OCBC TREASURY RESEARCH

Daily Market Outlook

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FX Themes/Strategy

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- US manufacturing data releases were mixed, with the main takeaway being supply-side price pressures are looking even more entrenched. US equities were choppy and underperformed EZ/EM equities. The **FX Sentiment Index (FXSI)** stable in the Risk-Neutral zone.

- The **USD** was softer against most G-10 counterparts, with the **GBP** and **JPY** being exceptions. Volatility in the European complex is still not sorted out, with the **EUR** bouncing higher back to the 1.1600 locus. JPY was little-changed, with initial weakness towards 114.50 reversed. **Antipodeans** within established ranges. Overall, the DXY index is back below 94.00, at levels prior to the ECB meeting.

- The higher inflationary environment is pushing more and more central banks towards the hawkish end of the spectrum, and this move has shaken up the near term dynamics between the FX market and the central banks. This has not completely played out, expect more volatility before a new equilibrium is reached.

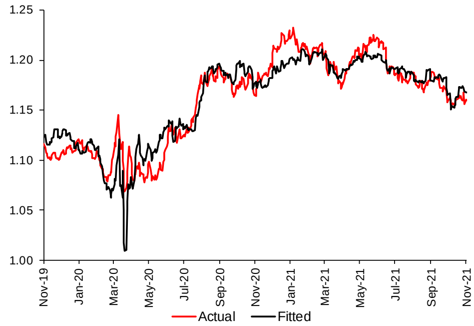
- After the dust is settled, expect the higher inflation / slower growth nexus to imply a even sharper divergence between the central banks which are in the position to hike versus those which are not. Morevover, the growing hawkish group needs to be differentiated between those which can hike with least detrimental impact on growth, and those which cannot. On both counts, the USD is still in a good position. The BOJ and ECB (perhaps less so) are still not expected to be hawkish, leaving the JPY and EUR at the end of the pack. The antipodeans is where there is most shift. The RBA (0330 GMT) may have room to lean less dovish, while the commodity complex and a slowing-but-not-recessionary global growth supports. Beyond the expected volatility around the RBA decision, there may be scope to turn more positive on the AUD beyond the immediate horizon.

- **USD-Asia**: The USD-CNH retreated from initial highs near 6.4100 to close below 6.4000. With the USD-CNH trapped in a low-vol environment, there seems to be relatively little interest in USD-Asia pairs compared to the G10-USD.

- **USD-SGD:** MAS's Menon was on record not just talking about hgiher inflation, but entrenching inflation expectations. This further supports to consensus that another steepening may be expected in April 2022. The SGD NEER is firmer this morning at +1.13% above the perceived parity (1.3629), within the +0.90% to +1.20% range that we think will limit for now. The USD-SGD range bound between 1.3460 and 1.3510 for now.

EUR-USD

Re-engage downside. The EUR-USD rebound back above 1.1600 negated immediate downside impetus somewhat, but does not fully reverse the negative bias. Starting Tue on a weak footing again, with spot below 1.1600. Oct manufacturing PMIs (starting 0815 GMT) will be data focus today.

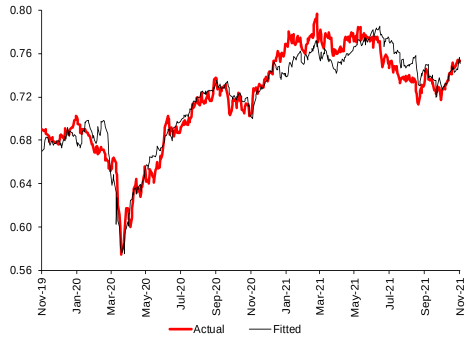


USD-JPY

Buy on dips. The LDP election victory provided a domestic sentiment boost, with the JPY-NKY correlation pushing the USD-JPY higher towards 114.50. The move was subsequently retraced. The JPY has more things to be worried about on the global front – a relatively more dovish BOJ, unfavourable front-end yield differentials – to name a few. Stay positive on the USD-JPY.

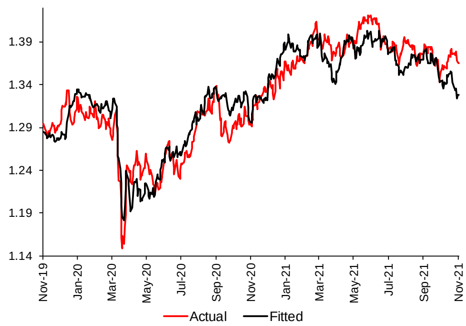
AUD-USD

Neutral. All eyes on the RBA (0330 GMT) decision, with increased volatility likely to ensue in the aftermath. Some immediate downward pressure, especially if the RBA fails to match up to market's hawkish expectations. 0.7600 and 0.7380 are the key levels on both sides that we will be eyeing amid any volatility. Overall, the 200-day MA (0.7556) still caps, while the overbought situation is being worked away as spot stalls below that key level.



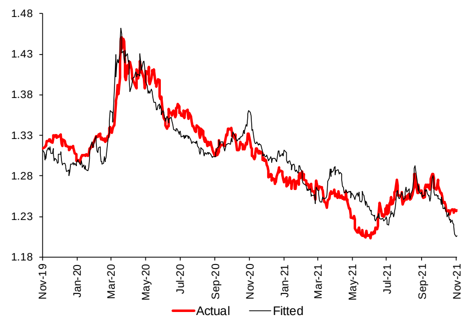
GBP-USD

Slight negative bias. The BOE meeting (Thu) will be the main event, but the market is busying itself with Brexit-related negatives for the GBP. 1.3600 is the immediate target on the downside. Note that short-term implied valuations are pointing much further south at this point.



USD-CAD

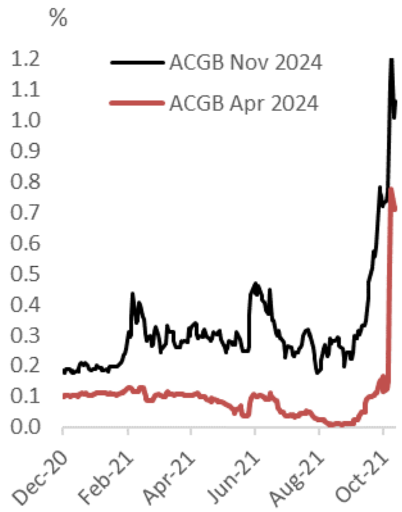
Range. Limited directional impetus for now as the USD-CAD remains locked within 1.2300 and 1.2420 range and the market focuses on other pairs. Short term implied valuations point south.



Rates Themes/Strategy

- UST yields were little changed on the day with some intra-day fluctuations, in a largely risk-on trading session on Monday and ahead of this week's FOMC. When a taper plan is expected to be announced, the other thing to watch is probably how Powell again pushes back on linking the taper timeline to the rate hike timeline. Market may not be easily convinced though. Meanwhile, Treasury revised upward its Q4 issuance estimate. We continue to see the resistance as strong for 10Y UST to rally below 1.55% sustainably.

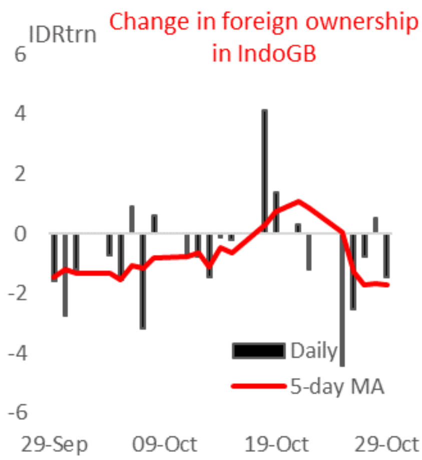
- This morning, focus is on the RBA MPC decision. A formal announcement to abandon the 3Y yield target shall not move the market further, given the yield has already gone well above target. Rather, risk is for a downward correction in front-end AUD rates. Current pricing is overly hawkish compared to existing RBA stance by a wide margin. The bar appears high for a hawkish tilt to close the gap with market expectations.



Source: Bloomberg, OCBC

- US Treasury revised upwards it Q4 issuance estimate to USD1.015trn, from the earlier estimate of USD703bn, after below-target issuances in Q3. Cash balance is projected at USD650bn at year-end, lower than the earlier projection of USD800bn, and versus current cash balance at around USD280bn. Granted, all these estimates depend on whether the debt ceiling will be raised/suspended and whether the fiscal plan is passed.

- IndoGBs traded on the weak side on Monday, with the 10Y yield (FR91) continuing to trade mildly above the 6% handle. Today brings IDR4trn of sukuk auction which is likely to go well amid light supply with prospect of reduced number of auctions for the rest of the year. Daily foreign bond flows have continued to fluctuate, with foreign holdings of IndoGBs standing at IDR949.3trn as of 29 October.



Source: Bloomberg, OCBC

- MGS yields rose across the curve on Monday with the 3Y underperforming. The move was probably exaggerated by the thin market liquidity. Short to mid-tenor MGS have mostly followed the global monetary re-pricing and at times underperformed USTs. The 3Y and 5Y MGS shall consolidate around or below the current yield levels, before hawkishness comes from BNM itself.

- The PBoC did CNY10bn of OMO this morning again. According to this pattern, a total of CNY950bn of liquidity is expected to be withdrawn this week through OMOs (including Monday and today's). On top of this, CNY1trn of MLF mature on 16 November. With reduced chance for an RRR cut, a full rollover of the MLF is needed to soothe the market. We continue to see the 10Y CGB yield trading in a range of 2.9-3.1%.

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