

# FIXED INCOME DAILY

## Begin cautious

**Nik A Mukharriz**  
Fixed Income Strategist  
ahmadmukharriz.muhammad@cimb.com  
+603 2261 8557

**Shazeya Shah Razzaad**  
Markets Strategist  
shazeya.razzaad@cimb.com  
+603 2261 8205

**Nachapholn Jirasathid**  
Markets Strategist  
nachapholn.j@cimbthai.com  
+662 638 8649

**Freda Yeo**  
Strategist  
freda.yeo@cimb.com  
+65 638 8649

**Ray Choy, PhD**  
Regional Head  
ray.choy@cimb.com  
+603 2261 8353

**UST closed firm amid market risks and Fed support. Focus turns to 15-16 Sep FOMC but support for UST is likely to be sustained in the short-term from the anticipated Fed outlook for lower-for-longer interest rates. In an interview recently, Fed chair Powell warned that US growth remains at risk despite recent upbeat jobs report. In the very short term, we are cautious UST, MY and ID bonds but TH assets could profit from risk aversion elsewhere.**

**US Treasuries:** Despite early day weakness, US Treasuries maintained strength last Friday, moving 2bps lower to 0.67% (-5 bps for the week). Cautious early day moves came before release of latest CPI data, but CPI coming out just above consensus did not deter net buying interest while stock markets were moving mixed, as underlying risks to growth (such as US-China relations and negative vaccine news) remains. Friday's UST demand also came about before Fed's expected purchase of UST securities, set for USD1.7b bond maturing 20-30y.

CPI increased 0.4% mom in Aug with some consensus expecting +0.3% while core CPI, which excludes food and energy, also rose 0.4%. Total CPI was 1.3% yoy and core CPI up 1.7% yoy, or still below the 2%.

Focus in UST turns to 15-16 Sep FOMC but support for UST is likely to be sustained in the short-term from the anticipated Fed outlook for lower-for-longer interest rates and UST purchases. In an interview recently, Fed chair Powell warned that US growth remains at risk despite recent upbeat jobs report. In the very short term, we are cautious UST, MY and ID bonds but TH assets could profit from risk aversion elsewhere.

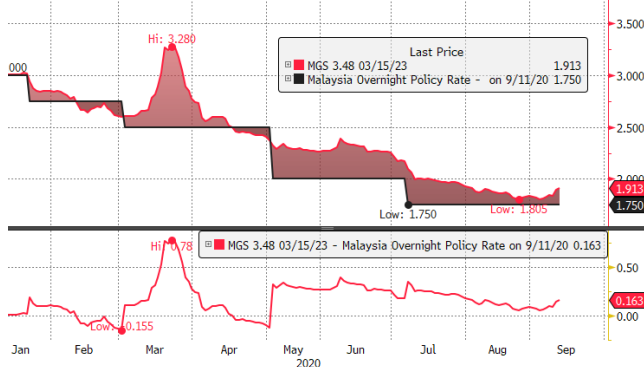
**Malaysia:** MGS market was quieter on Friday though there was better paying interest in the IRS segment post MPC the day prior. However, IRS move higher was pared on outlook for lower-for-longer rates, while the bond segment was relatively quiet as the market saw activity in the GG primary segment. Despite the higher MGS yields, we noted small buying interest from foreign names on 10-20y benchmark MGS papers.

Going forward, we expect yields to be pressured higher. Other than markets watching growth and inflation trends, there is a large incoming supply of government bonds, and pending FTSE-Russell announcement this month of Malaysian bonds' fate in the World Government Bond Index

Security	Last (%)	1d (+/- bps)	5d (+/- bps)	30d Ave
US 2y	0.13	-1	-2	0.14
US 10y	0.67	-1	-5	0.68
10y/2y US (bps)	54	0	-4	54
US 5y Swaps	0.33	0	1	0.34
MY 3y	1.92	0	10	1.84
MY 10y	2.62	1	6	2.54
10y/3y MY (bps)	70	1	-4	70
MY 5y Swaps	2.23	0	10	2.13
TH 2y	0.53	-1	1	0.52
TH 10y	1.34	-4	-8	1.43
10y/2y TH (bps)	81	-4	-9	91
TH 5y Swaps	0.81	-2	-8	0.90
ID 2y	4.53	-1	-3	4.67
ID 10y	6.95	1	4	6.85
10y/2y ID (bps)	242	2	7	218
SG 2y	0.18	-1	-2	0.22
SG 10y	0.91	-1	-3	0.92
10y/2y SG (bps)	73	0	-1	70
SG 5y Swaps	0.51	-1	-3	0.54

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

**Post BNM decision, likelihood for MGS yields to continue on the downside is limited; 3y MGS short term resistance is 1.85%.**



Source: Bloomberg, CIMB Treasury & Markets Research

(WGBI). Thus, likelihood for MGS yields to continue on the downside is limited; 3y MGS is likely to remain above 1.85% and 10y MGS above 2.60% short term.

**Indonesia:** On Friday, IndoGBs rebounded from prior day's sell-off, with IDR and Indonesian stocks also on the up. IndoGBs opened Friday under pressure but soon found gains due to buyers on dips especially along the belly of the curve. Net buying interest came from mixed names including onshore foreign banks, local banks as well as real money players. Near closing time, bonds saw profit taking pressure but yield curve still lower for the day. Yields more than 10bps lower on the front of the curve and down 5-7bps on mid to longer ends.

In spite of Friday's gains, we are cautious IndoGBs this week. Global risk appetite is still weak whilst risks to Indonesia's growth increased last week on news of movement restrictions in Jakarta. We are also cautious ahead of this week's BI meeting set for Thursday.

**Thailand:** ThaiGBs saw the demand from local investors at THB25b flows causing gains across the curve. Longer-end was richer by 3-7bps while the front-end fell about 1bp, leading TH yield curve to flatten. We note 10y/2y spread declined to 86bps from 92bps in the prior week. We think ThaiGB rallied on weak global sentiment while risk of a second of virus outbreak and political uncertainty locally induced demand for ThaiGBs as a safe asset. Also, we think there was some speculative flows ahead of MPC meeting in the 2 weeks' time. We think ThaiGB could see continued support in short-term; eyeing 10y ThaiGB down to 1.30% from the current level of 1.40%.

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

Date	Publication	Title
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
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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