Daily Market Outlook

1 November 2021

FX Themes/Strategy

Frances Cheung, CFA
Rates strategist
+65 6530 5949
FrancesCheung@ocbc.com

Terence Wu
FX Strategist
+65 6530 4367
TerenceWu@ocbc.com

Treasury Research
Tel: 6530-8384

- US PCE inflation and employment cost numbers were in-line to firmer than expected. Global equities are mostly mixed, while core yield curves are broadly firmer. The **FX Sentiment Index (FXSI)** starts the week week in Risk-Neutral zone, but showed the first decline in sentiment after a three consecutive sessions of improvement.

- The **broad USD** was firmer against all G-10 counterparts on Fri. The European complex gave back their gains on Thu and more. The EUR-USD sank through the 1.1580 support where stops were triggered. The cyclicals were relatively supported, with the AUD holding above 0.7500, while the USD-JPY again found limited headway above 114.00.

- The **CFTC** release showed that leveraged accounts added to their net implied USD longs marginally, but that was attributed to a large increase in JPY shorts. EUR and AUD shorts were reduced in the latest reading. Non-commercial accounts have a similar shift in positioning with respect to the individual currencies, but their net implied USD longs were reduced slightly. Somewhat interesting is that the investment community net-backed the GBP ahead of the BOE. Overall, still see the shift from EUR to JPY as the main short against the USD.

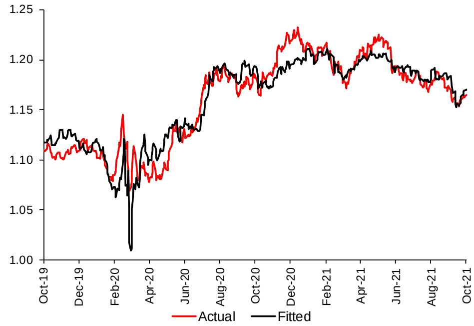
- With the front-end riskies moving more in favour of the EUR-USD puts, the Thu move in the EUR-USD now looking more like a blip. The subsequent dip on Fri brought some semblance of normalcy. The shifty near term dynamics between the market and the central banks may not have completely played out. This week, watch for a potential hawkish surprise from the **RBA** (Tue). It did not pursue its yield target last week, and that may be a precursor to a shift in forward guidance. The **FOMC** (Wed) is the least exciting one, with the taper effectively pre-announced. The **BOE** (Thu) is a knife-edge. Governor Bailey has made hawkish comments, but it may come down to a very close split among the MPC members. There is room for surprises this week, and volatility similar to what ensued after the BOC and ECB cannot be ruled out. There may still be jitters for the broad USD in the immediate horizon, but stay positive on USD prospects beyond that.

- **USD-Asia**: The USD-CNH closed the week above 6.4000. China official manufacturing and services PMIs both weaker than expected on Sun, but the Caixin manufacturing gauge entered firmer than expected on Mon. With the USD-CNH buoyant amid the broad USD recovery, expect USD-Asia pairs to be under upward pressure early week.

- **USD-SGD:** The USD-SGD bounce early Mon was well-kept under 1.3500, while the SGD NEER remains locked in near the +1.00% locus. Still expect the SGD NEER to be buoyant on a multi-month horizon, but the immediate band will be from +0.90% to +1.20%.

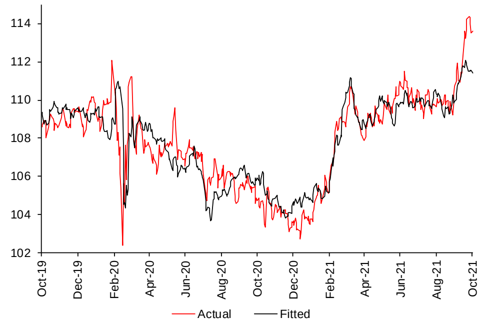
EUR-USD

Re-engage downside. The EUR-USD saw a choppy two sessions to end the week. Market attention refocused back on the hawkish Fed amid firm US data-prints. The flip-flop left technicals somewhat mixed at this juncture. Our bias remains on the downside, especially with the front-end yield differentials still favourable to the USD.



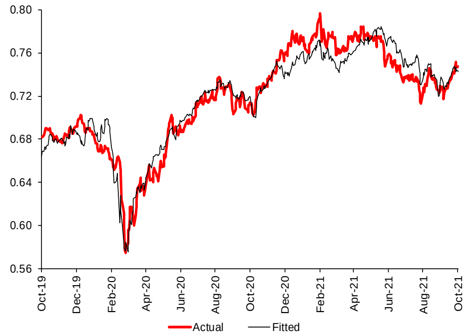
USD-JPY

Buy on dips. The USD-JPY extended higher on Fri on the back of broad USD recovery and firmer front-end UST yields. Yet, it will have to clear firmer resistances towards 1.1500 before another strong leg higher can materialize. Election results over the weekend reinstated the LDP's parliamentary majority, signalling some continuity.



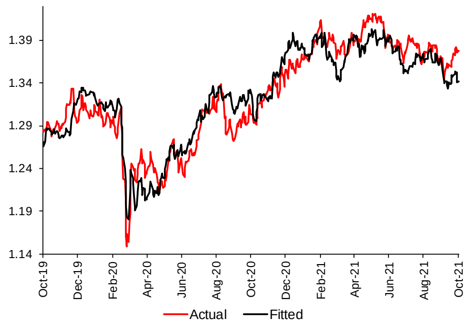
AUD-USD

Neutral. The firm resistance at the 0.7550/60 zone continues to hold back the AUD-USD. Softer Chinese data over the weekend is a marginal negative, but all eyes will be on the RBA after it failed to defend its yield targets last week. Market views are divided here, especially since domestic wage growth in Australia is not as buoyant as the rest of the world. Watch for any changes in the RBA's forward guidance.



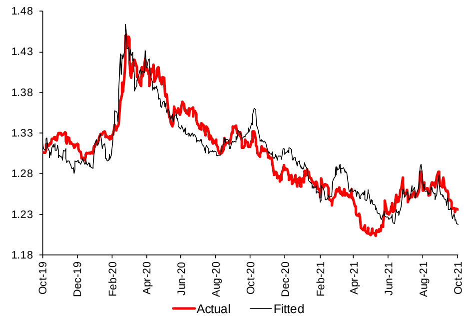
GBP-USD

Slight negative bias. The breach of the 1.3700 support leaves a slight negative bias on the GBP-USD, even though other indicators are still mostly neutral. Levels between 1.3600 and 1.3650 may now implicitly attract. Stay cautious ahead of a potentially treacherous BOE meeting, where a rate hike is not guaranteed, and be prepared for volatility in the aftermath.



USD-CAD

Range. We did not expect the BOC to sound dovish last week, but that it came out all guns firings was also not what we would have expected. The market, nevertheless, seemed to have digested the surprise, and still left the USD-CAD locked in between 1.2300 and 1.2400. Next directional cue will come from the FOMC decision.



Rates Themes/Strategy

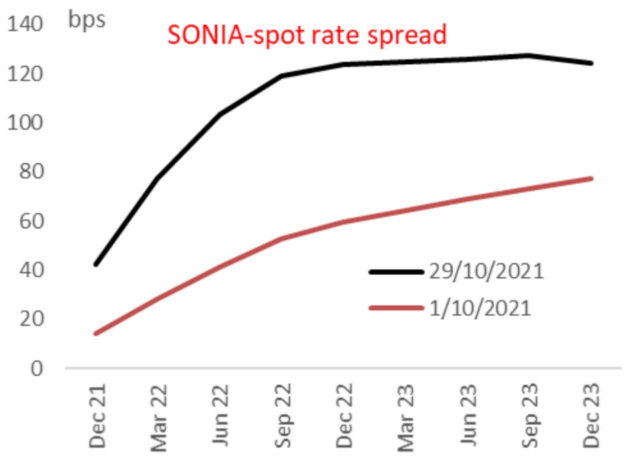
- UST yields had a pattern of trading higher during Asian hours/lower during NY session across the 2-7Y sectors, while long-end yields were little changed. We continue to hold the view that the resistance is strong for the 10Y bond to rally below 1.55% sustainably.

- Among the major CB meetings this week, FOMC may be the least exciting, where an announcement of taper is expected. The last FOMC minutes already revealed an “illustrative path” which features a monthly reduction of USD10bn in purchases of Treasury securities and of USD5bn in purchases of agency MBS, meaning taper will complete around mid-2022. The key is probably on how Powell push back on linking the taper timeline to the rate hike timeline.

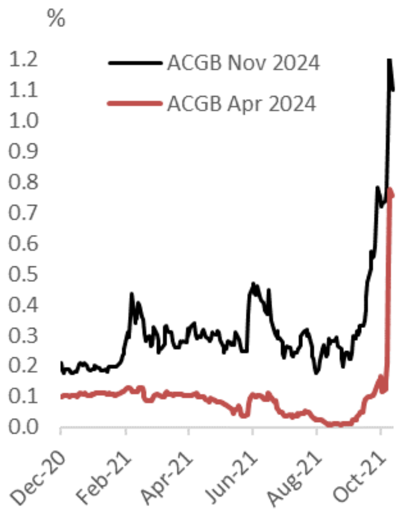
- Usage at the Fed’s o/n reverse repo rose to USD1.5trn despite the higher supply of bills in the last two weeks. This week net supply is minimal at USD3bn. Amid flush liquidity, chance is low for much cheapening in bills for investors to take advantage of; the pressure point on bill yields appears to have gone, despite the high cut off just at the last 8W bill auction.

- Gilt yields rebounded and rose for a second day, ahead of the BoE MPC meeting this Thursday. While chance is for a Bank Rate hike at either the November or the December MPC meeting, SONIA pricing of two rate hikes by year-end looks overly hawkish. More than that, SONIA pricing reflects expectation that most rate hikes will be delivered within a one-year horizon. Some dovish correction is due.

- As for the RBA, market focus is whether the central bank will abandon its 3Y yield target, given the yields on both ACGB April 2024 and ACGB November 2024 have surged well above their existing target for the April bond.



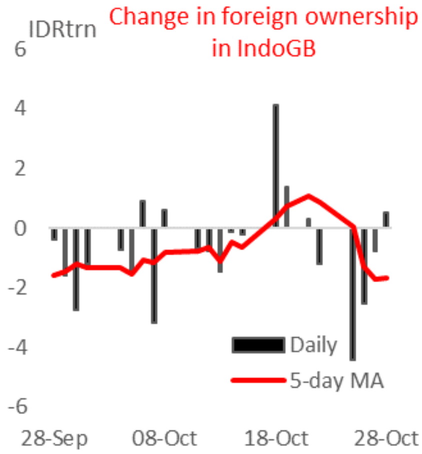
Source: Bloomberg, OCBC



Source: Bloomberg, OCBC

IDR:

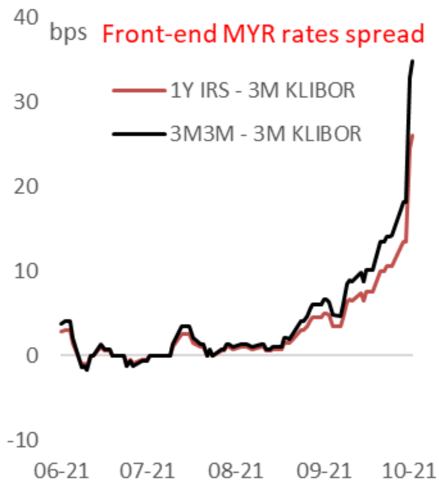
IndoGBs were stable despite some profit-taking flows, amid a more risk-friendly environment on Friday. Dollar buying occurred after the domestic market closed, and seems to be filtering through onto the market today, which may affect the bond market sentiment at the margin. That said, exporter demand may again come to the rescue. On balance, IndoGBs shall stay resilient on light supply (prospect of reduced number of auctions) and supportive domestic liquidity; although downside to yield is limited by the already higher global yields despite the recent correction. The 10Y yield (FR91) may hover just above 6.00% for the time being. IndoGBs registered small inflows on 28 October, but a trend has not been established yet; foreign holdings stood at IDR950.7trn as of 28 October.



Source: Bloomberg, OCBC

MYR:

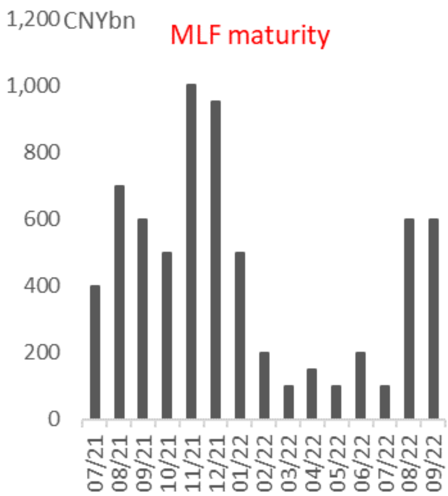
Bond investors were cautious ahead of Budget, and did not manage to sustain the early morning rally on Friday. After 2022 Budget was announced, yields and IRS edged further up by 1-3bp. Budget deficit came in at 6%, which was in line with consensus but higher than our expectation of 5.0-5.5%. More importantly, there is uncertainty surrounding the revenue outlook and the growth assumption (5.5-6.5%); the perceived downside risk to both keeps bond market sentiment subdued. That said, there may not be much follow through in the near term, as the first batch of actual fiscal number is at least months away. The 3Y and 5Y MGS shall consolidate around or below the current yield levels, before some hawkishness comes from BNM itself. BNM is widely expected to keep its key rate unchanged at this week's MPC meeting.



Source: Bloomberg, OCBC

CNY / CNH:

The onshore market braces for another month of relatively tight liquidity condition, with CNY1trn of reverse repos maturing this week following last week's outsized operations, and CNY1trn of MLF maturing on 16 November. The PBoC daily OMO reverted to CNY10bn this morning thereby net withdrawing CNY190bn of liquidity, proving that the earlier liquidity provision was short-term covering tax payment and month-end needs. However, liquidity demand is still there, with the huge amount of MLF maturing this month and continued heavy bond issuances. Investors are likely to stay cautious ahead of the MLF rollover/maturity date. We continue to see the 10Y CGB yield trading in a range of 2.9-3.1%. In offshore, Northbound Stock Connect flows continued to outweigh Southbound flows. Against this flow dynamic, the offshore DF curve is unlikely to retrace much before the onshore curve does so.



Source: CEIC, OCBC

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Herbert Wong
Hong Kong & Macau
herberthtwong@ocbcwh.com

FX/Rates Strategy

Frances Cheung
Rates Strategist
FrancesCheung@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Co.Reg.no.:193200032W