizeable reduction in the purchase amount" of JGBs, we expect the BoJ to tweak its monthly purchase guidance of JPY6trn to around JPY4trn. There are some JPY15-19trn of JGBs held by the BoJ maturing in each quarter. A monthly purchase pace of JPY4trn would translate into passive QT of around JPY22trn on a one-year horizon counting from this quarter, which still represents a slow pace of balance sheet run-off given the balance sheet size of JPY754trn. The BoJ will probably feel

Source: Bloomberg, OCBC Research

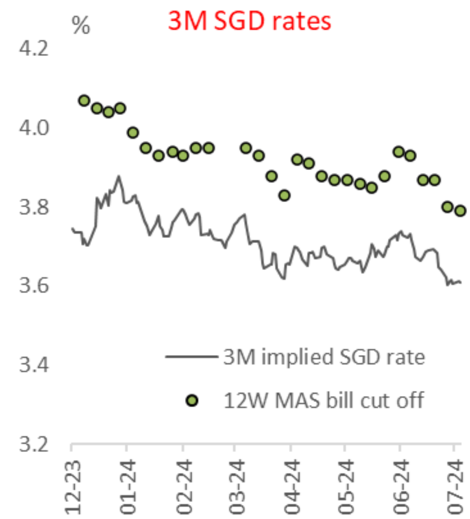
comfortable to start with such pace. We continue to see the next support for the 10Y JGB at 1.15-1.25% in terms of yield.

- **IndoGBs** traded mixed on Tuesday. Yesterday's conventional bond auction garnered decent incoming bid amount of IDR57trn, the biggest amount since the 13 March auction. The auction benefitted from the cheapening in the bonds over the recent days. MoF managed to issue as per target of IDR22trn, while keeping cut-offs below the mid-point of lowest and highest incoming bid levels. That said, post auction trading was somewhat mixed, and some profit-taking flows were seen. Interesting to note is the size of the next sukuk auction has been reduced to IDR8trn from IDR10trn prior. There may be leeway to increase the reliance on pre-funding, international bonds, and/or retail tranches.

- **SGD rates**. Long-end SGS underperformed on the curve, as investors probably tried to reduce duration ahead of the 15Y SGS (reopen) auction next Monday. The size of the 15Y SGS has been announced at SGD1.7bn, with MAS intending to take SGD200mn. The size is within expected range and keeps gross issuance on track to our full year expectation of SGD28-30bn assuming 4-5% growth in outstanding SGS this year, probably towards the lower end. We expect the bond sales to be readily absorbed on asset-swap pick-up, and on potential appetite for duration if the lower rate-view becomes more entrenched. At the front-end, cut-offs at Tuesday's 4W MAS bills and 12W MAS bills came in at 3.80% and 3.79% respectively. The 12W cut-off was at the lower end of our expected range, while the 4W cut-off was a tad lower than expected, reflecting flush liquidity. The implied 3M3M rate from the recent 12W MAS bills cut-off and 6M T-bill cut off (although we note the difference between the two instruments) was 3.46%, continuing to reflect a lower rate view. On the data front, June CPI eased by more than expected to 2.4%YoY, while core CPI also edged lower to 2.9%YoY after staying at 3.1%YoY for three months. The June outcome underpins our medium-term view for S$NEER to ease somewhat from Q4, as we noted there was a positive correlation between the change in S$NEER and MAS core inflation. As for the more near-term decision, the MAS-MTI assessment of inflation risks ahead remain largely static, suggesting MAS is comfortable to maintain current S$NEER policy settings this Friday.



Source: DJPPR, OCBC Research



Source: MAS, Bloomberg, OCBC Research

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