

## Daily Market Outlook

3 September 2021

### FX Themes/Strategy

- Initial jobless claims entered marginally better than expected. Global equities edged positive, although core yield curves were softer overnight. The dovish-Fed / risk-on dynamic still persisting, at least within the FX space. The **FX Sentiment Index (FXSI)** making noticeable moves towards the Risk-On zone again over the past two sessions.
- The **USD** is still heavily weighed down ahead of the NFP print (1230 GMT). The **cyclicals** and **GBP** outperformed, with the **AUD** flexing at the 0.7400 handle and GBP clear of 1.3800. The **EUR** moved clear of 1.1850 towards the next key resistance at 1.1900/10. Overall, the DXY Index now stands near 92.00/20, where we view as a critical support below which a deeper extension of USD weakness may materialize.
- The USD's reaction to the NFP may be asymmetric to the downside – an in-line reading may still see the USD grind lower towards the Sep FOMC (22 Sep) as the market await information on the pace of tapering. A large positive surprise may be needed to reverse the USD momentum. Although the DXY Index is near a key support (92.00/20), the broad USD is not out of the woods just yet.
- Market has run on Fed- and US-driven drivers effectively since the June FOMC. Should we enter a wait-and-see mode ahead of the Sep FOMC, other central bank decisions may get more attention. RBA, ECB and BOC decisions are scheduled next week. Market chatter is for the RBA to delay the reduction of asset purchases in light of the uptick in pandemic cases. Prefer to stay negative on the AUD against the NZD. Also, the hawkish camp within the ECB is stirring again this week, with a potential slowdown in PEPP on the books at the ECB decision next week. While EUR-centric factors have not been dominant, note that EZ-US yield differentials are moving in favour of the EUR from both on the front- and back-end.
- **USD-Asia:** USD-China pairs closed below their recent range lows (USD-CNY below 6.4600; USD-CNH below 6.4500) overnight. Next key support at 6.4000 – cannot rule out a grind towards that level. This also gives the go-ahead for further downside for other USD-Asia pairs. Stay negative, pending NFP risk event, for now.
- **USD-SGD:** The SGD NEER consolidated between +0.80% and +0.90% above the perceived parity (1.3544) on Thu, and stands at +0.84% this morning. The SGD NEER's decline from +1.20% levels have been consistent, and there may still be room to extend towards +0.50%. USD-SGD nears support at 1.3420, but 1.3400 will be the key level to watch.

**Frances Cheung, CFA**

Rates Strategist

+65 6530 5949

[FrancesCheung@ocbc.com](mailto:FrancesCheung@ocbc.com)

**Terence Wu**

FX Strategist

+65 6530 4367

[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)

**Treasury Research**

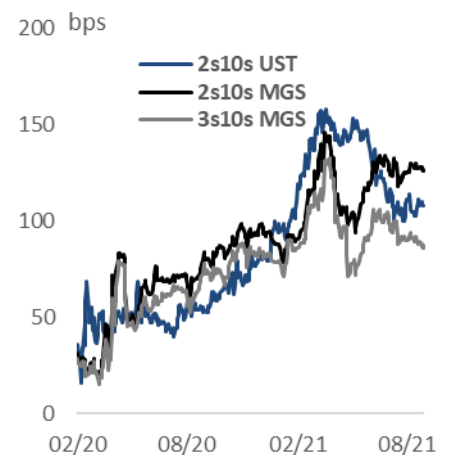
Tel: 6530-8384

## Daily Market Outlook

3 September 2021

### Rates Themes/Strategy

- There was limited price action in the UST market on Thursday as investors awaited the August NFP. With the perceived timing of the start of taper being sensitive to the labour report, market braces for volatility around the release. We look for an initial reaction range of 1.20%-1.33% in the 10Y yield, while a wider range is at 1.14%-1.45% which is a less likely scenario. In case of a soft payroll print, we tend to believe that any dovish market reaction will not have much follow-through, as investors may quickly realize the Fed's taper plan is unlikely to be derailed by a single month's data print – although the timing may be affected as nevertheless this is an important data point.
- The 4W bill auction continued to garner solid demand, awarded at 3.5bp, being 1.5bp lower than the o/n reverse repo rate and IOER, as the Treasury is paying down USD55bn of bills this week. Meanwhile, the 8W bill auction yield picked up to 6.5bp from 6bp at a prior auction. The relative demand between these two tenors reflects market expectation surrounding a resolution – or the absence of it - of the debt ceiling. Usage at the o/n reverse repo facility stayed high at above USD1trn.
- The recent hawkish remarks from a couple of ECB officials have sparked debate on the potential scaling back of pandemic era stimulus. The run-rate for the PEPP to end in March 2022 is around EUR20bn per week, higher than the average net weekly purchases of EUR17bn so far in Q3. The net purchased amounts in August were smaller than those in July. The ECB may probably end up not fully utilizing the existing envelope.
- IndoGBs were trading in ranges on Thursday amid a better risk sentiment but some profit-taking flows, ahead of NFP release in the US. 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 for yields.
- The 20Y MGII auction went well at a bid/cover of 2.687x, and with bid yields a tad lower than WI levels. We remain of the view the MGS curve is biased to steepening mildly, on dovish monetary expectations and a mild supply risk. The MGS curve has flattened more than most Asian peers in z-score term over the past three months, with the 3s10s segment 1.4 standard deviations narrower than its three-month average.



Source: Bloomberg, OCBC

# Treasury Research & Strategy

## Macro Research

**Selena Ling**

*Head of Research & Strategy*

[LingSSSelena@ocbc.com](mailto:LingSSSelena@ocbc.com)

**Tommy Xie Dongming**

*Head of Greater China*

*Research*

[XieD@ocbc.com](mailto:XieD@ocbc.com)

**Wellian Wiranto**

*Malaysia & Indonesia*

[WellianWiranto@ocbc.com](mailto:WellianWiranto@ocbc.com)

**Howie Lee**

*Thailand, Korea &*

*Commodities*

[HowieLee@ocbc.com](mailto:HowieLee@ocbc.com)

**Carie Li**

*Hong Kong & Macau*

[carierli@ocbcwh.com](mailto:carierli@ocbcwh.com)

**Herbert Wong**

*Hong Kong & Macau*

[herberthwong@ocbcwh.com](mailto:herberthwong@ocbcwh.com)

## FX/Rates Strategy

**Frances Cheung**

*Rates Strategist*

[FrancesCheung@ocbc.com](mailto:FrancesCheung@ocbc.com)

**Terence Wu**

*FX Strategist*

[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)

## Credit Research

**Andrew Wong**

*Credit Research Analyst*

[WongVKAM@ocbc.com](mailto:WongVKAM@ocbc.com)

**Ezien Hoo**

*Credit Research Analyst*

[EzienHoo@ocbc.com](mailto:EzienHoo@ocbc.com)

**Wong Hong Wei**

*Credit Research Analyst*

[WongHongWei@ocbc.com](mailto:WongHongWei@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).

Co.Reg.no.:193200032W