

## Daily Market Outlook

4 August 2021

### FX Themes/Strategy

- Global equities closed the day firmer. Core yield curves were mixed on the day, with the gilt, ACGB and UST (marginally) curves flatter. Bund yields marginally firmer from the belly out. The commodity complex dipped for the third straight session. Overall, the **FX Sentiment Index (FXSI)** remains anchored within the Risk-Neutral zone.
- The **broad USD** was softer within the G-10 space.. The **antipodeans** outperformed on the back of the RBA decision. Nevertheless, the **AUD** remains well-kept under the 0.7400 resistance. Instead, it is the **NZD** that breached resistances at 0.7020, leaving it with a more positive technical picture and potentially targeting the 0.7070/00 zone. The **CAD** underperformed with the slump in WTI. The **EUR** again found no traction near 1.1900, while the **JPY** is flexing at the 109.00 resistance.
- The RBA elected to keep its tapering timeline unchanged despite the Delta variant concerns. The premise here is that the economy bounces back quickly once the case spikes ease. While not cast in stone, this stance surprised most analysts. The AUD lifted higher in response, but the continued inability to move clear of 0.7400 suggest that the market still views the RBA as fundamentally dovish. Recent risk-off undertones also do not help. Remain unconvinced of AUD upside at this point.
- The USD-centric cues are likely on hold until the ADP release later today (1215 GMT) and the NFP (Fri). This leaves major pairs running on their respective domestic cues (BOE decision for the GBP-USD, for example). The USD will take heart from the DXY holding the 92.00 support, and the inability of the AUD and EUR to breach resistances. Overall, the USD may still be somewhat heavy in the near term, but we do not see the start of clear downtrend.
- **USD-Asia:** Notwithstanding the stability in RMB spot, we think the underlying positive drivers for the RMB continue to be undermined. Front-end CGB-UST yield differentials have further compressed, and the back-end held stable despite the fall in UST yields. Any market expectations of PBOC rate hikes were replaced with RRR-cut expectations. These negatives weigh on the RMB at this point, and informs our bias for a higher USD-CNH. On the flipside, any depreciationary pressures for the MYR and IDR still well-contained.
- **USD-SGD:** The SGD NEER is firmer this morning at +0.62% above the perceived parity (1.3586). Heavy NEER-implied USD-SGD thresholds are weighing down on the USD-SGD itself. Immediate test of 1.3500 support will determine the trajectory in the coming sessions.

**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**

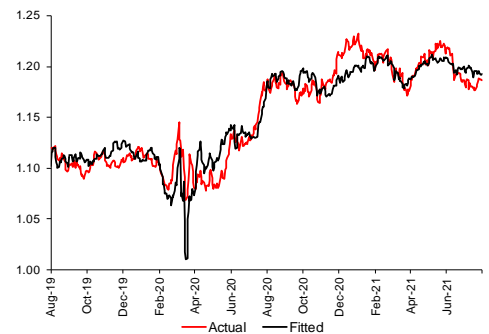
Tel: 6530-8384

## Daily Market Outlook

4 August 2021

### EUR-USD

**Range.** The EUR-USD should be locked in within the 1.1840 to 1.1900 range for now, with peaks progressively lower. The broad USD is soggy, but there seems to be a lack of EUR-centric positive drivers to take the pair higher for now. Firmer US data prints later this week could see the pair taken back to the 1.1800 handle.



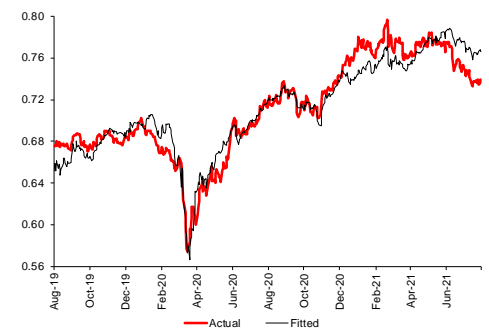
### USD-JPY

**Heavy.** Back-end UST yields were jolted lower out of its recent range, leaving a negative weight on the USD-JPY pair yet again. Headlines on the Delta variant also do not help overall risk sentiment. These leave a negative prospect for the USD-JPY, especially now that the 109.00 support is under spotlight. A breach of that level could see 108.20 attract.



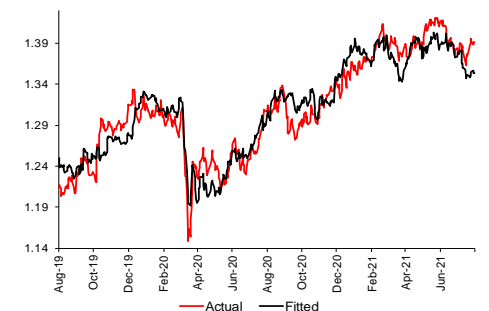
### AUD-USD

**Consolidate.** Downside momentum definitely eased after a sustained consolidation phase between 0.7290 and 0.7400. The positive RBA surprise failed to take the pair northwards of the range, leaving us wondering what could. Our bias is negative, especially since Delta still swirls in the headlines.



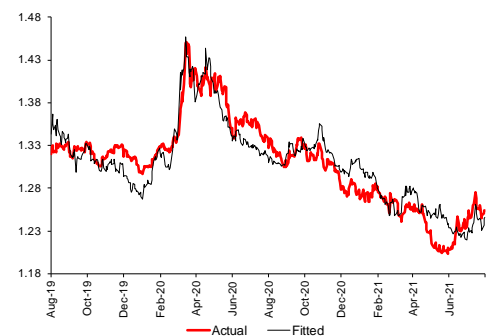
### GBP-USD

**Supported.** The GBP-USD seemed to lose upward momentum just below the 1.4000 resistance. We shall see a more durable positive should the BOE turn less dovish in its Thu meeting. Immediate support at 1.3880, against the 1.4000 resistance.



### USD-CAD

**Downside potentially reversed.** The USD-CAD turned tail together with the crude complex. Focus turns to the 200-day MA (1.2588) resistance. Support below at 1.2350.



## Daily Market Outlook

4 August 2021

### Rates Themes/Strategy

- Treasuries have been supported by a confluence of factors, namely virus concerns, growth worries and a more favourable supply schedule in August/September. Yields ended Tuesday a tad lower despite the better equity sentiment, with the 10Y bond trading near key resistance of 1.14%. Yields may consolidate around current levels near-term as bond market investors appear to focus squarely on growth concerns. Our medium-term view for yields to go higher remains intact, premised on the assessment that virus variant will not derail the economic recovery. The next key level for the 10Y yield is at 1.28%.
- The bond market is arguably overly pessimistic. The deeply negative real yields reflect an outlook worse than that was perceived early in the year when vaccination rate was lower across economies. The negative term premium suggests investors see further uncertainty to the downside on the already downgraded economic outlook. Meanwhile, Powell downplayed the economic impact of the latest waves of virus outbreak.
- As for supply, while Treasury revised downwards its estimates for the Jul-Sep period, estimated supply during Oct-Dec is higher than in recent quarters – although actual supply can be lower as the cash balance represents a thick buffer.
- The Bank of England is widely expected to keep the Bank Rate unchanged at 0.1% on Thursday, and to keep its Gilt purchase target at GBP875bn – which will allow the program to run through to November if there is no further reduction in the weekly purchase amount. Another focus is on as to whether the central bank will adjust the interest rate threshold for a balance sheet roll-off. SONIA futures have turned a tad less hawkish over the past days, pricing in a rate hike (15bp) at the June 2022 contract, and an additional 25bp hike around the December 2023 contract.



Source: Bloomberg, OCBC



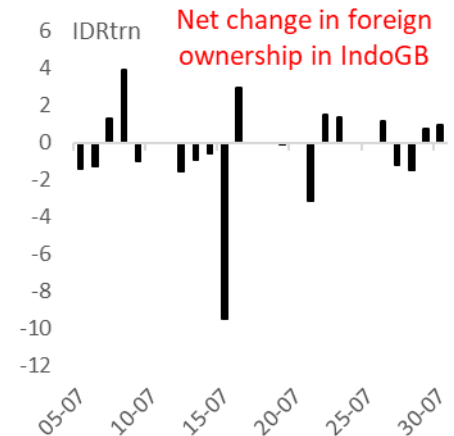
Source: Bloomberg, OCBC

## Daily Market Outlook

4 August 2021

### IDR:

Tuesday's auction attracted strong bids of IDR107.7trn, amid a weak dollar and lowered UST yields. Despite the strong bids, the sales were only upsized to IDR34trn versus indicative target of IDR33trn, reflecting the lack of funding pressure. The favourable supply outlook, flush liquidity and appealing real yield differentials stay supportive of IndoGBs, which shall render the domestic bonds more resilient than usual against the swings in the general risk sentiment. Daily bond flows have been fluctuating though, with net inflows and outflows alternating.



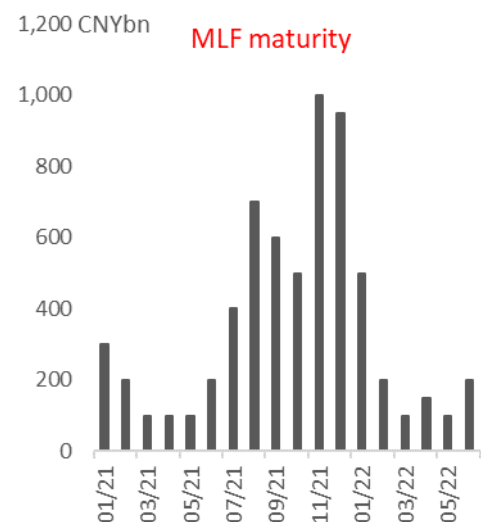
Source: CEIC, OCBC

### SGD:

The government is to auction its first SGS (Infrastructure) under SINGA on 28 September, to be issued on 1 October just at the start of Q4. The auction size of the 30Y bond will be announced on 21 September. From past pattern of long-tenor auction sizes, issue size may be somewhere between 2.3bn and 3.1bn, with bias tilted to the light side to avoid adding too much to annual gross supply. Any reaction in SGS to the supply is likely to be short-lived. We believe the auction will go smoothly with demand including that from real money, while there is no other long-tenor supply in that quarter. On the rates side, a pause in the narrowing in front-end SGD-USD rates spreads is likely, as USD liquidity stays exceptionally flush upon the reinstatement of the US debt ceiling.

### CNY / CNH:

Positive factors for CGBs include a more supportive tone set by the Politburo meeting for the rest of the year, expectation for some liquidity injection, and the subdued equity market sentiment. Against the current policy backdrop, further liquidity injections via RRR/targeted RRR cuts cannot be ruled out. However, MLF maturities are heavy, including CNY700bn this month alone, or CNY3.75bn across five months. Part of the liquidity released from any RRR cut is likely to cover MLF partially, thereby reducing the net amount of injection. Meanwhile, supply shall stay relatively heavy. On balance, the 10Y CGB shall face resistance at 2.75%, and most likely trade in a yield range of 2.8-3.0% on a multi-week horizon.



Source: CEIC, 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*

[herberhtwong@ocbcwh.com](mailto:herberhtwong@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