Daily Market Outlook

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FX Themes/Strategy

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- EZ May PMI readings outperformed, while US ISM manufacturing was also firm. However, ISM employment came in much weaker than consensus. This leaves some questions for the NFP (Fri), and leaves the market eyeing clues from the ADP gauge (Thu). US equities pared gains to close little-changed overnight, while 10y UST yield held above 1.60%. The **FX Sentiment Index (FXSI)** remains in the Risk-On zone.

- Divergent cues, from global/US data to firm crude and iron ore, left the FX space choppy and mixed. The **USD** closed firmer against the **GBP** and **EUR** after recovering from intra-day lows. Firmer iron ore allowed the **AUD** to set aside any RBA disappointment. Overall, the market still struggled for clear directions, with the major pairs still stuck within ranges. Note, however, that the aggregate back-end G10-USD yield differentials have started to move in favour of the USD again, perhaps keeping the USD downside protected somewhat.

- Comparing the latest **RBA** policy statement and the previous suggests that the RBA is not materially leaning any less dovish, leaving the AUD to pare down pre-RBA gains. RBA expectations may build again ahead of the 06 July meeting, but regardless, the RBA should be a laggard compared to the RBNZ in the 2022-2023 timeframe. This leaves some room for downside in the AUD-NZD. The AUD-USD should remain locked within the 0.7700 to 0.7800 range, pending further developments on the Fed expectations front.

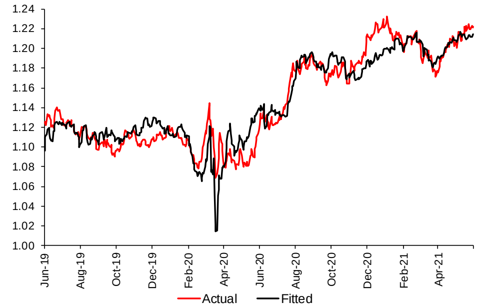
- On the **Fed** front, note that Brainard highlighted “risks on both sides” regarding inflation. We see this as another signal that the Fed is slowly moving away from its excessively dovish stance. Coupled with previous comments by Quarles and Clarida on tapering discussions in upcoming meetings, retain the view that Fed expectations should be gradually built in from here, barring any key data misses this week.

- **USD-China:** The CFETS RMB Index retreated from highs after policy signaling from the PBOC. The USD-CNY and USD-CNH also lifted higher to the 6.3800 zone. Continue to expect consolidation between 6.3500 and 6.4000 for now.

- **USD-SGD:** The SGD NEER eased lower to stand at +1.09% above the perceived parity (1.3366) this morning. The USD-SGD was given a breather from its downward bias after USD-China moved higher. Year-to-date low at 1.3157 not totally out sight yet, but the immediate support will be at 1.3180/00 levels. Still prefer to buy dips towards those levels.

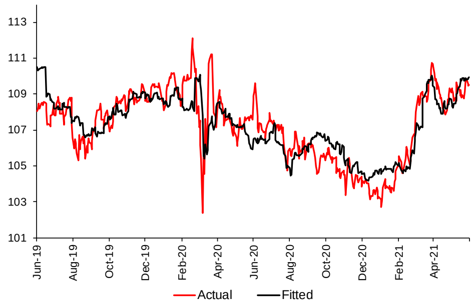
EUR-USD

At the cross-roads. The EUR-USD still held in the mid-point of the 1.2160 to 1.2260 range. EZ PMI prints were firm, provide some support for the pair, but are insufficient to force a break in range. Rangebound movement may persist up till US NFP (Fri). Note that spot continues to run hot relative to short term implied valuations.



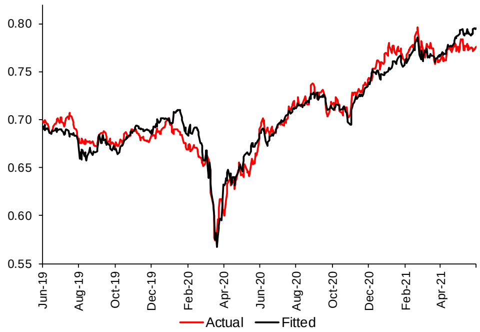
USD-JPY

Positive bias. As the 10y UST yield look to lift off from the 1.55% base again, the bias for the pair is on the upside. Immediate support at 109.00/20 for now, while the pair attempts to clear the 110.00 resistance cleanly.



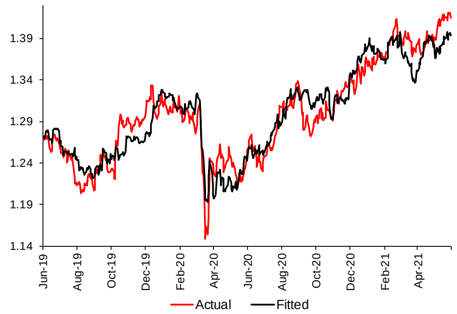
AUD-USD

Still within range. Excessive RBA expectations were disappointed yesterday as the central bank failed to signal significant shifts in stance. Nevertheless, firming iron ore complex prevented too much AUD negativity as well. For now, 0.7700 to 0.7800 range continues to dominate.



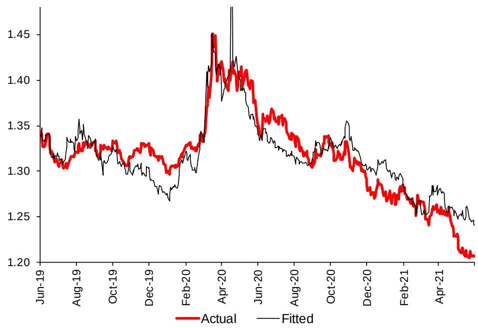
GBP-USD

Grind higher. The GBP-USD ground higher to a new year-to-date high at 1.4248 on an intra-day basis before retracing back south of 1.4200. Some marginal positives may still be had, but most of the reopening / vaccination positives for the GBP-USD should be well-priced in by now. Slow grind higher, rather than a swift appreciation move, expected.



USD-CAD

Potential consolidation. The USD-CAD dipped to lows just above the 1.2000 mark on Tue, before retracing higher. Continue to expect this sideways movement above 1.2000, with a clearer catalyst needed for the pair to breach southwards. Pace of CAD appreciation has slowed down as expected in the near term.

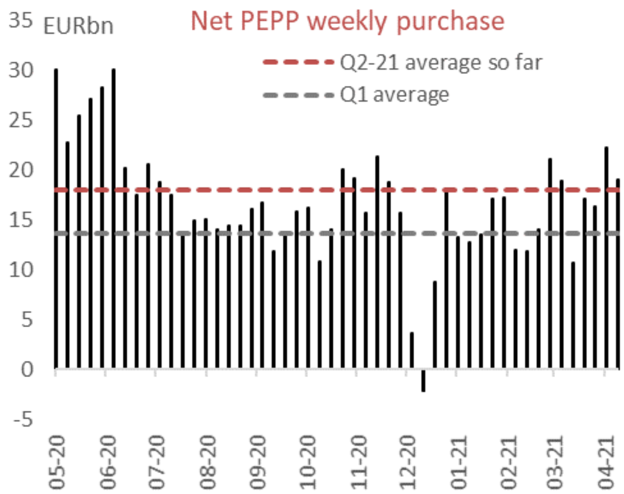


Rates Themes/Strategy

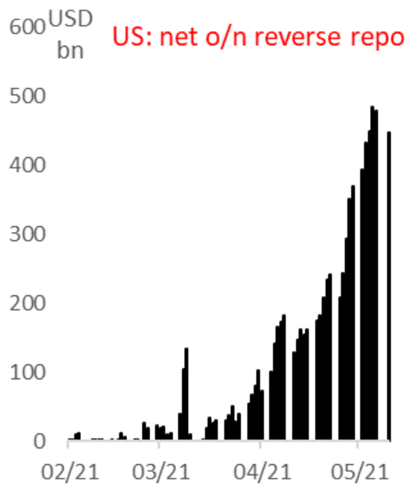
- Treasury yields ended the day mildly higher, off intraday highs with the initial sell-off triggered by the strong PMI. Meanwhile, Fed officials continued to highlight the transitory nature of inflation. The 10Y yield touched an intraday high of 1.63%, while recent lows suggest resistance for the 10Y bond has formed around 1.55-1.56%. The usage at the Fed's o/n reverse repo edged down to a still big amount of USD448bn, and the 42-day bill auction drew strong demand yielding 0.5bp. Liquidity has stayed flush.

- ECB PEPP went up in the past couple of weeks to above 20bn per week, bringing the quarter average to 18bn vs a run rate of 17bn for the existing envelope to be fully utilised by March 2022. The bond market shrugged off the higher-than-expected CPI print, with Bund yields little changed on the day. UST-Bund yield spreads are likely to stay stable to a tad wider ahead of the ECB meeting on 10 June.

- Front-end INR OIS stay anchored ahead of the RBI decision on Friday, as market awaits some dovish remarks despite expecting no change in the policy rates – while the plan to normalize policy is likely delayed. Given the government announced extra borrowing over the weekend, another focus is the RBI's bond purchase program.



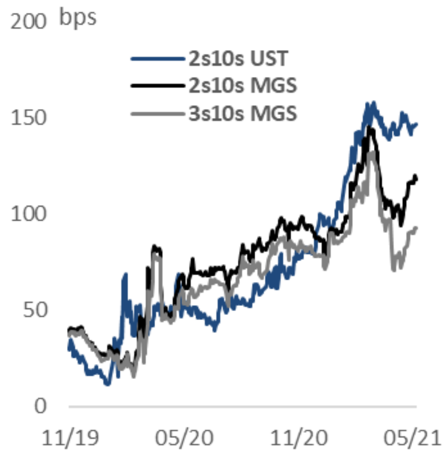
Source: Bloomberg, OCBC



Source: Bloomberg, OCBC

IDR:

The market was close yesterday. IndoGBs have found a firmer footing in recent sessions; today's auctions target a timid amount of IDR10trn which is likely to go through smoothly. Finance Minister said the government will stick to its plan to narrow the budget deficit to less than 3% by 2023, which may also support the bond market sentiment.



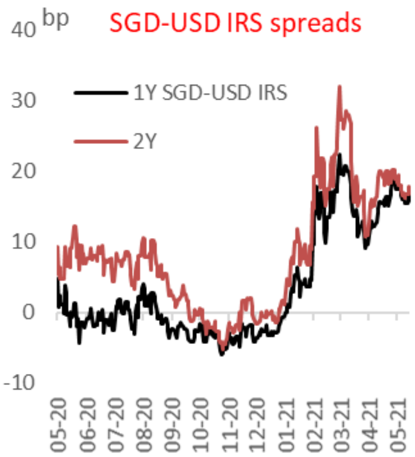
Source: Bloomberg, OCBC

MYR:

The MGS curve flattened back on Tuesday, as the direct fiscal spending, out of the MYR40bn stimulus package, was smaller than expected. Still, the Finance Minister is to announce revised GDP forecast and fiscal deficits ratio – likely higher due to a lower denominator. With front-end rates better anchored amid the accommodative policy stance, while investors have turned more cautious towards duration, the bias remains for a steepening move in the curve. The 3s10s segment is likely to trade in a range of 90-97bp on a multi-week horizon.

SGD:

Flush USD liquidity is preventing SGD rates from going lower despite supportive domestic liquidity. While bill auction cut-offs were on the low side, front-end IRS traded on a bid tone and implied rates edged higher. SGD-USD rates spreads are likely to trade within ranges against the liquidity backdrop. On the bond side, we continue to see SGS resilience on a prudent fiscal position.



Source: Bloomberg, OCBC

CNY / CNH:

We are neutral on back-end CNY swap points. The USD liquidity locked by the higher reserve ratio is not huge, while the 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. On balance, while the short-term, tactical strategy may be to sell on rally, downside is limited with the next support for the 12M not far away at 1500pips. On bond side, despite the latest policy move and 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.

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