OCBC TREASURY RESEARCH

Daily Market Outlook

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FX Themes/Strategy

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- Strong US data releases were the highlight overnight, especially the sizable beat in the ADP employment print. In the midst of all that was Fed's Williams coming in dovish to push back tapering and inflation expectations. Nevertheless, the ADP was sufficient for Fed tapering expectations to firmed up, lifting back-end UST yields and leaving US equities were marginally softer. On net, the **FX Sentiment Index (FXSI)** showed a slight fading of the underlying risk-on bias.

- In a sense, this was the data release that the **USD** needed. With Fed tapering expectations firmer and a slight pull-back in risk, the **DXY** pulled higher to close above the 90.40 mark. The **EUR** and **JPY** are flexing for a clean range breaks on the strong-USD side. A**ntipodeans** were the hardest hit, with the **AUD** breaching the 0.7700 handle.

- The ADP print will set the stage for heightened expectations in the NFP later today (1230 GMT). Another strong showing may compel the market to further price back in Fed tapering / rate hike expectations. Expect the broad USD to hold overnight gains into the NFP.

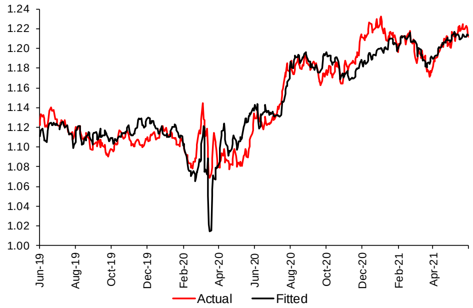
- Relative central bank dynamics will continue to be main driver for the FX space. Major central banks are going to provide the next leg of policy guidance in their June meetings. The state of play sets the BOC and RBNZ (relatively hawkish) against the likes of the BOJ, RBA and potentially the ECB. If Fed expectations continue to build post-NFP, there might be scope to explore USD longs against the EUR and AUD. The juxtaposition of the hawkish RBNZ and the dovish RBA is perhaps the most stark. Thus, we are selectively negative on the AUD against the NZD at this juncture. Elsewhere, we also stay negative on the JPY (also weighed by multi-week risk-on bias) and remain sceptical about EUR upside.

- **USD-Asia:** The USD-CNH is at the 6.4000 resistance, with the next leg likely higher given the PBOC's policy signaling and the firming USD. Nevertheless, the relative lack of reaction to the USD overnight also suggest that USD-China is not about to lurch significantly higher. Expect a slow grind higher in the upcoming sessions.

- **USD-SGD:** The SGD NEER softened to +1.00% above the perceived parity (1.3413). NEER-implied USD-SGD thresholds are broadly higher. The USD-SGD path of least resistance is now higher on the back of both the firming broad USD and the USD-CNH. Prefer to buy on dips towards 1.3250.

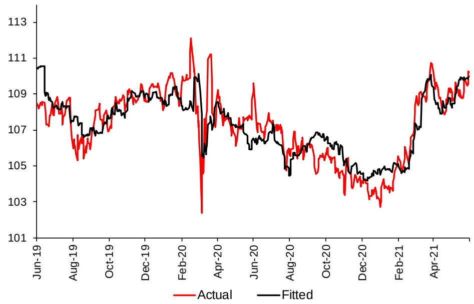
EUR-USD

Potentially south-bound. Breaching the 1.2150/60 support left the EUR-USD heavy and tilted towards the 1.2100 level. Expect near term consolidation ahead of the NFP, but further downside may materialise if the ECB remains dovish next week. We have been skeptics about the sustainability of the EUR's rise, and now look towards potential downside.



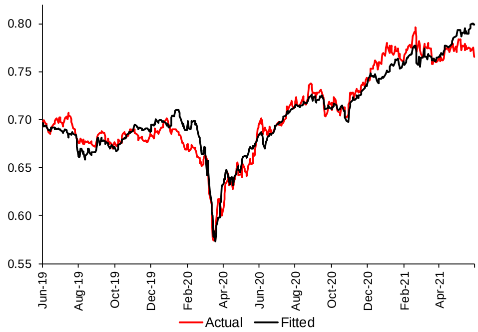
USD-JPY

Positive bias. The USD-JPY reacted higher even though back-end UST yields remain relatively contained post-NFP. Look for a potential test of year-to-date highs of 110.97 if NFP also posts a strong showing. Immediate supports at 110.00 and then 109.30.



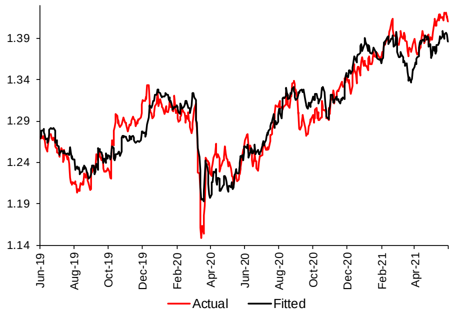
AUD-USD

Potentially south-bound. Clean breach of the 0.7680/00 support leaves the AUD-USD with a negative setup. Any RBA expectations from tweaks in their asset purchase programme may be put on hold as Fed takes centre stage for now. Prefer to sell on rallies, targeting 0.7580/00.



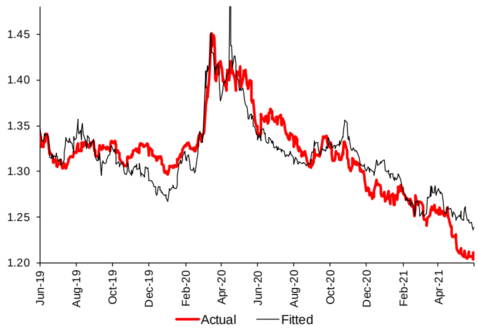
GBP-USD

Top-heavy. The GBP-USD flexed against the 1.4100 support amid broad based USD strength, but note that the GBP has held out relatively better. Any further declines may see firmer support at 1.4000.



USD-CAD

Potential consolidation. Aside from the NFP, the CAD will also be looking out for domestic labour market prints (1230 GMT) later today as well. Note that BOC has clear guidelines around employment numbers, and the numbers should have bearing of BOC expectations. 1.2130/40 would be resistance for now.



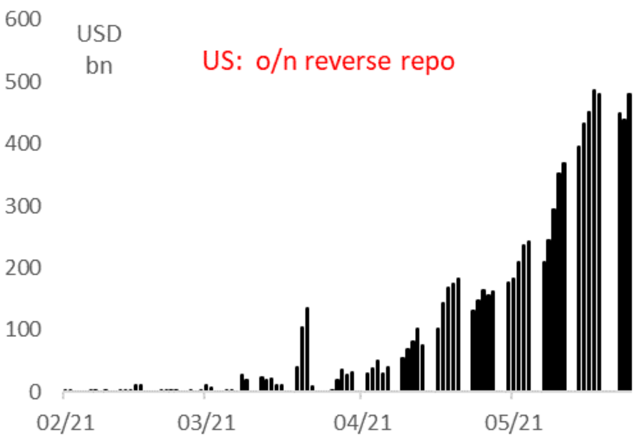
Rates Themes/Strategy

- Treasury yields rose with the 5Y, 7Y and 10Y yields closing near day-highs, upon the releases of strong data. TIPS underperformed/real yields were mildly higher. The strong ADP print raises the volatility of price actions around the NPF release. 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%, while upside is at 1.75%.

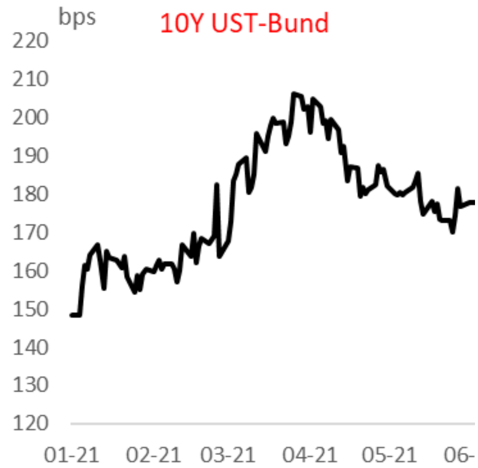
- Front-end liquidity stayed flush, as reflected by the high usage at the Fed's o/n reverse repo operation, and the strong demand at the 4-week bill auction. At the 4-week bill auction, indirect award rose to 67.3%, while cut-off stayed at zero.

- The MGS curve steepened further across the 3s10s segment in line with our view; the steepening momentum shall be maintained as front-end rates are better anchored amid the accommodative policy stance, while investors stay cautious towards duration amid supply, likely trading in a range of 90-97bp for the 3s10s segment over a multi-week horizon.

- In India, given the government announced extra borrowing over the weekend, today's focus at the RBI MPC meeting is the decision on the bond purchase program for the second quarter. Expectation appears to be for the central bank to at least match the INR1trn for the first quarter, with hope for more.



Source: Bloomberg, OCBC

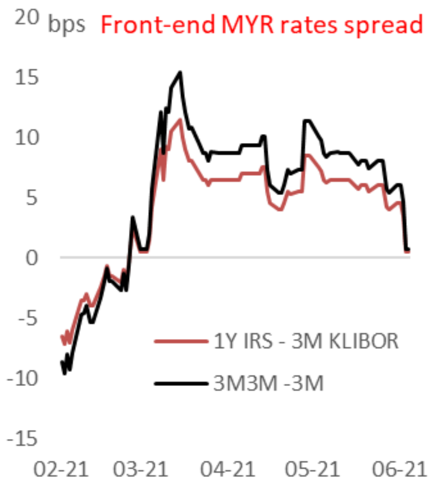


Source: Bloomberg, OCBC

IDR:
IndoGBs continued with the recent firm tone, with the broadly stable USD/IDR. Bond sales have been supportive, but potential dividend flows may indirectly affect bonds via FX movemet. On balance, yields are likely to be stuck in ranges, with the 10Y yield in a range of 6.37-6.50% near-term, and a wider range is at 6.35-6.60%.

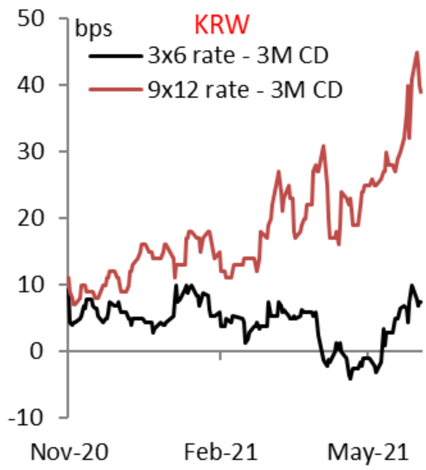
INR:
Given the government announced extra borrowing over the weekend, today's focus at the RBI MPC meeting is the decision on the bond purchase program for the second quarter. Expectation appears to be for the central bank to at least match the INR1trn for the first quarter, with hope for more. Market also awaits some dovish remarks despite expecting no change in the policy rates – while the plan to normalize policy is likely delayed. Given the steady downward move in INR OIS in preparation for this meeting, any disappointment can easily see some reaction higher in rates.

MYR:
The MGS curve steepened further across the 3s10s segment, as front-end stayed well bid on monetary policy expectation while the long end faced the upcoming 10Y supply. The steepening momentum shall be maintained with front-end rates are better anchored, while investors stay cautious towards duration as fiscal support is extended. We continue to expect the 3s10s segment to trade in a range of 90-97bp over the coming weeks with upside risks. Front-end – 6M, 3M3M or 1Y MYR IRS versus 3M KLIBOR – have narrowed of late, albeit staying wider than at the start of the year. These may reflect market is scaling back the economic optimism built earlier and tilting slightly towards easing expectations.



Source: Bloomberg, OCBC

KRW:
While the BoK has sounded hawkish, the Finance Minister was on the wire saying the government is considering extra fiscal stimulus. To market's comfort, the potential supplementary budget is said to be financed via higher tax revenue, not affecting debt sales. Tax collection has been bigger than initial estimates. Asset swaps into KTBs stay attractive, while we continue to see the 5Y KTB-UST yield spread as too wide. Front-end KRW rates pricing has remained hawkish which is unlikely to adjust.



Source: Bloomberg, OCBC

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