Daily Market Outlook

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FX Themes/Strategy

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- The main overnight move is probably the dip in front-end yields as market continue to react to central bank cues. Global equities were mainly firmer. The **FX Sentiment Index (FXSI)** anchored within the Risk-Neutral zone, and not going anywhere fast at the moment.

- The **USD** rebounded from the Mon's declines. The EUR-USD reverted below the 1.1600 locus, leaving the 29 Oct low of 1.1535 still the target on the downside. The USD-JPY recovered from intraday declines below 113.50 to close unchanged near 114.00. The **antipodeans** are the hardest hit on the RBA decision, with both the AUD and NZD down more than 1% on the day.

- The **RBA** policy decision communicated two key shifts – the dropping of the yield target and the moving forward of the "central scenario" for rate hikes from 2024. Taken together, this is a shift away from the dovish end of the spectrum for the RBA. The new guidance, however, still falls short of the (admittedly very extended) market expectations. This contributed to the sharp decline in the AUD-USD post-RBA.

- However, note that the pair did not breach our first support on the downside, 0.7380. That level may still be the immediate target for now, especially if rate hike expectations continue to be pared. However, we are not quite in an outright downtrend just yet, at least on a technical basis. Note that the NZD dip also bounced off support at 0.7100. Attention now shifts to the FOMC, BOE and then the NFP into the end of the week. The USD should retain an overall bid tone for now. Expect base-building around the 94.00 on the DXY Index.

- **USD-Asia**: The USD-CNH remains within a tight range, leaving little guide for the rest of USD-Asia pairs. Instead, overnight USD strength should flow through to a positive USD-Asia today. Notwithstanding the recent pull-back in the IDR, we still expect the IDR and MYR to outperform the INR, KRW and THB in view of their exposure to the elevated commodity complex. Meanwhile, the USD-THB should be in a consolidative phase as the initial impact of reduced tourist restrictions get fully priced in. We will still need to see an actual recovery of tourist numbers for the THB to re-enter a sustained appreciation phase.

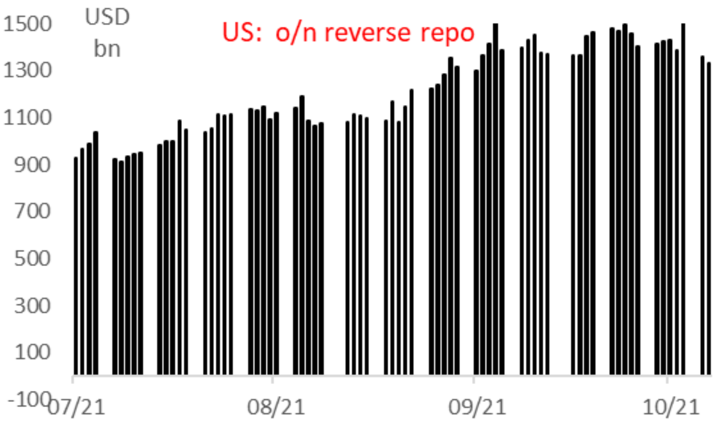
- **USD-SGD:** Singapore Markit PMI entered at 52.3 this morning, weaker than the prior month. This contrasted with the official reading, which was unchanged from prior. The SGD NEER is supported, standing at +1.17% above the perceived parity (1.3645). The USD-SGD still within range, but expect a positive bias on the back of a supported USD.

Rates Themes/Strategy

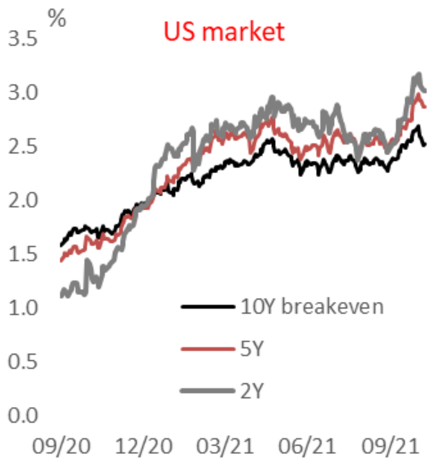
- Front-end UST yields retraced lower overnight, joining the move in Gilt yields and ACGB yields, after the RBA showed patience in raising rates. The UST curve steepened as long-end yields were little changed, while inflation expectations edged higher. A well expected taper plan at FOMC may not push the market further; investors watch how Powell pushes back on linking the taper timeline to the rate hike timeline.

- RBA dropping its YCC did not move the market further as it had already let go the yield before the formal decision and yield had been trading well above the original target. The MPC statement had a hawkish tilt in that the calendar reference of "not until 2024" was removed. However, this hawkish tilt was not enough to close the gap with market expectations which are overly hawkish. In addition, Lowe sounded somewhat dovish in the press conference, noting the different situation in Australia, and the central bank's willingness to "look through spikes in inflation". AUD rates softened in response; bias is for further downward adjustment in front-end rates and yields.

- An announcement of taper is expected at the upcoming FOMC. The last FOMC minutes already revealed an "illustrative path" which features a monthly reduction of USD10bn in purchases of Treasury securities and of USD5bn in purchases of agency MBS, meaning taper will complete around mid-2022. The key is probably on how Powell pushes back on linking the taper timeline to the rate hike timeline. Market is not easily convinced that there will be an extended lag between the completion of taper and the start of the rate hiking cycle, unless the Fed gives a calendar guidance on rates – which is highly unlikely. Fed Fund futures pricing of two rate hikes by end-2022 does not look as stretched as the pricing in markets such as SONIA futures (GBP) or Bank Bill futures (AUD).



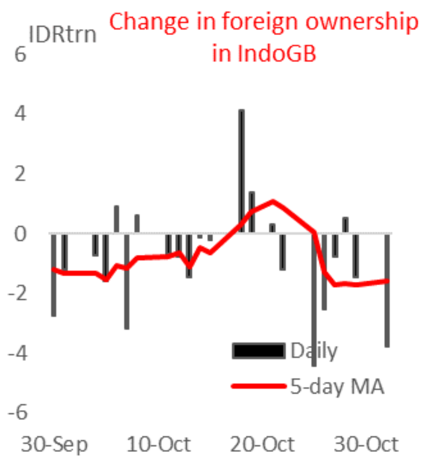
Source: Bloomberg, OCBC



Source: Bloomberg, OCBC

IDR:

IndoGBs stabilized and traded sideways on Tuesday, while USD/IDR remained stuck between opposing flows. The sukuk auction attracted a decent incoming bid of IDR48.7trn, albeit smaller than the previous amount, while IDR4trn bonds were awarded in line with the indicative target. Domestic conditions of light supply with the prospect of reduced number of auctions, and supportive liquidity, have stayed favourable. However, foreign flows have yet to come back with lingering uncertainty in global yield movement. Against this backdrop, the 10Y yield (FR91) may continue to hover above the 6% handle. IndoGBs registered outflows again in the last two days; foreign holdings stood at IDR945.5trn as of 1 November.



Source: Bloomberg, OCBC

MYR:

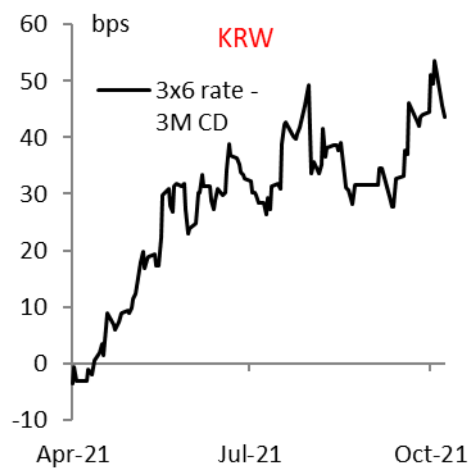
MGS yields were 1-3bp lower with the 3Y and 5Y bonds outperforming, while IRS fell across the curve. Short to mid-tenor MGS have mostly followed the global monetary re-pricing and at times underperformed USTs. The 3Y and 5Y MGS shall consolidate around or below the current yield levels, before hawkishness comes from BNM itself. BNM is widely expected to keep its key policy rate unchanged today.

CNY / CNH:

The PBoC increased its OMOs this morning to CNY50bn; while today's operations reflect that the PBoC is responsive to market demand, there was still a sizable liquidity withdrawal of CNY150bn. Whether the market will stay supported depends on the operations in the coming days, and on the rollover of the maturing MLF this month. If only short-term liquidity tools are deployed, any downside to CNY rates will likely be limited. Separately, Premier Li reiterated that China should support smaller companies via the policy combinations of tax and fee reductions. The focus on fiscal measures and use of short-term liquidity tools have continued to suppress market hope for a near-term RRR cut.

KRW:

The latest MPC minutes revealed four hawks at the MPC, including two who had voted for a rate hike at the October meeting, and another two who viewed further tightening/normalization was required. BoK rhetoric was also hawkish on inflation after the high print on Tuesday. The KRW rates market is pricing in almost two rate hikes on the three-month horizon which, taking into account of its pattern of being slightly ahead of the curve, looks fair. On bond side, the widening in long-end KTB-UST yield spreads have gone too far in our view. The reduced issuance in November together with buyback shall lend some support to KTBs, counteracting inflation expectations.



Source: Bloomberg, OCBC

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