OCBC TREASURY RESEARCH

Daily Market Outlook

6 April 2021

FX Themes/Strategy

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- Strong beat in the ISM services index overnight and another record session for US equities (futures still gaining in early Asian trade) left a risk-on bias in the market. The **FX Sentiment Index (FXSI)** stands steady within the Risk-Neutral zone.

- The **broad USD** stayed supported in the Asia and early LDN sessions, before taking a dip as NY came in. USD weakness was across the board, with the AUD marginally outperforming the rest. The EUR-USD breached the 1.1800 resistance, although the USD-JPY held on to the 110.00 support. The AUD-USD flexed against the top end of the recent range at 0.7660.

- Fed's Mester called the latest NFP print "great", but continued to urge patience in terms of policy tightening – no explicit Fed-led USD positives here. This leaves the broad USD still running on back-end UST yields and yield differentials. The issue is that both, while remaining at elevated levels, have stagnated in recent sessions. Coupled with risk gaining, the USD may have seen a near-term top.

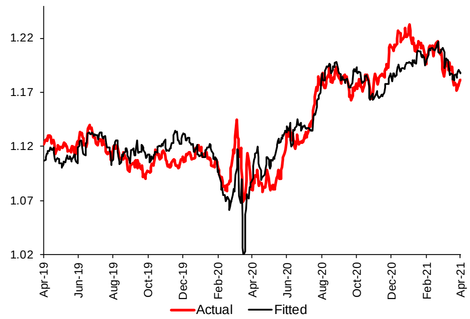
- Overnight price action in the EUR vindicated our caution yesterday over the broad USD and the short-EUR positions. The possibility of a near-term top in the broad USD cannot be ruled out, especially with risk picking up and the upward trajectory of the back-end UST yields stalling after hitting a high on 30 March. Any turn lower for the USD should be better expressed with the AUD and GBP at this juncture. Nevertheless, retain long-USD bias beyond the immediate horizon, expecting the better data-prints to eventually exert a pull on real rates.

- **USD-China / USD-Asia:** The USD-CNH does not seem to have traction south of 6.5500 at this point, while a more meaningful challenge on the 6.6000 mark may have to wait as the broad USD has turned somewhat soggy. Expect a near term range between 6.5500 and 6.5900, while staying within a broader 6.5000 to 6.6000 range further out.

- **USD-SGD:** The SGD NEER pushed to a high just shy of the +1.00% above parity mark this morning. The NEER now stands at +0.90% above the perceived parity (1.3532), still within the +0.50% to +1.00% potential new range. The elevated SGD NEER has consistently left us to be biased for a higher USD-SGD. Nevertheless, downside may come simply as the broad USD is dragged lower in the G-10 space. Watch for support at 1.3380/00 levels for the pair.

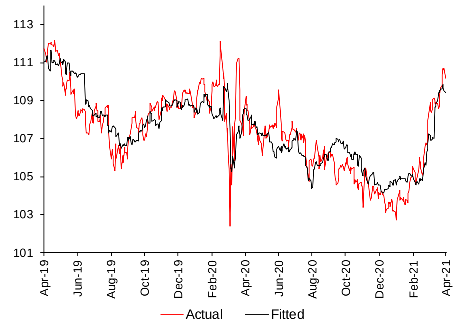
EUR-USD

Consolidating? Near term momentum may be turning in favour of the EUR bulls. The follow-through to economic data from the latest round of pandemic scare seems to be limited for now, leaving the sentiment more positive on the EUR. The EZ services PMI (Wed) will be closely watched. A sustained run above 1.1800 will leave the 200-day MA (1.1887) in sight.



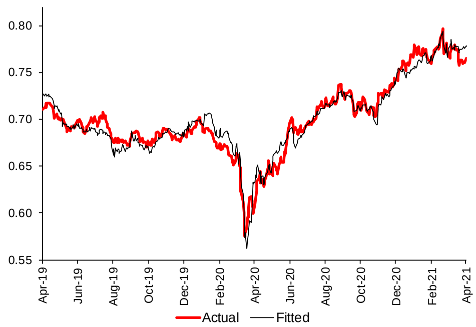
USD-JPY

Supported. Better US data has yet to translate to higher back-end yields, as risk-on seemed to take over to push yields lower instead. This leaves the upward trajectory of the USD-JPY stalling somewhat, although the base at 110.00 seemed to provide an interim support for now.



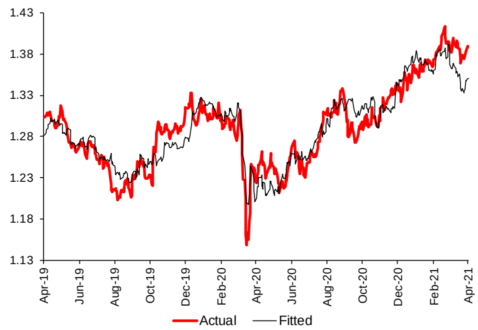
AUD-USD

Buoyant within range. The AUD-USD bounce stalled just below the recent high at 0.7660 range. Do not rule out a further test of that level for now, especially with US equities running hot. Stronger resistance probably enters at 0.7700/10 area.



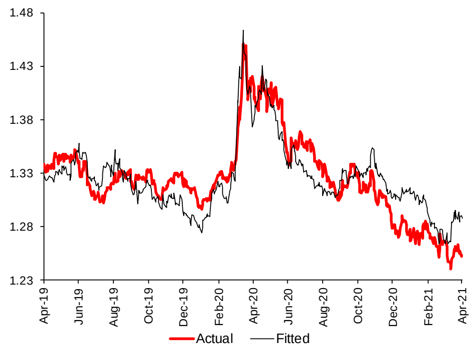
GBP-USD

Biased higher. The clear breach of the 55-day MA for the GBP-USD leaves the technical picture rather positive for now. Multi-session target may now shift to 1.4000 instead. Keep a near term positive view on the GBP so long as risk holds up.



USD-CAD

Biased lower. The USD-CAD appeared to turn bearish on a technical perspective, although the pace of decline remains muted and slow. We think this is, in part, due to the crude oil complex not tracking higher.



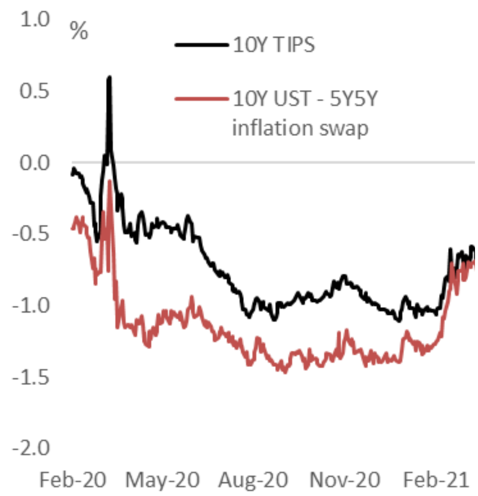
Rates Themes/Strategy

- Treasury yields edged down across the curve – upon strong data but lower energy prices - with the 5Y outperforming recouping some of the losses in the previous day. Our view remains that inflation expectation appears to be peaking, but negative real yields (at -65bp to -70bp) point to upside room to nominal yields amid supply headwinds. Meanwhile, the market is already hawkish in Fed hike pricing; and we do not expect the 2s5s10s fly to be paid up much from here.

- The caveat, however, is flush liquidity at the front-end. Overnight bill auctions drew strong demand, with yields hovering a tad above zero. There will be a net reduction of USD19bn in bills supply this week, which shall bring the Treasury's cash balance mildly lower to USD1trn. Meanwhile, net repo operation stays positive, but at smaller amounts than at month-end. The risk of front-end rates dipping below zero is there, but we believe a situation of negative front-end rates will not last, as the Fed is likely to react to it. And the market may probably avoid such situation, as the bill reduction is not as quick as initially anticipated while the USD1.9trn fiscal stimulus is kicking in.

- The RBA is widely expected to keep its cash rate and 3Y yield target unchanged at 0.1% later today, given its commitment to bringing inflation back to target. One of the key focuses shall be on the choice of the benchmark bonds under its yield curve control – as to whether the November 2024 bond will be included, sooner than the tenor suggests. The yield spread between the November 2024 and April 2024 bonds has re-widened, and we see potential for the November 2024 bond to outperform from here.

- The RBI is expected to keep its policy rates unchanged on Wednesday. Liquidity is flush which has extended the net reverse repo operations. Normalization of the interest rate corridor – as in narrowing it – does not look imminent at this week's meeting, but is an issue that has to be addressed down the road. Focus will be on whether the central bank will extend the forward guidance on its accommodative policy.



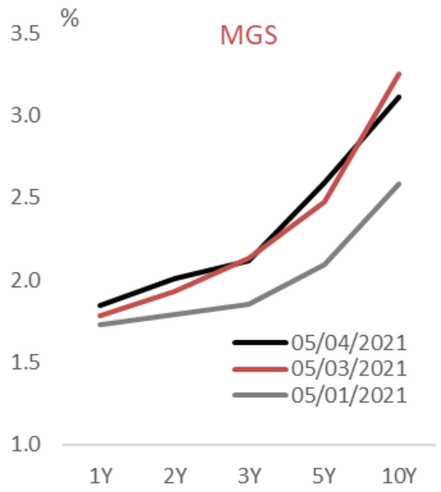
Source: Bloomberg, OCBC

IDR:

It was a relatively quiet session for IndoGB despite the higher USD/IDR on Monday. Today's MGII auctions have an indicative target of IDR10trn – the acceptance rate will again be closely watched. So far the funding gap has to be filled by the greenshoe option with some misses still. The mismatch of yields levels as seen by the government versus market, and supply overhang will cap any gains in IndoGBs.

MYR:

MGS are to be driven mainly by the domestic supply-demand dynamics, while reverting to a lower beta response to US yield movement. The underperformance in the 7Y bond upon announcement of a reopening is a good case in point. The adjustment in the 10Y bond in response to bond index decision is mostly done. Looking further ahead, when the market gets more clarity on EPF withdrawals – the impact on the bond market is manageable, there is room for further flattening of the curve.



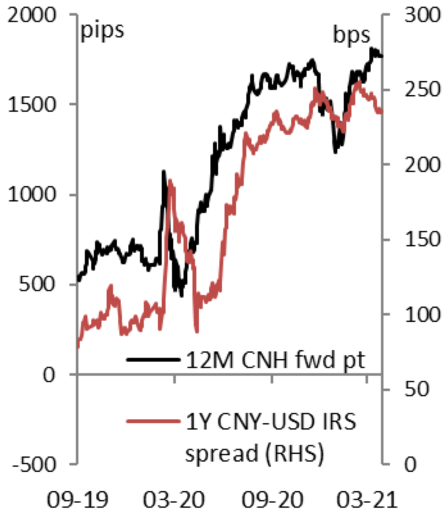
Source: Bloomberg, OCBC

THB:

Headline CPI inflation came in softer than expected, at -0.08%yoy, but core inflation did pick up to 0.09%yoy as expected. The print, however, did not move the market which is awaiting further details on the bond-switch later in the month with uncertainty over supply at the long end. When the debt-switch is out of the way, long-end LB shall outperform the front-end, as asset-swap at the front-end is not particularly attractive, while the yield curve is historically steep – more than two standard deviation away from 6M average on the 2s10s segment.

CNY / CNH:

Southbound flows under Stock Connect are gradually coming back, albeit not as heavy as earlier in the year. These flows, coupled with the narrowed CNY-USD rates spread shall point to some stabilization in back-end CNH forward points (together with CNY points). Meanwhile, the tax seasons may support the front-end, leading to a flatter curve



Source: Bloomberg, OCBC

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