OCBC TREASURY RESEARCH

Daily Market Outlook

1 April 2021

Themes/Strategy

- US equity indices were mixed, but sentiment in the US remains buoyant as the S&P 500 closed at a new record and the tech sector pulled higher. The **FX Sentiment Index (FXSI)** moved in the Risk-On direction while still staying within the Risk-Neutral zone.

- The quarter-end dynamics saw the **broad USD** retreat in the LDN and NY sessions after being biddish in Asia. Nevertheless, firmer UST yields provide the reason to buy USD on dips. Antipodeans largely unchanged, while the CAD outperformed across the board after a stronger than expected data release. The EUR-USD based out at 1.1704 before turning higher. The USD-JPY stayed largely supported above 110.50.

- The USD uptrend survived the quarter-end dynamics without being severely impinged, as the DXY index held on to the 93.00 support. Underlying, the supported back-end UST yields (and the widening yield differentials) is still positive for the USD. For now, our bias remains pro-USD, especially against the EUR and JPY for now. Meanwhile, the Canadian GDP print also reminds of the BOC and its leading position in withdrawing excessive stimulus. Expect CAD outperformance to resume as we head closer to the April round of central bank policy decisions.

- **USD-China / USD-Asia:** The USD-CNH eased after finding limited traction above the 6.5800. The USD-CNY also eased below 6.5500. The CFETS RMB Index also rose back to the 97.00 handle in this morning's fix. These indications suggest to us that a more concerted test of the 6.6000 level may not yet be forthcoming. Going forward, expect the pairs to be range bound between 6.5000 and the recent peaks. Meanwhile, the USD-IDR and USD-MYR saw gains reverse at close. For now, underlying upside pressure for these pairs still come from the broad USD move.

- **USD-SGD:** The SGD NEER stands this morning at +0.85% above the perceived parity (1.3568), after touching a high of +0.90% above parity overnight. No sight of the SGD NEER coming back to the +0.50% area for now, leaving us with the suspicion that it may now populate a higher (or broader?) range around +0.50% to +1.00% above parity. Regardless, the elevated SGD NEER again suggest limited downside for the USD-SGD, prefer to buy on dips for now.

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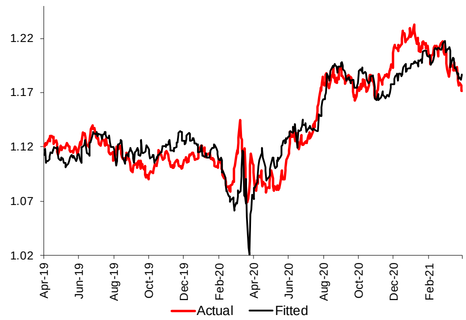
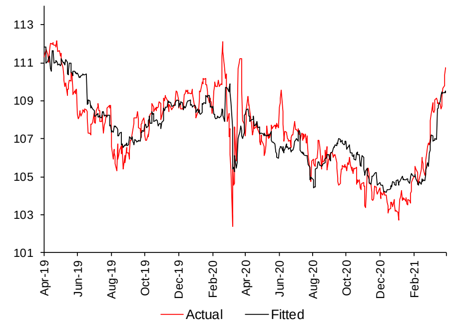
EUR-USD

Southbound. The EUR-USD based out at 1.1704, but the subsequent bounce was also capped at 1.1750/60. On the ground, France and Italy looks to extend their lockdown measures, although the negatives were offset by vaccine deliveries hitting targets. For now, the bias remains for a firmer test of the 1.1700 support.



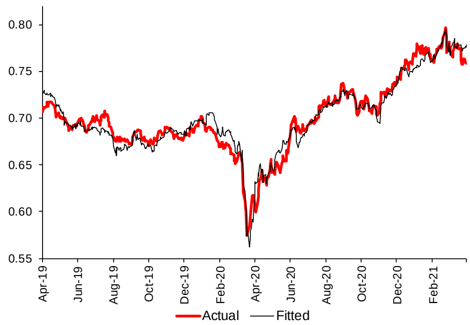
USD-JPY

Supported. The BOJ is to reduce its bond purchase amounts in April, potentially leaving room for the JGB yields to ease higher. Given the back of ascent of UST yields, any move in JGB yields may do little to close the gap. This leaves the USD-JPY upside still the path of least resistance. Immediate target at 111.00, with 111.70 the multi-session objective.



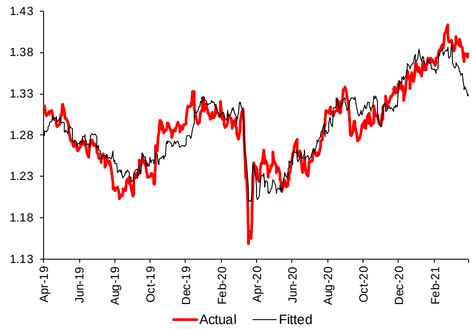
AUD-USD

Range. The AUD-USD is little changed again despite the quarter-end dynamics and the firmer US equities. The bias is for the pair to ease south, but the risk is for US equities to continue breaking records, and lifting market sentiment along the way. Any USD reversal should be best expressed with the cyclicals, including the AUD, for now.



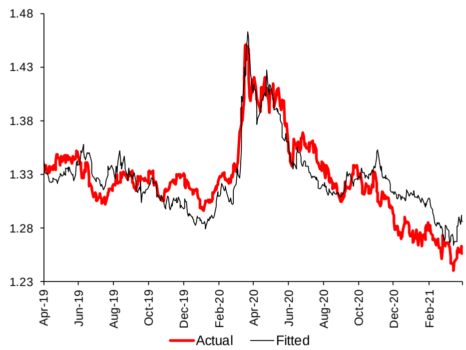
GBP-USD

Revert to downside. The GBP-USD range is narrowing to the 1.3700 to 1.3800 zone, potentially signaling a break out. We expect it to be on the downside, especially as the USD remains on the ascendant and technicals are still more supportive of a downward move. Breach of 1.3670 needed for stronger downside momentum.



USD-CAD

Re-engage downside? The USD-CAD was heavy overnight after a stronger than expected Canadian GDP release reminded the market that the BOC is the leader for a retreat from excessive monetary stimulus. The CAD should be able to brush aside soggy oil if the market re-focuses on this area.

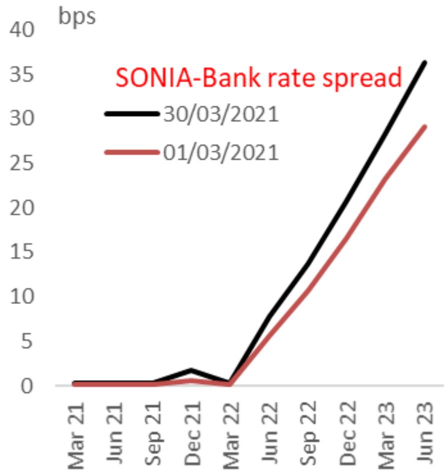


Rates Themes/Strategy

- Treasury yields rose by 1-4bp across the curve overnight, as investors stayed optimistic towards the economic outlook; inflation expectations remained unchanged and real yield edged down. The 1.75% handle, which was briefly broken, remains a key level to watch for the nominal 10Y bond. Strong economic data, acceleration in vaccine rollout, together with lingering supply headwinds point to further upside to nominal yields, when real yield is still negative. There will be additional volatility around the NFP on Friday.

- The infrastructure plan, meanwhile, is a long-term project expected to span over a decade (USD2.25tn is planned over 8 years), with most of it expected to be funded by higher taxes – hence the implications on fiscal deficit is not the same as with an annual fiscal stimulus plan. The infrastructure plan is impacting the market through economic optimism, rather than a direct bearing on supply.

- Optimism emanating from vaccine rollout and economic recovery drove gilt yields further higher by 2-4bp across the curve. The already hawkish SONIA pricing was little changed, with the Dec 2022 contract 21bp and Mar 2023 contract 28bp higher than the bank rate. We continue to see limited room for pricing to become more hawkish from here, before realization of more upbeat economic data.



Source: Bloomberg, OCBC

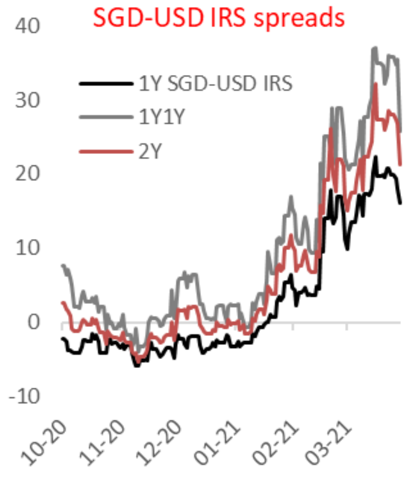
- The Bank of Japan revealed its April debt purchase plan, which points to reduced purchases across tenors. This underlines the central bank's willingness to allow wider trading ranges for JGBs; and under the current situation it means upside room to yields. In particular, the planned purchase of 5-10Y bonds is at JPY1.8trn versus March's actual purchase of JPY2.1trn. 10Y opened 3bp higher, with investors eyeing the 0.12-0.13% area.

- MGS yields rose and MYR IRS were paid up upon BNM's inflation forecasts. The further liberalization in FX policy shall not have an immediate impact on the market.

- In the IDR space, even with the greenshoe option, the amount of the latest conventional bonds sold was still below target. If there is no turnaround in bond market sentiment over the next few weeks, the government probably needs to embrace the higher funding costs.

IDR:
IndoGBs were stable despite the higher USD/IDR on Wednesday, with the 10Y bond still holding around 6.75%. Even with the greenshoe option, the amount of the latest conventional bonds sold was still below target. If there is no turnaround in bond market sentiment over the next few weeks, the government probably needs to embrace the higher funding costs ultimately. Bank Indonesia is said to be supporting the market in both spot and DNDF – which was pretty much needed upon the DNDF maturity. Foreign holdings of IndoGB edged up by IDR310bn on 30 March.

MYR:
MGS yields rose upon BNM's inflation forecasts, ending the day from +3bp to -2bp. MYR IRS were also paid up following the central bank's annual report. Separately, BNM announced further liberalization of foreign exchange policy, aiming to facilitate exporters' currency management and supply-chain related exports-imports trades. This is unlikely to have an immediate impact on the market. Over time, as resident entities are allowed to settle global supply-chain related domestic trade in foreign currency, hedging needs are likely to be reduced, and so are FX swap transactions – less influence from seasonal flows but with minimal directional impact as the net aggregate positions shall not be affected much by the policy per se.



Source: Bloomberg, OCBC

SGD:
SGD swap points had been grinding higher over the past couple of months, before easing mildly from peaks in recent sessions. The still high points reflect relatively loose USD liquidity versus SGD liquidity. On Singapore side, the latest data confirm a continued recovery in bank loans, which grew for the fourth straight month by 0.5% m/m, led by business loans, while consumer loans also continued to grow m/m and reverted to positive y/y growth.

Meanwhile, the loose USD liquidity means there has probably been a lack of buy/sell flows in the market. That said, we watch out for a potential change in the dynamics. USD liquidity may become less loose as the bill reduction plan slows when the fiscal stimulus kicks in. We have been looking for a potential narrowing at front-end SGD-USD IRS spreads, and indeed front-end spot and short-dated forward start spreads have narrowed of late. The MAS April decision on its SGD policy, however, is unlikely to be helpful in exerting additional downward pressure on SGD rates – we expect no change in the parameters, while any hawkish/less dovish remarks may not be able to move the market immediately.

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