

FIXED INCOME DAILY

Remaining cautious

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We remain cautious on Asean bonds today despite US stock markets moving firmer, after negative news on the US-China relations and setback in AstraZeneca vaccine development, with domestic supply and fiscal concerns still at the forefront. For Malaysia, we expect another cautious day ahead of MPC in the afternoon.

US Treasuries: US Treasuries closed weaker along the bellies to the far end of the curve but the short end ended modestly firmer. Mid to longer end recorded losses amid weaker demand at the USD35b auction of the 10T, where BTC was 2.30x versus 2.47x average at past 12 auctions of the same tenor. Indirect bids at the auction which include those by foreign central banks was 58.3% versus 60.8% average at past 12 auctions.

The short end remains supported by safe haven bids, including deterioration in the US-China relations and negative news regarding AstraZeneca's vaccine. News report indicate the US has banned imports from three companies in Xinjiang of China, threatening to limit six more firms from there. Elsewhere on the vaccine front, AstraZeneca will stop giving shots of its experimental vaccine after a person participating in one of its studies fell sick.

Focus will turn towards 15-16 Sep FOMC and policymakers' take on rates outlook, growth expectations and forecasts, and if there could be new QE plans. Last week in an interview on NPR, Fed chair Powell was upbeat on the NFP numbers but warned that US growth remains at risk. "We do think it will get harder from here," Powell said.

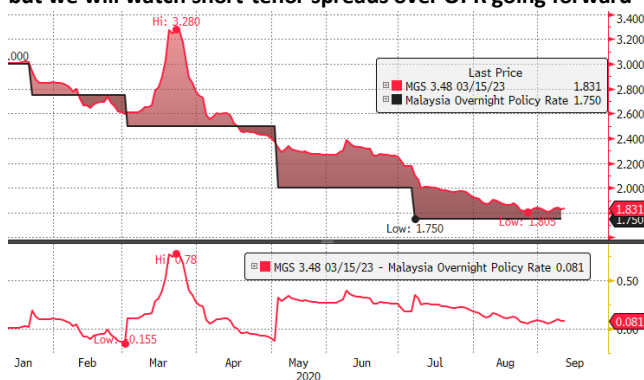
Malaysia: MGS market found some support yesterday, after yields had been higher in recent days and players looking forward to today's MPC meeting. Profit-taking pressure pared gains, though, with largest gains seen near 15y tenors.

In any case, CIMB's economist thinks there is a likely rate cut by the MPC as authorities will look to aid an economic rebound after the 2Q2020 GDP disappointed. Assuming a rate cut occurs then an MGS rally on the front of the curve will be a likely consequence. If there is a rate cut then the 3y MGS at 1.70% is possible, but below that level could lead to profit-taking as the 3y/OPR spread will be pretty tight (<20bps).

Security	Last (%)	1d (+/- bps)	5d (+/- bps)	30d Ave
US 2y	0.15	1	1	0.14
US 10y	0.70	2	5	0.68
10y/2y US (bps)	55	2	4	54
US 5y Swaps	0.33	-2	0	0.33
MY 3y	1.85	1	4	1.84
MY 10y	2.57	-1	2	2.53
10y/3y MY (bps)	72	-2	-2	69
MY 5y Swaps	2.16	0	3	2.11
TH 2y	0.52	-1	-1	0.51
TH 10y	1.39	-2	-3	1.42
10y/2y TH (bps)	87	-1	-2	91
TH 5y Swaps	0.86	-2	-4	0.90
ID 2y	4.53	-1	-5	4.71
ID 10y	6.85	1	-5	6.83
10y/2y ID (bps)	233	1	0	212
SG 2y	0.18	-1	-2	0.22
SG 10y	0.92	-1	-4	0.91
10y/2y SG (bps)	74	0	-2	69
SG 5y Swaps	0.51	-3	-5	0.53

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

There is support for short tenor MGS if there is a rate cut today but we will watch short-tenor spreads over OPR going forward



EJ390141 Corp (MGS 3.48 03/15/23) Spread 2 Daily 31DEC2019-10SEP2020 Copyright© 2020 Bloomberg Finance L.P. 10-Sep-2020 08:08:16
Source: Bloomberg, CIMB Treasury & Markets Research

Indonesia: IndoGBs were mostly weaker in early trading yesterday due to EM risk aversion but late bids by onshore players supported the market, with yields little changed from a day prior. Risk aversion in EM continued amid signs of deterioration in the US-China relations, and the backing down of recent positive vaccine news.

Sentiment in the ID bond market could remain affected by the planned fiscal financing burden-sharing by MOF and BI that might stay on until 2022, and recent moves to allow outside government influence on central bank's monetary policy. Nevertheless, the Finance Minister had made a statement to reassure markets that direct bond purchases by BI would be a 'one-off' exercise.

Thailand: Thai baht weakened in early session before showing strength later in the day, while ThaiGBs moved in a strong fashion. Firm movement in Thailand came amid EM risk aversion and strong demand at reopening of 20y benchmark LB386A (THB10b tender size). LB386A auction ended with the BTC of 3.91x while the average auction yield was lower than the previous market level. USDTHB was heard above 31.46 before the pair fell to around 31.39 at day's end. ThaiBMA data showed 10y tenors were about 2bps lower (LB29DA maturing Dec-29 shed 2bps to 1.40%). Non-resident flows in the TH bond market was a net positive THB2.7b yesterday, up from THB1.3b the day before.

We view global risks from the prospects of delay in vaccine development should support ThaiGBs for a while. However, the downside to TH yields might be limited (targeting 10y ThaiGB at 1.35%), on lessened possibility of further easing in the short-run. BoT governor Veerathai Santiprabhob said current monetary policy is accommodative and that further rate cuts would be less effective in reviving the economy from the impact of the pandemic. He also signaled that fiscal policy would be the main support while the 60% public debt to GDP ceiling should be eased to allow more government spending. Of note, the current BoT governor's term is due to expire at the end-Sep, to be replaced by Sethaput Suthiwart-Narueput.

Meanwhile, there remain concerns on the supply side as the government is eyeing large offerings this month as it tries to scale up fiscal spending. Another downside pressure on ThaiGBs was the Finance Minister's recent resignation which has raised concerns on Thailand's fiscal plans. Targeted ThaiGB issuance this month is a larger THB65b versus THB35b last month. THB54.3b has already been issued but there's two more auctions left in Sep, at target THB10b for LB29DA and THB5b for long dated LB676A maturing Jun-67; which could bring total approaching THB70b for the month.

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

Date	Publication	Title
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
23-Apr-20	Market Musings	TH: The Rationale of Rising THBFX Amid a Dovish BoT
21-Apr-20	Market Musings	Evaluating the negative WTI oil price
30-Mar-20	Market Musings	MY: Raising MGS+GII supply further
30-Mar-20	Market Musings	SG: MAS Delivers on Market Expectations
27-Mar-20	Market Musings	SG: How far will MAS go?
17-Mar-20	Navigator	2Q2020: Under the weather
05-Mar-20	Market Musings	MY: 15y MGS reopening: Aided by rates & supply outlook
03-Mar-20	Market Musings	MY: BNM's dovish stance

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