# OCBC TREASURY RESEARCH

## Daily Market Outlook

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## FX Themes/Strategy

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- Cross-asset performance was mixed overnight, with global equities marking marginal gains. UST yields were softer on the day, but more extensive declines were seen in other global core yield curves. Overall, the **FX Sentiment Index (FXSI)** remains static within the Risk-On zone.

- Gains for the **USD** in the Asian session was again sold down later in the global day. The USD was left marking small gains against most G-10 counterparts, with the exception of the **Scandis**, **CAD** and **GBP**. The price action suggest further sideways movement for the major pairs.

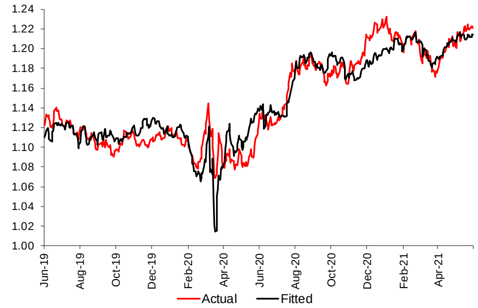
- The FX space is essentially in a stasis ahead of the ADP (1215 GMT) and NFP (Fri), the next event risks that may shake out Fed expectations. Our bias continues to be for Fedspeak to eventually lean less dovish, finally giving a firmer nod to the economic recovery (further evidence seen in the Fed's Beige Bank), thus providing some positive driver for the USD.

- **USD-Asia:** More policy signaling over RMB appreciation on Wed, with quotas for funds to flow overseas under the QDII scheme increased. Overall, pro-RMB bets should be further discouraged for now. The CFETS RMB Index continued to retreat, as the USD-CNY and USD-CNH retained their upward bias. Do not rule out a test of 6.4000 for the USD-CNY and USD-CNH in the upcoming sessions.

- **USD-SGD:** The SGD NEER fluctuated on either side of +1.10% above the perceived parity (1.3373). The USD-SGD found a top at 1.3250 before retreating. Expect the pair to be contained within 1.3200 and 1.3250 extremes pending firmer USD directionality.

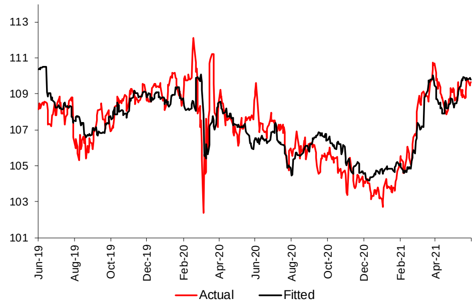
### EUR-USD

**At the cross-roads.** Disappointment in German retail sales saw the EUR-USD test the 1.2150/60 support. Nevertheless, the USD-buying faded alongside softer back-end UST yields, leaving the existing range still intact. Sideways for now, and with ECBspeak still focused on strong policy support, we remain skeptical about any bullish breakout for this pair.



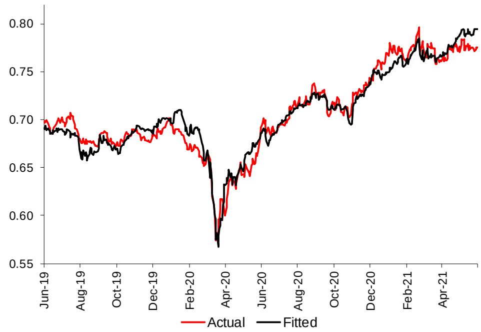

### USD-JPY

**Positive bias.** The USD-JPY struggled to reach for 110.00 as 10y UST yields dipped back below 1.60%. Any moves for the pair likely US-centric, especially ahead of the jobs data on Thu-Fri. Supports at 109.30, then 109.00/10 for now.



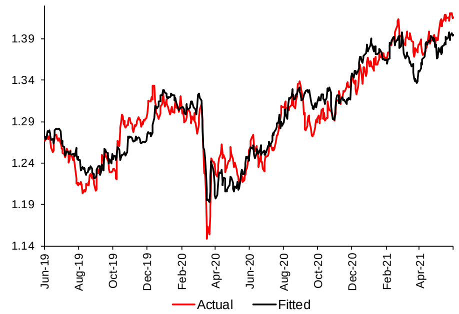

### AUD-USD

**Still within range.** The AUD-USD stable right at the middle of the 0.7700 to 0.7800 range. The pull-back of RMB appreciation may translate to some background AUD weakness, but a firmer catalyst is still needed for a clear range break.



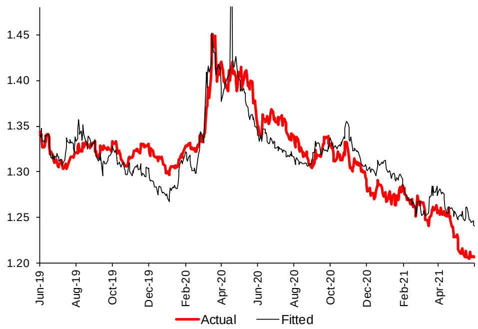

### GBP-USD

**Grind higher.** The broad 1.4100 to 1.4250 range held on despite an early move towards 1.4100 on Wed. We retain a slight bias for the pair to grind higher under the current status quo, pending more directionality from the broad USD.




### USD-CAD

**Potential consolidation.** The CAD gained against the USD on the back of firmer crude complex, leaving the pair closer to the lower end of the 1.2000 to 1.2100 range. Global demand seemed to be able to absorb OPEC output increases for now, leaving a positive bias for crude prices. In turn, this should support CAD ahead of the key 1.2000 resistance.



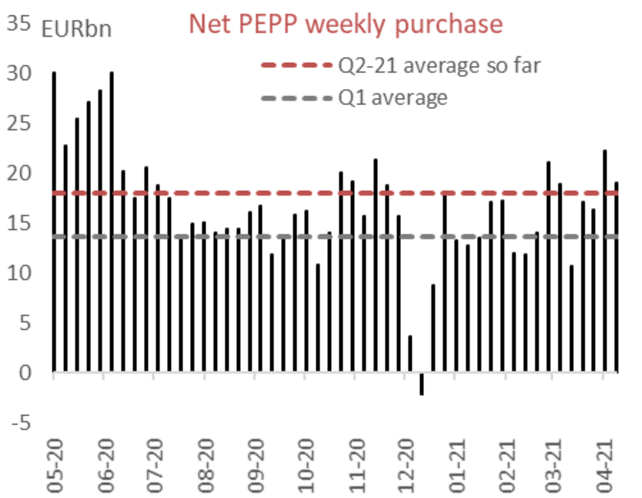
## Rates Themes/Strategy

- Bunds rallied overnight, on expectation for the PEPP step-up to be maintained. While it remains a close call to us, UST-Bund yield spreads are likely to stay stable to a tad wider as market awaits the decision. 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.

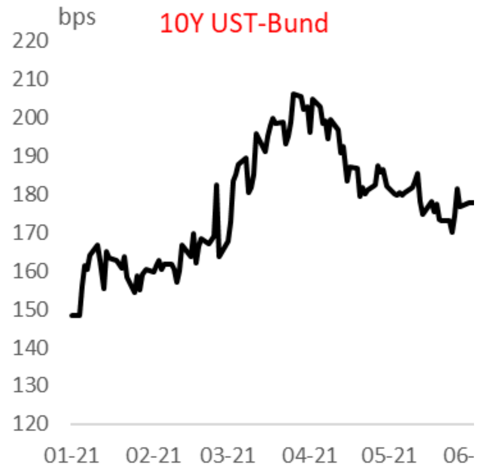
- Treasury yields fell alongside, but within familiar ranges. Philadelphia Fed's Harker commented that it was time to start thinking about discussing the time frame for scaling back asset purchases. Meanwhile, Fed's Beige Book saw the economy expanded at a "somewhat faster pace". Treasury will announce mid-month supply, while on the data front initial jobless claims and ADP report are to be released. Labour market development is the key for gauging if temporary inflation factors will transform into more persistent ones. Resistance for the 10Y bond stays at 1.55-1.56%.

- Front-end MYR rates have turned more dovish, while investors may stay cautious towards duration as fiscal support is extended; 3s10s MGS is likely to trade in a range of 90-97bp over a multi-week horizon.

- 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.



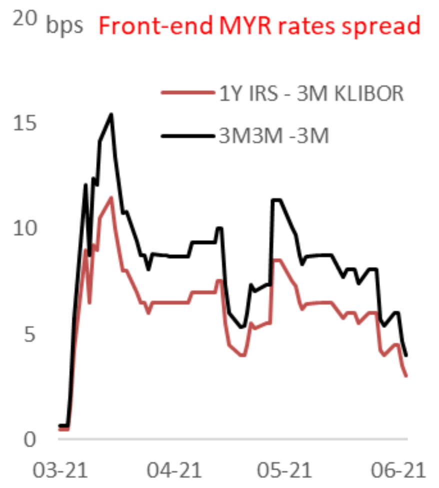

Source: Bloomberg, OCBC




Source: Bloomberg, OCBC

**IDR:**

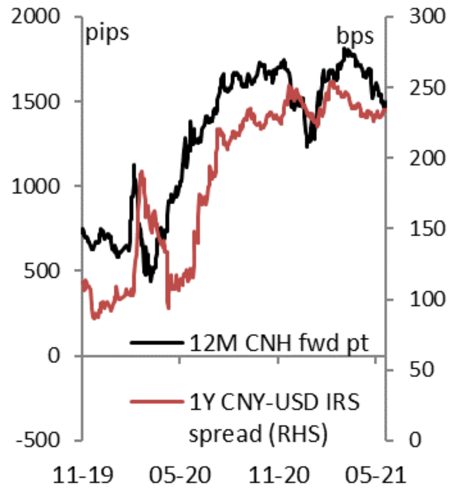
The sukuk auctions went well, with IDR11trn of bonds awarded, mildly above indicative target of IDR10trn. Incoming bids were decent at IDR44.65trn. IndoGBs have found a firmer footing in recent sessions, with a broadly stable USD/IDR and some comeback of foreign interest. The 10Y bond is likely to trade in a range of 6.37-6.50% near-term, and a wider range is at 6.35-6.60%. Headline and core CPI quickened in May, in line with expectations, on base effect; the outcome shall not lead to any major concerns over inflationary pressure.




Source: Bloomberg, OCBC

**MYR:**

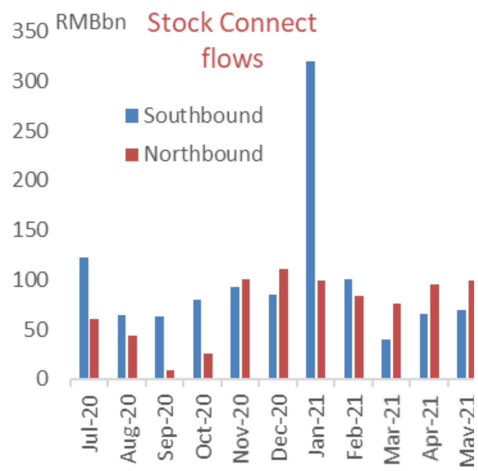
MGS yields and MYR rates softened on Wednesday, as the near-term economic outlook turned less optimistic. Various spreads at the front-end – 6M, 3M3M ohas r 1Y MYR IRS versus 3M KLIBOR – have narrowed mildly of late, albeit staying wider than at the start of the year. These may reflect market is scaling back some of the economic optimism built earlier. MGS shall fare well today, also taking cue from the global market movement overnight. The steepening momentum shall be maintained as front-end rates are better anchored amid the accommodative policy stance, while investors stay cautious towards duration as fiscal support is extended. The 3s10s segment is likely to trade in a range of 90-97bp on a multi-week horizon.




Source: Bloomberg, OCBC

**CNY / CNH:**

Further downside to back-end CNH swap points is limited, and investors may switch to a buy-on-dip strategy. First, 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 to onshore. Second, the recent downward adjustment already played catch-up with CNY-USD rates spread. Third, offshore back-end CNH points are trading higher than onshore counterparts. Fourth, additional liquidity to the CNH pool has been minimal. For now, liquidity at the very front-end appears staying flush, and as such the CNH swap curve is biased to steepening.




Source: CEIC, OCBC

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