

Daily Market Outlook

1 September 2021

FX Themes/Strategy

- Overnight movement across the different asset classes perhaps still suggest that the risk-on sentiment is still intact. However, it seems to have lost some steam, with the **FX Sentiment Index (FXSI)** steady again within the Risk-Neutral zone, and no longer leaning towards Risk-On.
- The **USD** ended mixed on Tue, having retraced early weakness. The **AUD** and **NZD** continue to outperform as expected amid the risk-on bias. The **EUR** retreated back towards the 1.1800 locus after testing the 1.1850 resistance. Similarly, the **GBP** retreated after briefly surfacing above 1.3800.
- Still consider the antipodeans as the key beneficiaries at this point, but stay focused on the NZD rather than the AUD at point as it may see additional boost after the pandemic restrictions were partially eased in New Zealand. Overall bias for a softer USD in the upcoming sessions is unchanged, but do not expect the floor under the USD to collapse just yet. Any move lower for the DXY index will be a slow grind. We watch the 92.00/20 level (corresponding to approx 1.1900 on the EUR-USD) closely. There might be some acceleration in USD weakness south of this support level.
- **USD-Asia:** USD weakness is better reflected among the Asian currencies, with strong gains seen in the **KRW**, **IDR** and **THB**. Global cues (risk-on, residual impact of Powell) remain supportive, and that has really allowed the domestic positives to follow through. The easing of movement restrictions and Thailand and Indonesia contributed to the positivity in the THB and IDR. Portfolio flows are also supportive. Equity outflow momentum (rolling 20-day) out of Thailand has reversed into a net positive this week. Inflow momentum also improving on both bond and equity fronts in Indonesia. Today, expect to see the MYR do some catch up and target sub-4.15 levels.
- In Korea, the recent heavy equity outflow momentum is showing some signs of reversing, and that should relieve some negativity on the KRW. Weak non-manufacturing PMI in China had little impact on the RMB. Increased calls for policy support could instead support sentiment. The USD-CNH dipped below 6.4500 briefly, we turn negative on the pair.
- **USD-SGD:** The SGD NEER trended lower, standing at +0.90% above the perceived parity (1.3578) this morning. There is still room for the SGD NEER to ease lower, and for the SGD to underperform regional peers amid USD weakness. Expect support at 1.3400/20 for the USD-SGD to hold out.

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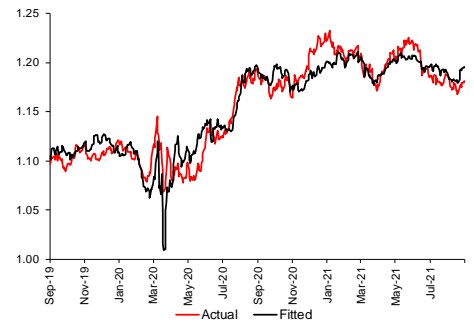
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EUR-USD

Potentially firmer for now. Firm EZ CPI and hawkish comments from two ECB speakers about pulling back asset purchases gave the EUR-USD an early lift towards 1.1850. Nevertheless, with the US Aug NFP (Fri) in the horizon, the market may not be ready to break out on EZ-driven cues. Immediate level to watch is still the 55-day MA (1.1817), with support at 1.1780.



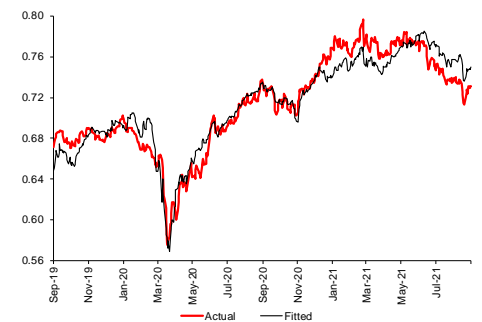
USD-JPY

Looking for direction. The USD-JPY is firmer, but remained under the 110.20/30 resistance. Immediate range between 109.50 and 110.30. Upside momentum not a given at this point, and we continue to stay neutral.



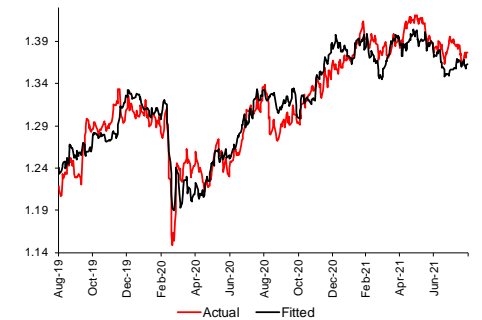
AUD-USD

Supported. The AUD-USD retreated back towards the 0.7300 handle after hitting a high at 0.7341. 2Q GDP prints early Wed is firmer than expected, but did little for the pair. Risk-on bias still supports, and antipodeans are still preferred expressions for USD weakness, but the AUD may be overshadowed by the NZD for now.



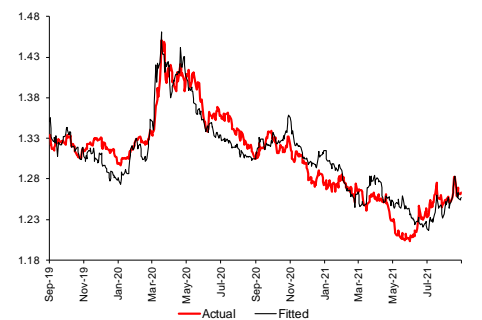
GBP-USD

Turn flat to lower. The failure at the 1.3800/30 resistance may not bode well for the GBP bulls. Immediate support at 1.3730, before firmer support at 1.3680/00.



USD-CAD

May have topped. Some surprise weakness on the GDP front may compel a reconsideration of BOC expectations in 2022, leaving the USD-CAD firmer above the 1.2600 resistance. 1.2560 to 1.2650 range to bookend this pair, pending better clarity after the US NFP print.



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Rates Themes/Strategy

- Treasury yields rebounded from intra-day lows to end Tuesday higher across the curve in a steepening manner, following but outperforming Bunds after some hawkish ECB remarks and a high print of euro-area inflation, while US' own data print was on the soft side. The move higher in UST yields was characterized by higher real yields while breakevens edged down. Meanwhile, usage at the Fed's o/n reverse repo hit a fresh record high of USD 1.19trn. Near-term range for the 10Y yield is at 1.28%/1.33% and a wider range is at 1.14%/1.45%. ACGB yields jumped by 8bp this morning.
- Just after ECB's Villeroy opined there was no urgency to decide on post-PEPP arrangement, ECB's Holzmann commented on Tuesday that members should discuss at the upcoming meeting how it would transition from emergency stimulus (i.e. reduce asset purchases). Earlier, Knot came up with similarly hawkish comments, saying he expects a decision [on pandemic-era policy] that should not be incompatible with ending asset purchases in March, which "would imply a reduction in the purchase pace". Bund yields rose in response, with the 30Y up by 6bp. Meanwhile, headline euro zone inflation increased to 3%yoy, the highest in almost a decade.
- In onshore China, the PBoC did not roll over earlier OMO injections, in line with our expectation, as those were to cover month-end need in the first place. Instead, provision of longer-term liquidity is needed for the market to sail through heavy MLF maturity and LGB issuances in the months ahead.

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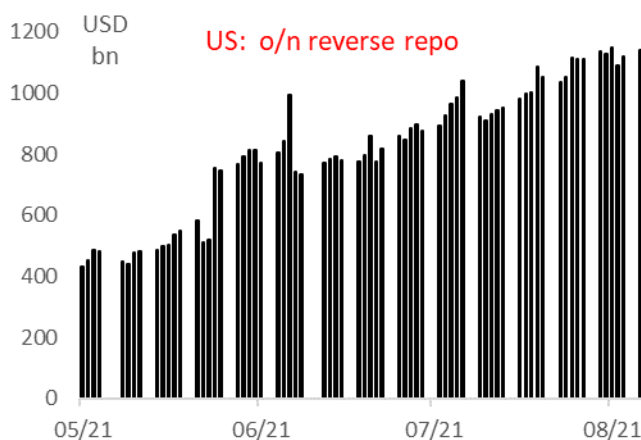
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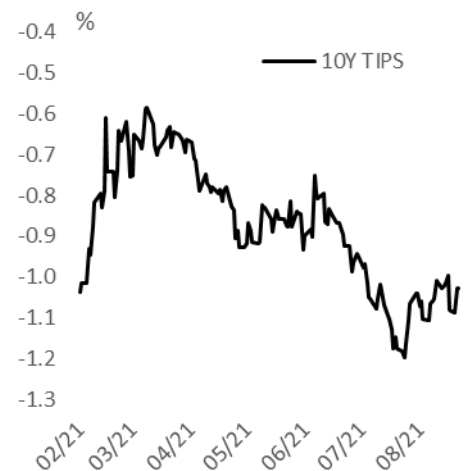
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Source: Bloomberg, OCBC



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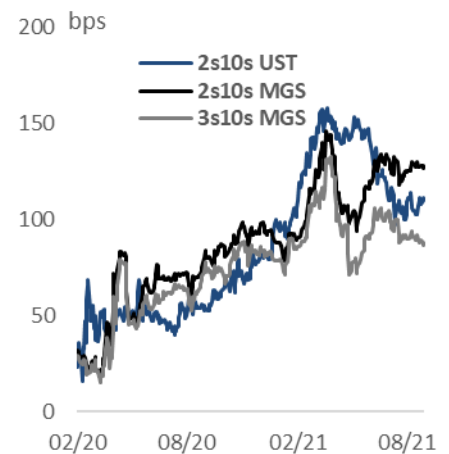
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IDR:

The conventional bond auctions drew a record incoming bid of IDR116.1trn, with IDR31.5trn of bonds being awarded – the full upsized amount (which was a reduction itself compared to previous auctions). IndoGBs rallied further after the strong auctions, with long-end outperforming amid some duration extension flows. The domestic bond market has been buoyed by the global bond rally and a soft dollar in the past couple of sessions, which may give back some gain today taking cue from the global market. That said, supportive factors remain, including flows capping USD/IDR, availability of DNDF and well-behaved onshore swap points for hedging, and a favourable supply outlook, which shall lead to IndoGB outperformance over UST in a rising yield environment.

MYR:

The MGS market was also supported by soft global yields and a weak dollar on Tuesday. Finance Ministry released 2022 pre-budget document. 2021 fiscal deficit is expected at 6.5-7.0% of GDP, up from an initially expected 5.4%. The document also noted the need to increase the statutory debt limit, “to provide additional fiscal space”. Against this fiscal backdrop, and passing index-induced duration extension, we look for the MGS curve to steepen mildly. The MGS curve has flattened more than most Asian peers in z-score term over the past three months, with the 3s10s segment 1.5 standard deviations narrower than its three-month average.



Source: Bloomberg, OCBC

CNY:

The daily OMO operations reverted to CNY10bn this morning, i.e. the PBoC did not roll over the short-term OMO money in line with our expectation, as that was injected to cover month-turn liquidity need in the first place. Instead, provision of longer-term liquidity is needed for the market to sail through heavy MLF maturity and LGB issuances in the months ahead. The weak PMI prints might be partly due to disruption to supply chain amid the floods and the campaign to reduce carbon emission. CGBs are trading between soft data/easing expectations and higher global yields overnight, which will likely mean rangy sessions near-term. Further out, we continue to see 2.8-3.0% as the trading range for the 10Y yield on a multi-week horizon.

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