Daily Market Outlook

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FX Market Themes/Strategy

Frances Cheung, CFA
Rates Strategist
+65 6530 5949
FrancesCheung@ocbc.com

Terence Wu
FX Strategist
+65 6530 4367
TerenceWu@ocbc.com

Treasury Research
Tel: 6530-8384

- Market disappointment over Powell's comments triggered another round of UST sell-offs, which duly spread broader to equities as well. The **FX Sentiment Index (FXSI)** sideways from the previous reading, still hovering in the edge of **Risk-On** and **Risk-Neutral** zones.

- The **broad USD** gains saw more traction post-Powell, on the back of yield differential arguments. The **CAD** was spared the USD bounce, having outperformed earlier in the day on OPEC headlines. Elsewhere, major pairs were brought to key support and resistance levels, with the EUR-USD at 1.1950, USD-JPY at 108.00 and AUD-USD at 0.7700.

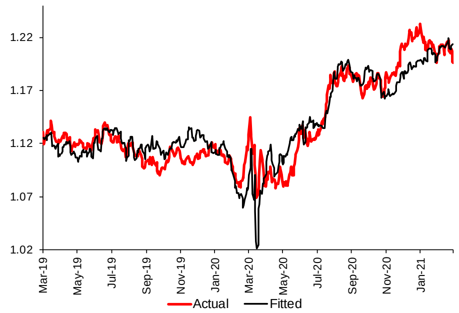
- The FX space is driven, at this stage, by the (1) haphazardly higher back-end yields, and (2) the risk-off that this disorder brings. This backdrop should be USD supportive in the near term. The USD extension against the likes of the AUD and NZD may persist for now, while higher oil price affords some shelter to the CAD. The question is how far this backdrop can be sustained, especially having already "caught [Powell's] attention" and while the reflation trade is still running in the background. The USD-JPY, meanwhile, runs higher narrowly on UST-JGB yield differentials, and this leaves scope of pull-back if UST yields retrace after non-farm payrolls (1330 GMT).

- **USD-MYR:** The USD-MYR may lift and gradually settle at higher planes in the coming sessions, as the broad USD turns supported and the RMB complex's influence on the pair stalls. Higher oil prices may, however, hold-back the pace of the upmove somewhat. Eye the 4.0500 to 4.0900 range going forward, but we are not expecting a sustained upward trend for now.

- **USD-SGD:** The SGD NEER stands marginally above the perceived parity (1.3384) this morning, with the implied USD-SGD thresholds lifting rather rapidly on the back of the USD bounce. The path of least resistance for the USD-SGD may be to track the broad USD higher for now, especially as the USD-CNH also looks to have no downside traction. Nevertheless, given that the we are at the parity level on the NEER, we are not expecting the SGD to underperform relative to other Asian peers for now.

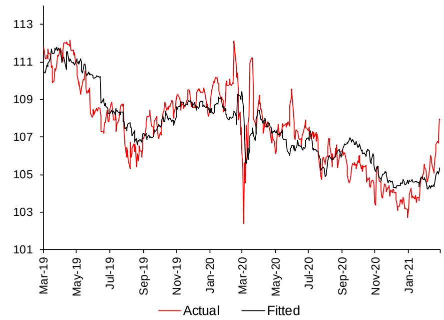
EUR-USD

Potential break lower. The soft approach from Powell on rising UST yields weighed heavily on the EUR-USD. The pair now stands near the Jan lows of 1.1950/60. The environment now, however, is arguably more EUR-negative than previous, with UST yield spreads over bunds wider. A breach of 1.1950 risks the 200-day MA (1.1822) on a multi-session horizon. Attention shifts to non-farm payrolls (1330 GMT).



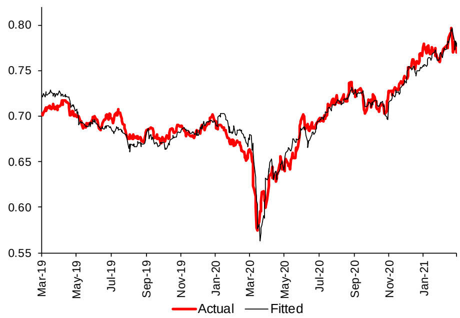
USD-JPY

Supported. The USD-JPY rise extended to 108.00 before pausing, as higher UST back-end yields support. This has brought the pair way higher beyond the usual confidence intervals on the short term implied valuations. Nonetheless, expect yield differential dynamics to continue being the driver for now. Support moves higher t0 107.20/30, against resistance at 1.1820. If the pair can stay sustained to close the week, a march towards 110.00 cannot be ruled out.



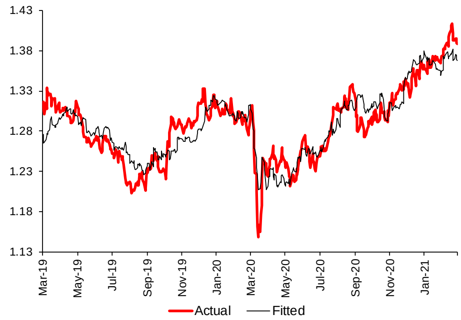
AUD-USD

Potentially heavy. The AUD-USD trajectory seemed to turn heavy in the near term, especially as the Treasuries sell-off spreads into the equity space. Note however, that ACGB yields have actually managed to out-pace UST yields on the way up. Structural risk-on normalization may also support. We see any further dips in the near term as potential entry points for the structural horizon.



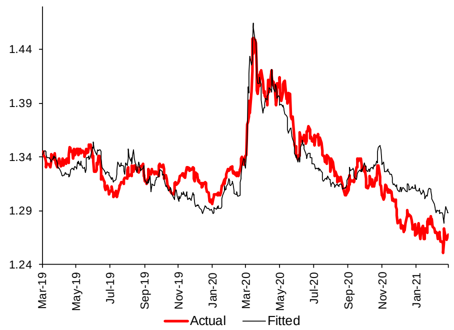
GBP-USD

Upside pause. The GBP-USD held out better relative to other G-10 counterparts amid the overnight USD bounce, but the breach of 1.3900 may spell more danger for any remnant longs at this point. The recent decline has brought the pair back within the confidence intervals for the short term implied valuations.



USD-CAD

Neutral. OPEC headlines was favourable for the crude complex and CAD, allowing some early outperformance and pulling the USD-CAD sub-1.2600. This was nevertheless overwhelmed post-Powell. Overall, the 1.2600 to 1.2700 range still governs, but look for scope for CAD outperformance relative to other cyclicals in the near term.



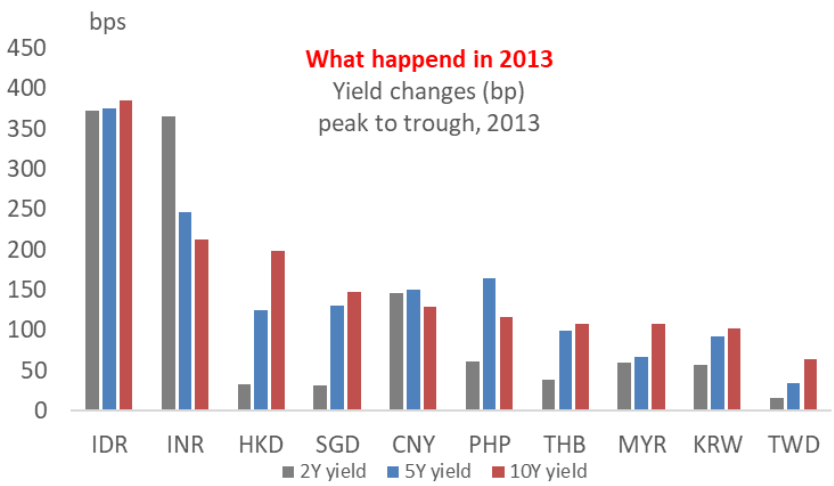
Rates Themes/Strategy

- UST curve bear steepened further overnight as Powell stopped short of suggesting any concrete action to arrest the increases in yields, while the fiscal stimulus package is on its way to the approval process. Real yield still hovered around -80bp, not a particularly high level albeit already having risen from the lows seen earlier in the year. The risk is, without further pick-up in inflation expectation, nominal yields may still face an upward bias.

- Powell said he would be "concerned by disorderly conditions" – a similar remark to Brainard's which we see as just an appropriate stance from policy makers' perspective. He went on to say that financial conditions are highly accommodative and appropriate, which seems to imply that no extra action is needed for now.

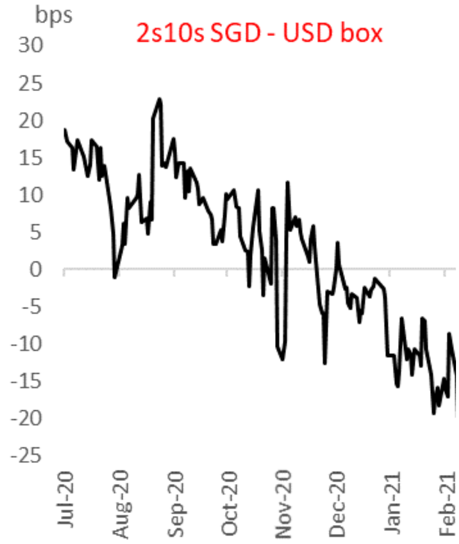
- Another thing to watch is the deeply negataive repo rates for some 10Y bonds, which reflect heavy short positions. Without enough benchmark bonds, the impact appears to be shifting to off-the-run bonds as well. Stress in the repo market points to poor liquidity, which may add to price volatility in cash bonds. Uncertainty on SLR exemption is another factor adding to volatility.

- In Asia local markets, IDR yields may be impacted more, given IDR is a high beta currency, and the positive correlation between USD/IDR and local yields; curve-wise the HKD and SGD curves have tended to follow more closely the USD curve, as front-end rates are mostly anchored. Historically, MGS has not had a high beta response to UST movement, but the domestic bonds are facing a less favourable supply-demand outlook at the moment. CGBs and to a lesser extent KTBs may be seen as safe-havens as domestic asset rotation is likely a counteracting force.



MYR:

BNM kept its policy rate on hold as widely expected; as the MYR rates market had already priced out a rate cut, the policy rate decision, together with a mildly more optimistic economic outlook, did not trigger any further market reaction. MYR rates were paid up before the meeting alongside higher USD rates, the momentum of which is likely to continue today. Historically, MGS has not had a high beta response to UST movement. Currently, the domestic bonds are facing a less favourable supply-demand outlook, which may exert some pressure on mid- to long-tenor bonds.



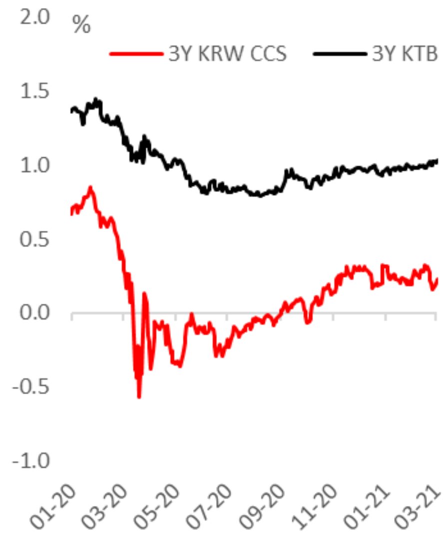
Source: CEIC, OCBC

SGD:

SGS and SGD IRS had a volatile day on Thursday. With overnight movement in UST and USD rates, bias remains to the upside for SGD rates. Although the SGD IRS curve has steepened a lot compared with peers and its own history, it is flat compared to its USD counterpart and hence the bias may still be for further steepening. SGS, meanwhile, shall outperform UST, without much supply pressure. While we still see limited upside to SOR and front-end SGD IRS, short rates may face a very mild upward pressure from potentially higher forward points given the FX sentiment.

CNY / CNH

While CNY rates will not be immune to global market move, the supportive liquidity condition shall cap any increases at the front-end. Special LGB quota is planned at CNY3.65trn, slightly less than the CNY3.75trn in 2020; the reduction is not as much as some had expected. Nevertheless, overall supply shall be manageable. Meanwhile, foreign inflows shall be sustained on real yield differentials and index inclusion induced allocatioins. Asset swap trade is not appealing at the moment; that said, the low, and sometimes mildly negative correlations between USD/CNY and local yields suggest that CGBs can be seen as a safe-haven asset.



Source: Bloomberg, OCBC

KRW

Similarly, correlation between USD/KRW and local yields are low to mildly negative. An added advantage is the suppressed KRW CCS, which render asset swap pick-up appealing. This favourable condition for foreign investors is likely to continue, with outward FDI flows including those from shipbuilders likely keeping KRW CCS at low levels. The presence of foreign central banks among foreign investors is another stabilizing factor on flows..

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Herbert Wong
Hong Kong & Macau
herberthtwong@ocbcwh.com

FX/Rates Strategy

Frances Cheung
Rates Strategist
FrancesCheung@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com

Co.Reg.no.:193200032W