

Daily Market Outlook

3 June 2021

FX Themes/Strategy

- 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 Fed speak to eventually lean less dovish, finally giving a firmer nod to the economic recovery (further evidence seen in the Fed's Beige Book), 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.

Frances Cheung, CFA

Rates Strategist

+65 6530 5949

FrancesCheung@ocbc.com

Terence Wu

FX Strategist

+65 6530 4367

TerenceWu@ocbc.com

Treasury Research

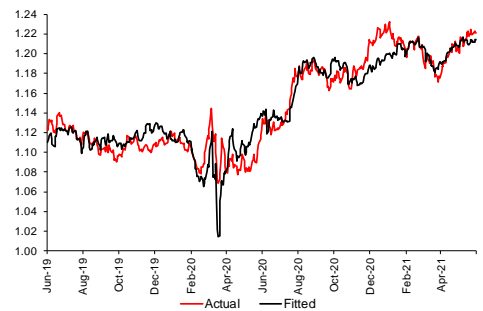
Tel: 6530-8384

Daily Market Outlook

3 June 2021

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 ECB speak still focused on strong policy support, we remain skeptical about any bullish breakout for this pair.



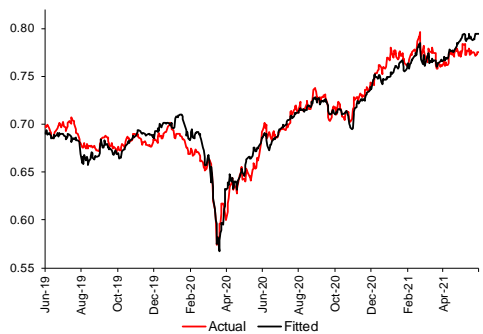
USD-JPY

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.



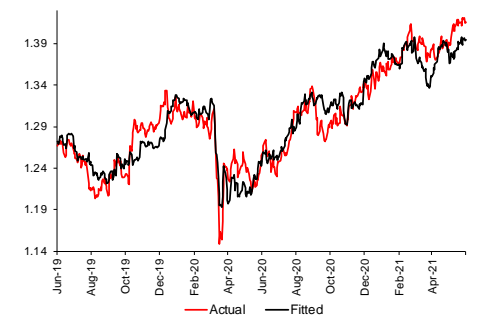
AUD-USD

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.



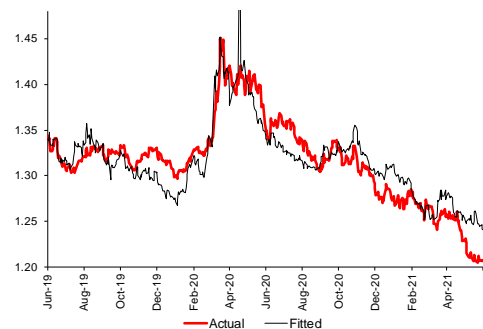
GBP-USD

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.

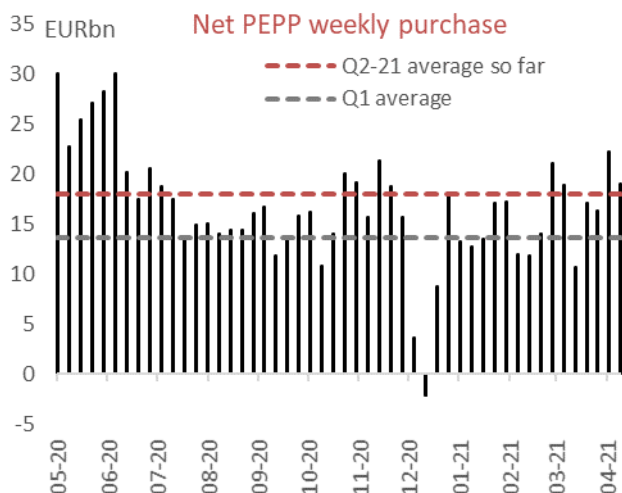


Daily Market Outlook

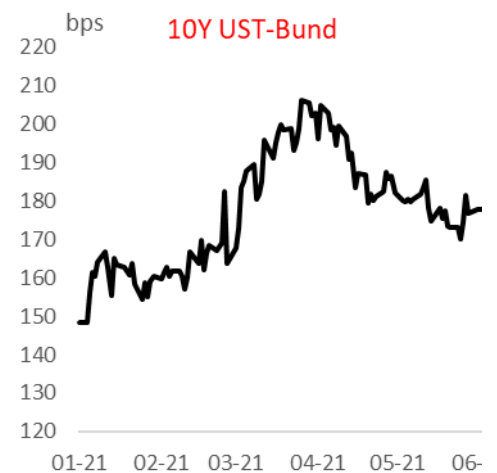
3 June 2021

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

Daily Market Outlook

3 June 2021

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.

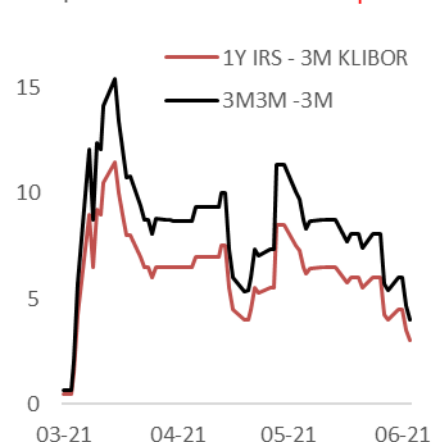
MYR:

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.

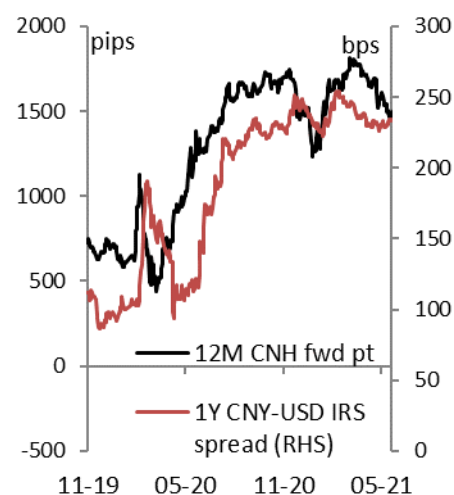
CNY / CNH:

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 sterilization, 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.

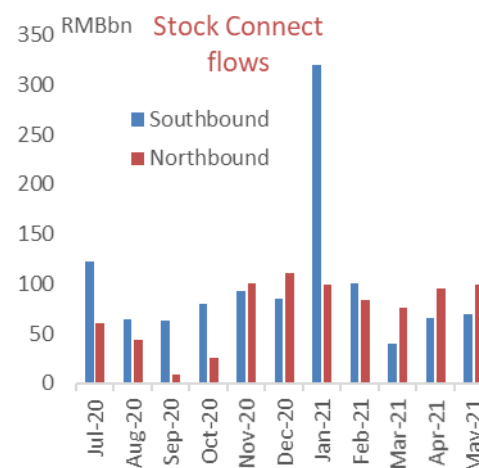
20 bps Front-end MYR rates spread



Source: Bloomberg, OCBC



Source: Bloomberg, OCBC



Source: CEIC, OCBC

OCBC TREASURY RESEARCH

Daily Market Outlook

3 June 2021



Treasury Research & Strategy

Macro Research

Selena Ling

Head of Research & Strategy

LingSSSelena@ocbc.com

Tommy Xie Dongming

Head of Greater China

Research

XieD@ocbc.com

Wellian Wiranto

Malaysia & Indonesia

WellianWiranto@ocbc.com

Howie Lee

Thailand, Korea &

Commodities

HowieLee@ocbc.com

Carie Li

Hong Kong & Macau

carierli@ocbcwh.com

Herbert Wong

Hong Kong & Macau

herberthwong@ocbcwh.com

FX/Rates Strategy

Frances Cheung

Rates Strategist

FrancesCheung@ocbc.com

Terence Wu

FX Strategist

TerenceWu@ocbc.com

Credit Research

Andrew Wong

Credit Research Analyst

WongVKAM@ocbc.com

Ezien Hoo

Credit Research Analyst

EzienHoo@ocbc.com

Wong Hong Wei

Credit Research Analyst

WongHongWei@ocbc.com

Seow Zhi Qi

Credit Research Analyst

ZhiQiSeow@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate.

This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. There may be conflicts of interest between OCBC Bank, Bank of Singapore Limited, OCBC Investment Research Private Limited, OCBC Securities Private Limited or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OCBC Bank and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).