

FIXED INCOME DAILY

Taking out market backstop

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UST gained on reports the Treasury has asked the Fed to return unused funds of about USD455b from five programs ahead of expiration late Dec. This would effectively end funding programs that provide liquidity to markets of as much as USD500b but reports suggest only a small sum of about USD25b had been used since inception early this year. This led to risk assets such as US equities to react little to the reports, and also because the market expects the programs to continue still when the Biden administration comes in. However, UST market was cautious of the news as the funding lines were effectively an important and last line of liquidity backstop to markets.

US Treasuries: UST rallied last Friday to complete a firm week. Worries over surging COVID-19 new infections supported UST during the week, as well as doubts over fiscal stimulus talks and weak economic data such as rise in jobless claims. UST also gained on reports the Treasury has asked the Fed to return unused funds of about USD455b from five programs ahead of expiration late Dec. This would effectively end funding programs that provide liquidity to corporates, banks and markets of as much as USD500b but reports suggest only a small sum of about USD25b had been used since inception early this year. This led to risk assets such as US equities to react little to the reports, and also because the market expects the programs to continue still when the Biden administration comes in. However, UST market was cautious of the news as the funding lines were effectively an important and last line of liquidity backstop to markets.

Malaysia: Government bonds continued to weaken last Friday but on very thin flows, completing a weak market for the week. Sentiment in the MGS market had been under pressure after the release of Malaysia's third quarter 2020 GDP data (3Q2020 GDP). The better-than-expected 3Q2020 GDP was a concern to bond market investors, as it meant a diminishing chance of interest rate cuts.

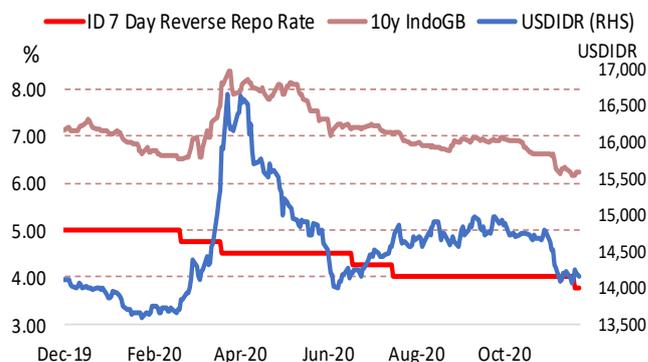
Malaysia's 3Q2020 GDP showed a moderate contraction of 2.7% yoy against the consensus of around a 4.0% contraction. Moreover, the 3Q2020 contraction was far smaller versus Malaysia's GDP contraction of 17.1% in 2Q2020. The less severe contraction came as the Malaysian economy moved to a less strict lockdown in 3Q2020 amid the COVID-19 pandemic. The quarter's GDP was also boosted by public consumption (+6.9% yoy 3Q2020 versus

Security	Last (%)	1d (+/- bps)	5d (+/- bps)	30d Ave
US 2y	0.16	0	-2	0.16
US 10y	0.82	-1	-7	0.85
10y/2y US (bps)	67	0	-5	69
US 5y Swaps	0.45	0	-2	0.44
MY 3y	1.83	0	2	1.80
MY 10y	2.66	2	2	2.65
10y/3y MY (bps)	84	2	0	85
MY 5y Swaps	2.21	-2	0	2.15
TH 2y	0.53	1	1	0.58
TH 10y	1.32	1	-1	1.41
10y/2y TH (bps)	79	0	-2	83
TH 5y Swaps	0.82	0	1	0.79
ID 2y	4.13	-1	-1	4.23
ID 10y	6.19	5	-9	6.38
10y/2y ID (bps)	207	5	-7	215
SG 2y	0.26	-1	2	0.24
SG 10y	0.92	-4	-2	0.86
10y/2y SG (bps)	66	-3	-3	62
SG 5y Swaps	0.51	0	0	0.49

5y CDS	Last	1d (+/- bps)	5d (+/- bps)	30d Ave
Malaysia (A3/A-)	40	1	2	41
Thailand (Baa1/BBB+)	40	1	0	42
Indonesia (Baa2/BBB)	79	2	7	87

Source: Bloomberg, ETP, BPAM, Thai BMA, IBPA, CIMB Treasury & Markets Research

IndoGBs were supported on BI cut but IDR came under pressure



Source: Bloomberg, CIMB Treasury & Markets Research

+2.3% in 2Q2020) as well as inventory changes and private consumption (+22.2% qoq 3Q2020 versus -21.5% 2Q2020). Ultimately, we think Bank Negara Malaysia (BNM) will remain accommodative in its monetary stance and that it has room for another interest rate cut to aid the economic rebound in 2021, if needed. The ongoing limited lockdown is likely to maintain pressure on Malaysia's economy this quarter (4Q2020) and risks another quarter of contraction.

After attempting to break below 4.0800 mid-week, USDMYR seems to have had second thoughts and spent Friday consolidating around 4.0900, limited on the upside by a stronger yuan. As with regional peers dependent on exports, the suddenly stronger MYR may weigh on sentiment for exports of commodities, with this being balanced by vaccine and stimulus hopes. With yuan expected to maintain strengthening and as long as market sentiment remains positive, USDMYR could maintain its heavy tone. Supports seen at 4.0800 and 4.0700 before YTD low near 4.0500.

Indonesia: IndoGB market reacted to the US Treasury Department requesting an effective end to liquidity backstop from five funding programs by opening on weak footing. However, support for ID bonds came in after suspected support from mostly onshore players.

IndoGBs were supported after BI unexpectedly cut the 7dRRR by 25bps to 3.75%, and signaled continued accommodative policy. BI also signaled the IDR as undervalued and has space to appreciate. However, the IDR extended weakness, with USDIDR seen above 14200.

Thailand: ThaiGBs saw net selling flows from offshore after BoT announced new policies to curb baht strength after the currency has strengthened quickly in the past few weeks. The policies focus on easing capital outflow by increasing foreign investment limits for both retail and institutional investors. Also, BoT will implement bond pre-trade registrations in the next year, which requires bond traders to directly register with the central bank that would let BoT monitor suspected speculative flows with more efficiency. Net outflow was about THB1.29b and caused TH yields to inch up across the curve, particularly along the bellies.

Earlier last week, the MPC unanimously voted to hold the policy interest rate at 0.50% and the statement indicates the committee as more dovish. The MPC states the recovery path for the Thai economy remains fragile and uneven. Despite the better-than-expected 3Q2020 GDP, the economy still requires support from accommodative policies especially amid concerns over COVID-19, baht strength, rise in unemployment, and risks to the tourism sector due to slow border reopening. The BoT spokesman said the central bank is also monitoring THB trend.

Recent fixed income-related reports from Treasury & Markets Research, CIMB

Date	Publication	Title
18-Nov-20	Market Musings	TH: BoT holds rates, expresses caution
12-Nov-20	Market Musings	TH: BoT Nov-2020 Meeting Preview: Dovish Expectations
03-Nov-20	Market Musings	MY: Bank Negara Malaysia holds for now
02-Nov-20	Market Musings	MY: Malaysia's Budget 2021 Preview: Fiscal Boost Set to Continue
28-Oct-20	Market Musings	MY: BNM November 2020 MPC Preview
21-Oct-20	Market Musings	US Election: Politics Versus Markets
14-Oct-20	Market Musings	SG: The Portents of MAS' Status Quo
23-Sep-20	Market Musings	TH: BoT holds rates, preserving policy flexibility
17-Sep-20	Navigator	4Q2020: Staggering on
10-Sep-20	Market Musings	MY: BNM holds but wary of risks
28-Aug-20	Market Musings	TH: Thailand's era of low rates
05-Aug-20	Conference Notes	MY: FMAM webinar highlights Malaysia's measures to move forward from pandemic
05-Aug-20	Market Musings	TH: BoT holds the rate with cautious outlook
07-Jul-20	Market Musings	MY: BNM cut the policy rate, within expectations.
24-Jun-20	Market Musings	TH: BoT pauses; Cautious statement, but recovery in sight
17-Jun-20	Navigator	3Q2020: Low-for-longer (LFL)
22-May-20	Market Musings	Rates directed by epidemic fallout
21-May-20	Market Musings	TH: BoT Meets Rate Cut Expectation
06-May-20	Market Musings	MY: Malaysia delivers on OPR cut

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