OCBC TREASURY RESEARCH

Daily Market Outlook

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FX Themes/Strategy

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- The sell-USD-on-rally dynamic still seem to prevail, with the **greenback** failing to sustain gains seen at the end of last week, and was in the red against all G-10 counterparts on Mon. The **G10-USD** pairs (except the **USD-JPY**) are roughly back in the middle of recent ranges.

- **CFTC** data shows that the investment community remains positioned against the USD, with non-commercial accounts adding to their net implied USD shorts and leveraged accounts reducing their net implied USD longs in the latest week. On an individual currency basis, the most significant shifts are in the adding of CAD and GBP longs. In particular, CAD longs have been added heavily over May even as spot stalled above the 1.2000 support.

- The **RBA** decision (0430 GMT) will be in focus later today. In yesterday's DMO, we discussed some AUD optimism being priced in, especially in the AUD-USD front. Another angle is to play off relative RBA expectations against the RBNZ, not unlike how the RBA was set against the BOC earlier this year. On net, the RBA may still be a laggard compared to the RBNZ, leaving potential downside room for the AUD-NZD, targeting levels below 1.0500.

- The USD bias remains negative on the immediate horizon, as the ISM (1400 GMT) later today, and the NFP (Fri) are eyed. The inability to impute Fed tapering / rate hike expectations continue to weigh on the USD. On the flipside, the DXY's base at 89.50/60 still intact, and make take a another key data disappointment to breach that level broken.

- **USD-China:** The USD-CNY and USD-CNH reacted higher to the new RRR tweak, but remains well under the 6.4000 mark. This may yet be the strongest policy signaling seen in this round of RMB appreciation. This leaves the risk-reward perhaps unfavourable for chasing excessive downside for the USD-China pairs. Our immediate view sees a consolidation phase **6.3500 and 6.4000** for now.

- **USD-SGD:** The market continues to take heart from the government's management of the Phase 2 (HA) situation. The SGD NEER held mostly around +1.10 to +1.15% above parity during PM Lee's speech and the ministerial conference after. It stands at +1.17% above the perceived parity this morning. The USD-SGD retains a heavy tone weighed down by the RMB complex and domestic optimism. Any clear breach of the 1.3200 support leaves the year-to-date low near 1.3150 at risk.

Rates Themes/Strategy

- ECB rhetoric continued to err on the dovish side, again trying to downplay inflationary pressure, pointing to its temporary nature. The labour market is in focus, as for other major central banks, to gauge the risk of temporary factors translating into more persistent pressure via wage increases. ECB Knot saw no signs of it at this moment. Visco, meanwhile, said the ECB was ready to make “full use of its already defined bond-buying program”. Bund yields edged down overnight.

- Recent comments from ECB officials have pushed expectation on PEPP towards a continued step-up in purchases, from previous expectation of a slowdown. This remains a close call to us, with the key being the debate on whether the increases in yields reflect the improvement in economic outlook. As investors await the decision, there is unlikely to be a further, meaningful narrowing in UST and Bund yield spreads in the run-up to the June meeting.

- In China, the PBoC hikes the reserve ratio on foreign currency deposits by 2ppt to 7%. Back-end swap points fell in response. Foreign currency deposits and foreign assets at onshore banks have been rising rapidly, one of the factors that had supported **USD/CNY swap points** on sell/buy rolling flows. A strong external balance, absence of PBoC sterialization, and the recent relaxation on offshore borrowing may bring in further inflows thereby tightening onshore RMB liquidity/loosening USD liquidity. The hike in the forex reserve ratio shall mitigate this pressure. The combination of these factors supports our neutral stance on back-end points. Despite this policy move and the latest rhetoric trying to talk down the CNY, bond inflows are unlikely to be deterred as long as FX volatility is contained, and when yield differentials stay favourable.

- **IndoGBs** have found a firmer footing in recent sessions. Yields were little changed on Monday with sentiment supported as USD/IDR movement was contained, on the back of flows and general dollar weakness. Recent auctions also suggest a comeback of demand; next supply is scheduled on Wednesday after today’s holiday. The 10Y yield is likely to trade in a range of 6.37-6.50% near-term.

- The **MGS** curve steepened further upon the full lock down, with front-end rates better anchored amid the accommodative policy stance, while investors have turned more cautious towards duration guarding against the risk of higher spending. These movements are in line with our view and the momentum has further to run.

- The **ThaiGB** curve is biased to steepening. Although the extra spending was lower than initially touted, the heavy funding needs is extended into a second year – and financing activities may be front loaded.

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