

Daily Market Outlook

2 September 2021

FX Themes/Strategy

- Overnight US data releases saw the ISM manufacturing coming in firmer than expected. However, the market focus was on the Aug ADP print, which missed by a large margin. The UST curve responded by moving lower and flatter, and US equities steady. The **FX Sentiment Index (FXSI)** steady within the Risk-Neutral zone.
- **USD** bounce early in the global day reversed after the large ADP miss. The triggered renewed selling on the USD, leaving the DXY Index back at the 92.40/50 handle. Antipodeans still the outperformers, as the **AUD** and **NZD** approached 0.7400 and 0.7100 respectively. The **EUR** and **GBP** firmed, but still closed below the 1.1850 and 1.3800 resistances. Note some less-dovish comments from the ECB's Lagarde, who called for only "surgical" support for the EZ economy now that it has recovered firmly from the pandemic. The **USD-JPY** retreated after briefly breaching the 110.30 top of the recent range.
- A perceived tilt towards being less dovish by the ECB, and the miss in the ADP print damaged the attempt at a USD bounce. The ADP miss puts more focus on Friday's NFP, but note that the ADP has not been a consistent early indicator for the NFP this year. Stay negative on the USD into the NFP, but remain positive in the medium term.
- **USD-Asia:** USD-CNY is heavy, but seemed unable to breach the 6.4600 support meaningfully. The RMB complex is largely underperforming regional peers amid USD weakness, with the CFETS RMB Index coming off highs. With the USD-CNH at the discount to USD-CNY, immediate downside extension is unlikely, but our bias has shifted towards being negative on this pair. Nevertheless, the 6.4500 support may have to be breached.
- **USD-SGD:** The SGD NEER eased further, standing at +0.82% above the perceived parity (1.3554) this morning. Note that the SGD NEER is edging back into our comfortable range near +0.50% above parity. Expect the USD-SGD to continue plying a narrow range between 1.3420 and 1.3480.

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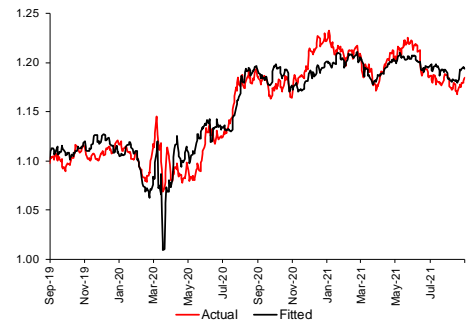
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EUR-USD

Potentially firmer for now. Lagarde's comment about "surgical" support for the EZ economy is viewed as a hawkish / less-dovish tilt. This adds more weight to ECBspeak earlier in the week. With the 55-day MA (1.1816) breached, the next immediate target shifts to 1.1850. Prefer to await clarity on the US front before determining the next leg of directionality.



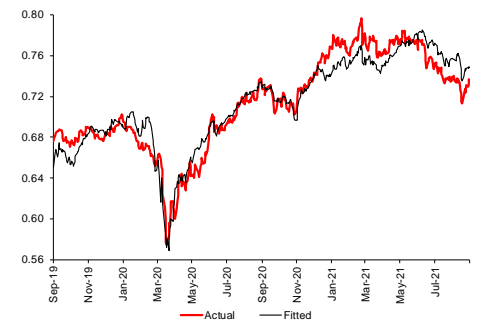
USD-JPY

Looking for direction. A breach of the 110.20/30 resistance was quickly reversed, leaving the USD-JPY back within range for now. Market focus on US data-prints, but the impact on this pair will be divergent – Fed expectations and risk dynamics likely to offset each other to leave the USD-JPY still stuck.



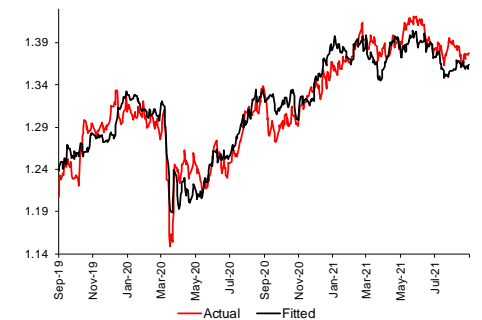
AUD-USD

Supported. As the risk-on push persists, expect the market to start shifting focus towards the RBA meeting next week. This may not be a positive for the AUD-USD, as the RBA may delay its tapering process in response to the Delta outbreak in Australia. The 55-day MA (0.7392) is the immediate target for now.



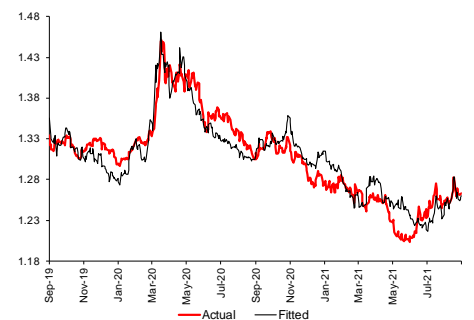
GBP-USD

Consolidate. The GBP-USD looks trapped within the 1.3730 to 1.3820 range for now. Expect directionality to be led from the USD side for now.



USD-CAD

Range. The USD-CAD remains locked in a narrow range between 1.2560 and 1.2650. Limited directional impetus until NFP.

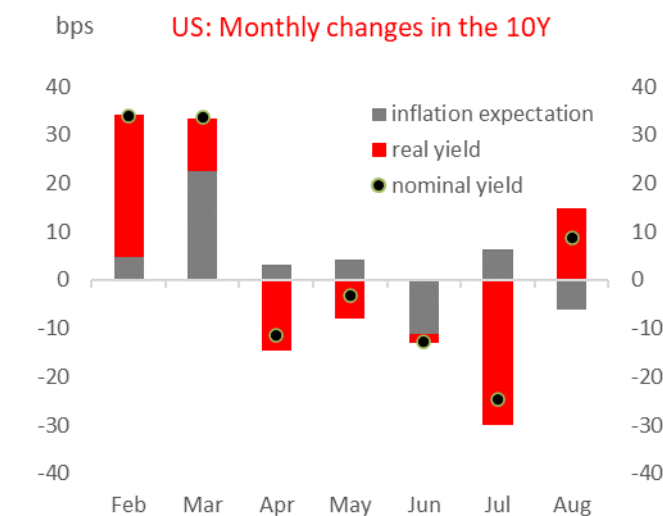


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Rates Themes/Strategy

- Treasury yields edged down on Wednesday upon the soft ADP employment print; real yields fell alongside while breakevens were little changed. With the perceived timing of the start of taper being sensitive to the NFP print on Friday, market braces for volatility around the release. While the next retracement level for the 10Y yield is at 1.14%, it managed to stand above 1.2% during previous bouts of downward move; meanwhile, upside is at 1.33%/1.45%. Bunds continued to underperform on the earlier hawkish ECB remarks.
- Usage at the Fed's o/n reverse repo facility stayed high at USD1.09trn on Wednesday. Treasury's paydown of bills accelerate this week to USD55bn. Relatively demand at tonight's 4W and 8W bills auction will shed light on market expectation on the timing for a resolution of the debt ceiling. If the 4W bills are preferred, that means consensus is probably at end-October/early November.
- MAS announced that there will be no mini-auction on 28 September. This, together with the small size of the recent 20Y reopening, paves way for the inaugural 30Y SGS (Infrastructure). This also supports our view for SGS to outperform USTs.
- CGBs rallied on Wednesday, as the soft PMI print has added to expectation for more supportive measures. Local media reported late Wednesday of an additional CNY300bn re-lending facility. We do not expect the liquidity situation to loosen materially as the PBoC is unlikely to flood the market, while MLF maturity and LGB issuances are heavy.



Source: Bloomberg, OCBC



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IDR:

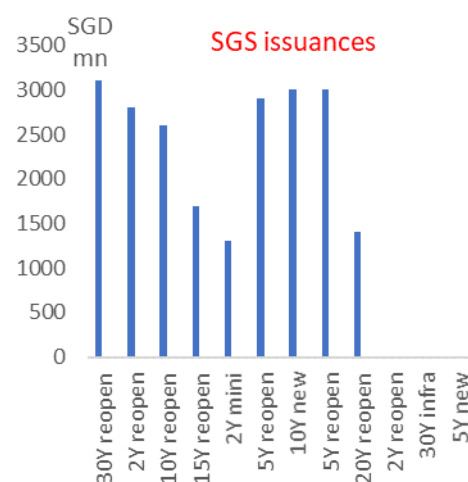
After a few days of rally, IndoGBs consolidated on Wednesday, while USD/IDR stayed stable amid opposing flows. Supportive factors for the domestic bonds remain, including flows capping USD/IDR, availability of DNDF and well-behaved onshore swap points for hedging, and a favourable supply outlook. That said, after the fairly rapid downward move in yields over the past couple of weeks, it is more likely to be a period of consolidation rather than another leg lower in yields.

MYR:

MGS were little changed on Wednesday ahead of today's 30Y MGII supply where WI trading appear to suggest solid demand. PM is said to table the 12th Malaysian Plan (12MP) in parliament on 27 September. The 12MP, together with the 2022 budget will be the key economic focus. The 2022 pre-budget document already noted the need to increase the statutory debt limit, "to provide additional fiscal space". We remain of the view the MGS curve is biased to steepening 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.

SGD:

SGS outperformed SGD IRS and USTs on Wednesday. After market closed, MAS announced there would be no mini auction on 28 September. The cancellation of this optional mini-auction, together with the small size of the recent 20Y reopening, paves way for the inaugural 30Y SGS (Infrastructure). YTD bond issuances are at SGD21.8bn. If the amounts of the remaining 2Y reopening and 5Y new bond auctions also come on the light side (i.e. 2bn or below), then annual gross supply (including SGD (Infrastructure) the amount of which is expected at SGD2.3-3.0bn) will be at a well-manageable SGD30bn. This outlook supports our view for SGS to outperform UST and for the 10Y SGS-UST yield spread to gradually move towards par or even negative.



Source: MAS, OCBC

CNY:

CGBs rallied on Wednesday, as the soft PMI print has added to expectation for more supportive measures. PBoC is reportedly to grant an additional CNY300bn of re-lending facility to banks to support loans to SMEs. Even upon an RRR cut, the liquidity situation is unlikely to loosen materially as the PBoC will not flood the market, while MLF maturity and LGB issuances are heavy.

In the offshore CNH market, market participants appear to have started to prepare for the onshore golden week holidays, with the 1M and 2M swap points trading on a bid tone.

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