GLOBAL MARKETS RESEARCH

Daily Market Outlook

14 May 2024

IndoGB auction; China bond supply

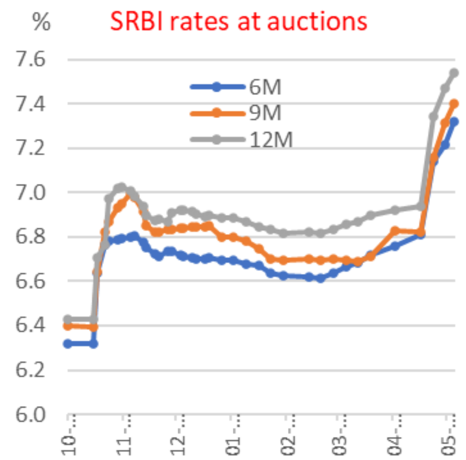
Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Global Markets Research

Tel: 6530 8384

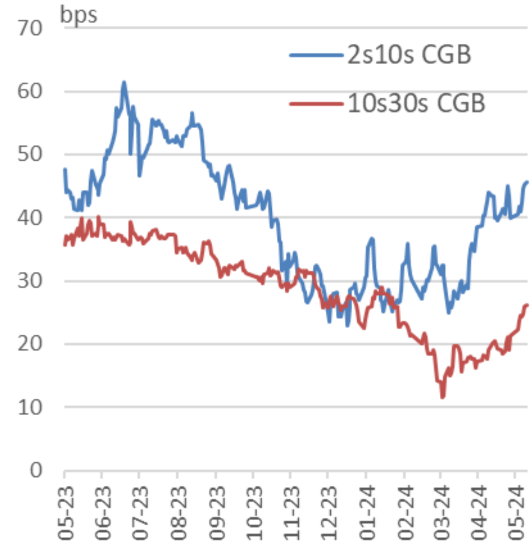
- **USD rates**. USTs were in consolidation mode after recent rallies and ahead of the key CPI release on Wednesday. USTs pared back earlier gains after NY Fed 1-yr inflation expectation printed higher at 3.26% in April versus the 3.00% in March, ending the day with yields 1bp lower across the curve. Consensus is looking for some mild easing in both headline and core CPI; the base effect was largely favourable in the month, with the swing factor being energy. 10Y UST yield was last at 4.485%, just below the key 4.5% level - the resistance (for the bond) that we have been watching as staying below this level would require breakeven and/or real yield to stay out of recent ranges. Fed Vice Chair Jefferson said the Fed continue to look for additional evidence that inflation is going to return to target and "until we have that, I think it is appropriate to keep the policy rate in restrictive territory". Spread between the cut-offs at the 3M and 6M T-bills auctions stayed narrow, at -8.5bps, reflecting expectation for a stable monetary policy in the months ahead. Fed funds futures price a 27% chance of a 25bp cut by the July FOMC meeting.

- **IndoGBs** traded weaker on Monday as investors positioned for today's supply. Today's conventional bond auction comprises the reopening of FR101 (2029 bond), FR100 (2034 bond), FR098 (2038 bond), FR097 (2043 bond), FR102 (2054 bond) and bills. Indicative target is IDR22trn with the possibility to be upsized to IDR33trn. To recap, demand recovered at the last conventional bond auction on 30 April which came after the rapid adjustment higher in IndoGB yields – suggesting the higher yields had rendered the bonds appealing to some investors. The dilemma here is that domestic demand may prevent IndoGB yields from rising to levels that are perceived as decisively appealing to foreign investors. A lower US yields environment is needed, after all, for inflows to make a strong comeback to the IndoGB market. Last Wednesday's SRBI auctions saw rate rise further to 7.31801%, 7.40000% and 7.53780% for the 6M, 9M and 12M tenors respectively. This may limit any rally in short-end IndoGBs. Over the three SRBI auctions after the April BI policy rate hike of 25bps, SRBI rates rose by a cumulative 51bps, 58bps and 60bps at the 6M, 9M and 12M tenors, respectively. These increases were more than the cumulative increases over the three SRBI auctions after the October BI policy rate hike. High SRBI rates may keep investors cautious at short-end IndoGBs.



Source: Bank Indonesia, OCBC Research

- **CNY rates.** MoF released auction schedule of special ultra-long CGBs. Special bond Issuances are to be spread out from May to November, comprising seven auctions of 20Y, twelve auctions of 30Y and three auctions of 50Y bonds. First auction of CNY40bn of 30Y CGB is to be conducted on 17 May, followed by 20Y CGB on 24 May. MoF has not announced individual sizes for the rest of the auctions yet; for now, we assume more than half of the special ultra-long end supply will be of 30Y, and we assume the public auctions will cover most, if not all, of the CNY1trn of supply. There are factors which may lend some support to the market. First, during May to November, there will be no normal ultra-bond issuances. Second, the issuances of the special bonds are to be spread across 22 auctions. On balance, we still see room for further steepening of the CGB curve across the 10s30s segment as after all, there is additional supply of ultra-long bonds. Meanwhile, the steepening momentum may be slowing or pausing for the 2s10s segment before signs of further economic recovery. CNY125bn of MLF mature on Wednesday; as the amount is small, whether there is a full, downsized or outsized rollover, the outcome of the amount is unlikely to send a strong policy signal. Market instead hopes for some liquidity support via an RRR cut, to buffer bond supply.



Source: Bloomberg, OCBC Research

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
Cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Macau Economist
HerbertWong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
LavanyaVenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
Ahmad.Enver@ocbc.com

Jonathan Ng
ASEAN Economist
JonathanNg4@ocbc.com

Ong Shu Yi
ESG Analyst
ShuyiOng1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
ChristopherWong@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
WongHongWei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
MengTeeChin@ocbc.com