Daily Market Outlook

4 August 2021

FX Themes/Strategy

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- 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.

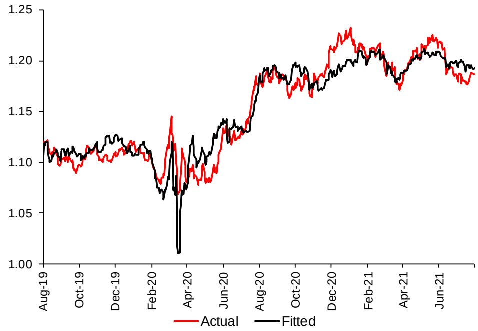
- The USD-centric cues are likely on hold until the ADP release later today (1215 GMT) and the NFP (Fri). This leaves major pairs running on their respective domestic cues (BOE decision for the GBP-USD, for example). The USD will take heart from the DXY holding the 92.00 support, and the inability of 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.

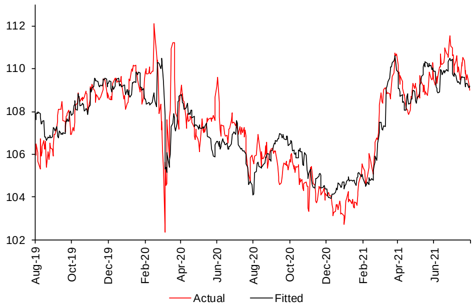
EUR-USD

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.



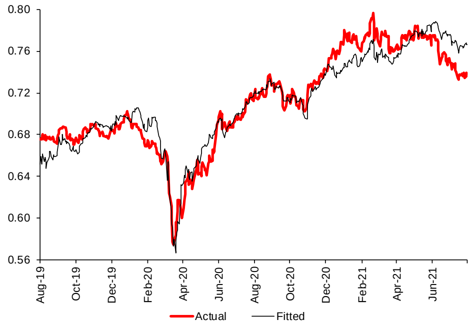
USD-JPY

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.



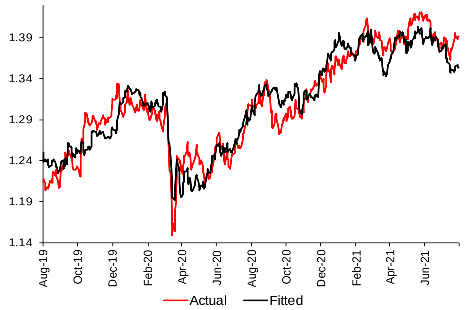
AUD-USD

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.



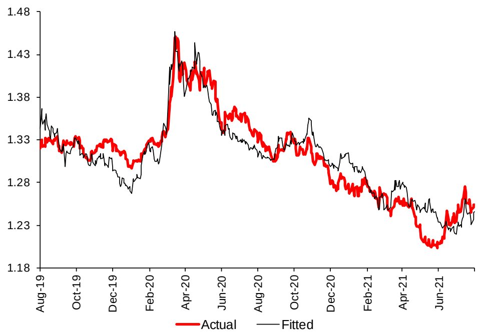
GBP-USD

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.



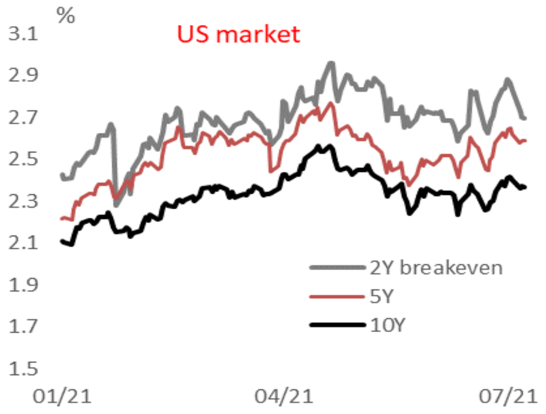
Rates Themes/Strategy

- 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%.

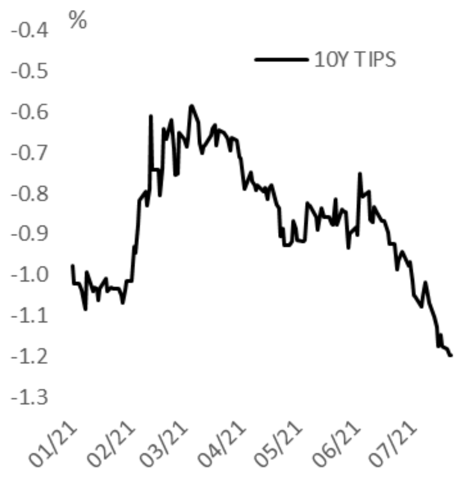
- The bond market is arguably overly pessimistic. The deeply negative real yields reflect an outlook worse than that was perceived early in the year when vaccination rate was lower across economies. The negative term premium suggests investors see further uncertainty to the downside on the already downgraded 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.

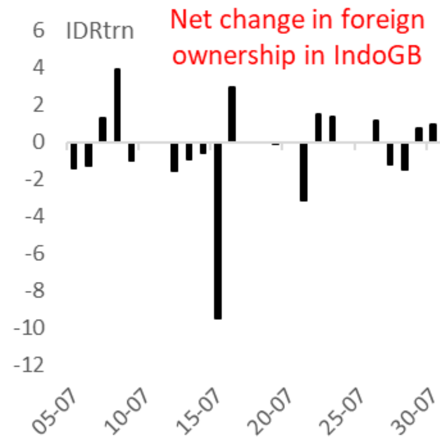


Source: Bloomberg, OCBC



Source: Bloomberg, OCBC

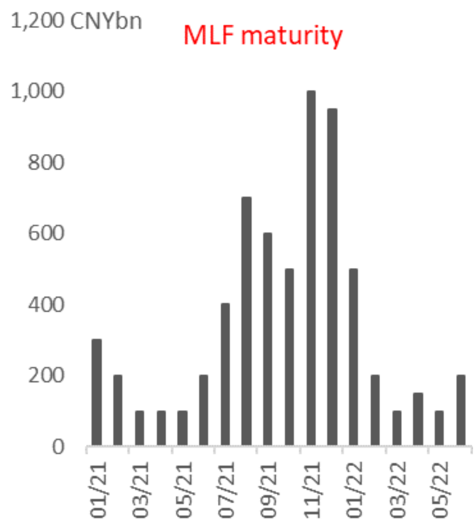
IDR:
Tuesday's auction attracted strong bids of IDR107.7trn, amid a weak dollar and lowered UST yields. Despite the strong bids, the sales were only upsized to IDR34trn versus indicative target of IDR33trn, reflecting the lack of funding pressure. The favourable supply outlook, flush liquidity and appealing 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

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