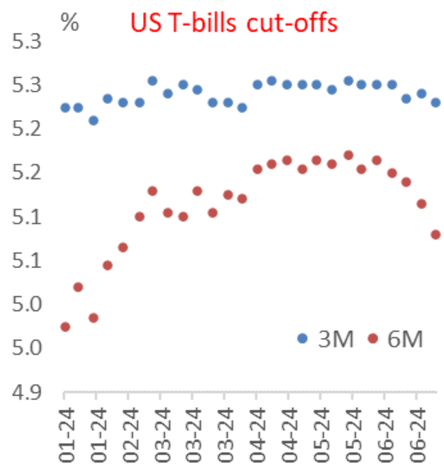
Daily Market Outlook

9 July 2024

US T-bills; MAS bills; BoJ JGB purchases

- **USD rates**. USTs traded in ranges overnight in the absence of fresh catalysts, while investors await Powell's semi-annual testimony. T-bills auctions overnight were well received, with cut-offs a tad below WI levels; the 6M bill cut-off was at 5.08%, which was 3.5bps lower that at the previous auction. The spread between the 3M bill cut-off and 6M bill cut-off widened to 15bps from 12.5bps prior, reflecting increased expectation for rate cuts. Fed funds futures last priced a total of 50bps of cuts by year-end, in line with our base-case. Over the week, there is net bills settlement of USD36bn, which shall lead to some reduction in Fed's reverse repo usage. Usage at the Fed's overnight reverse repo was at USD415bn on Monday. On coupon bond side, USD58bn of 3Y bond, USD39bn of 10Y bond and USD22bn of 30Y bond are to be auctioned this week; these sizes are the same as those in June and settlement will be done next week. Range for the 2Y UST yield is seen at 4.55-4.65% and for the 10Y UST yield at 4.20-4.35%, before June CPI data on Thursday. Headline CPI is likely to show some further easing year-on-year, while uncertainty lies on core CPI.

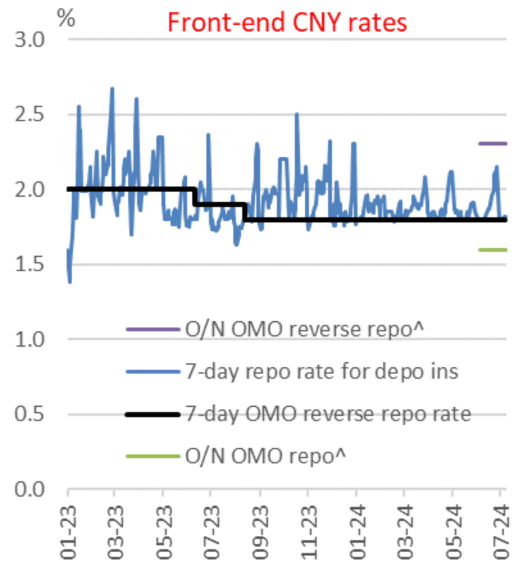


Source: Bloomberg, OCBC Research

- **JPY rates**. Media reported that the BoJ would talk to market participants over the coming days to gauge potential reduction of its bond purchases. In the Summary of Opinions for the June MPM, the central bank opined "it is appropriate for the Bank to make a sizeable reduction in the purchase amount" of bonds. To achieve "a sizeable reduction", we expect the BoJ to tweak its monthly purchase guidance from JPY6trn to JPY4.0-4.5trn – which still does not represent a rapid pace of balance sheet run-off and hence, risk to our expectation of JGB purchase amount is to the downside. We continue to see the next support for the 10Y JGB at 1.15-1.25% in terms of yields. On policy rate, JPY OIS last priced a total of 20bps of rate hikes by year-end, which is in line with our base-case.

- **SGD rates**. Today brings the auctions of SGD15.2bn of 4W MAS bills and SGD22.2bn of 12W MAS bills. The 1M and 3M implied SGD rates were last at 3.66% and 3.69% respectively; cut-offs may come in the range of 3.85-3.90% assuming the yield premium remains. Last week's 6M T-bills cut off at 3.70%, down 4bps from the previous auction, mostly following market implied rate. As we look for some 20-30bps of downside for short-end SGD rates between now and year end, we expect T-bill yields to go mildly lower as well. Further out the curve, the next supply is the reopening of 15Y SGS on 29 July – the size of which will be announced on 23 July. This bond is likely to attract foreign demand. Asset swap pick-up has remained favourable at long-end SGS, as the SGD basis curve is deeply inverted while the SGD OIS curve is also mildly inverted. Pick-up was last around SOFR+80bps (before bid/offer spreads) at 15Y SGS and around SOFR+90 at 20Y SGS.

- **CNY rates**. Repo-IRS and CGB yields mostly eased this morning, as investors digested recent PBoC announcements including overnight repo and reverse repo operations. Before mid-2012, PBoC conducted repo operations more often than reverse repo operations, because of the prevailing market conditions then. Market demand for OMO repo may be on the low side currently, but resuming the operations even at minimum amounts could help build an interest rate corridor. The 2Y CGB yield is moving back nearer the 1.6% mark – the mentioned rate for overnight OMO repo; further rally in 2Y CGB shall be contained for now. In offshore, some bidding at T/N was seen yesterday, while front-end CNH points were trading a tad higher. A total of RMB9bn of offshore CGBs are to be tendered on Wednesday, comprising RMB3bn each of 2026, 2027 and 2029 bonds (reopening). While these sales may have a marginal impact on CNH liquidity in the interim, the bonds shall be readily absorbed given the RMB1.134trn of offshore CNH deposits in Hong Kong. Separately, PBoC announced this morning that investors can use onshore CGBs and PFBs as collaterals for Northbound Swap Connect transactions. This followed the earlier arrangement which allow these bonds to be used as collaterals for HKMA's RMB liquidity facility. Near-term impact on market direction is minimum – and hence in no contradiction to cyclical/anti-cyclical policies; over time these measures shall add to the incentive for offshore investors to accumulate onshore bonds.



Source: Bloomberg, OCBC Research

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