

Daily Market Outlook

7 June 2021

FX Themes/Strategy

- The NFP miss was the headline on Friday, forcing the 10y UST yield back around the 1.55% support. However, given that it is not exactly a jaw-dropper, the miss may actually extend the Goldilocks situation we are in, at least at the equities side. On net, the **FX Sentiment Index (FXSI)** retains a Risk-On bias to start the week.
- Post-NFP, the broad USD almost returned all the gains after the ADP, although the DXY held on to close above the 90.00 mark. Major pairs all back within the recent ranges. Of note is EUR underperformance, barely holding on to the previous range bottom at 1.2150.
- After two knee jerk moves after the ADP and NFP last week, the question is whether there is to be further fading of Fed expectations compared to the pre-ADP status quo. We expect not. Thus, the range-y, consolidative action is likely to extend until the next event risk. How the USD performs today may set the tone into the June Fed meeting next week. Our bias is for the floor under the USD to hold out for now, at least until the ECB and US CPI on Thu.
- Short term players within the investment community stay divergent in their views. Non-commercial accounts added to their net implied USD shorts for the 7th consecutive week. They added EUR longs, but turned net short on AUD. The leveraged accounts stayed effectively neutral in net implied USD terms. However, they added to AUD longs and reduced their long GBP and EUR exposure.
- **USD-Asia:** USD-CNH tracked the broad USD lower to close around 6.3900. The extent of the decline is less than the G-10. The run higher in the RMB coincides with the improvement in Northbound equity inflows on a rolling 20-day basis. Near term, the inflow momentum is still improving but is reaching historically stretched levels. That adds to a growing chorus for near term RMB weakness – policy signaling; dividend flows through HK; new law against US investment in selected Chinese corporates. On net, we are not expecting significant appreciation of the RMB from here. Look instead for an ongoing consolidation phase.
- **USD-SGD:** The SGD NEER jumped post-NFP to around +1.10% above parity, and stands at around +1.04% above the perceived parity (1.3384) this morning. The +1.00% may actually serve as a locus for now, until pandemic concerns ease further. Meanwhile, the USD-SGD found a base around 1.3240 on Fri, and our longstanding bias remains to be positive on the pair.

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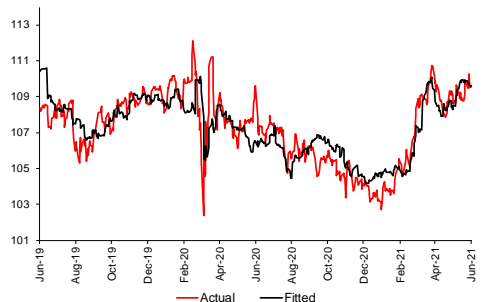
EUR-USD

Potentially south-bound. Soft Eurozone retail sales weighed on the EUR, leaving it underperforming the rest of G-10 counterparts amid the USD's decline on Friday. The EUR-USD is struggle to hold on to the 1.2150/60 support early Mon. The pair is likely heavy into the ECB meeting on Thu.



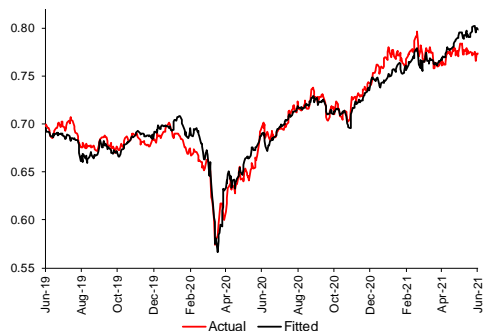
USD-JPY

Base off and climb. The USD-JPY dipped aggressively post-NFP, as the market reacted by fading Fed expectations and back-end UST yields once again. Nevertheless, the key 109.30 support held out, and that should perhaps ward off excessive downside expectations for now. The pair should build base around 109.30/40 levels, and the bias remains positive. .



AUD-USD

Back in range. The quick return to levels above 0.7700 leaves the pair again sideways as the break-down towards 0.7650 fails. Our bias remains negative, especially with the RMB appreciation also running into a halt.



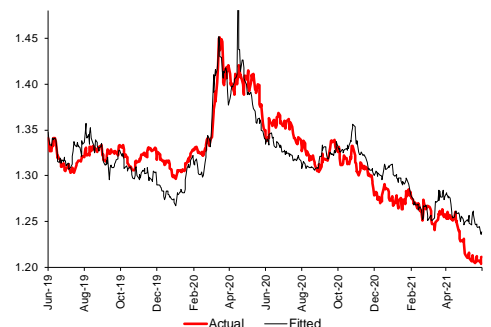
GBP-USD

Range. Survey figures show robust hiring in the labour market. BOE's Cunliffe also hinted that the growth rebound has been strong. These add to expectations that the BOE will lean less dovish in its June meeting, providing some support for the GBP. Nevertheless, the broad 1.4100 to 1.4250 range governs for now.



USD-CAD

Potential consolidation. The CAD did not benefit significantly from the post-NFP USD weakness – if only due to its own labour market disappointment. This may be a setback for BOC's rate hike hopes, but the base case seems to be for the labour market to bounce back firmly into the June-July period. Expect ongoing consolidation between 1.2000 and 1.2130/40 for now.

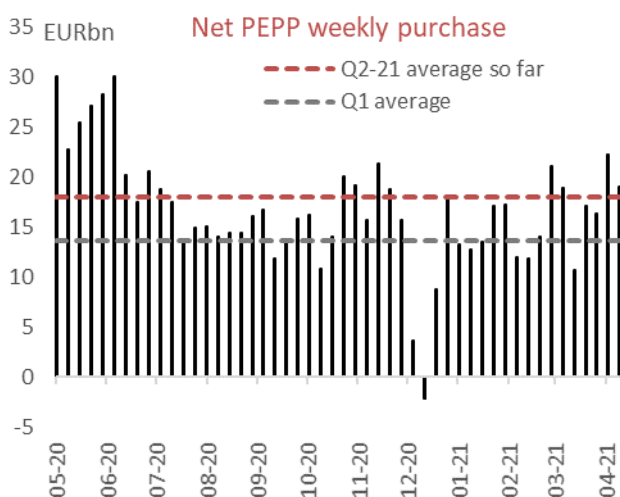


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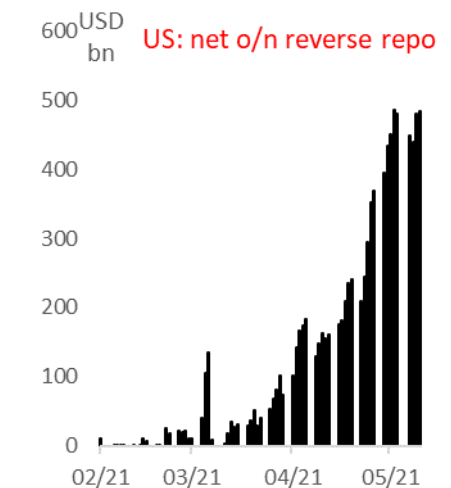
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Rates Themes/Strategy

- Treasury yields fell across the curve, with bonds of tenor 7Y and beyond underperforming. US NFP was solid at 559K while the jobless rate edged down; however, the outcome was probably seen as not enough to challenge Fed's patience with its accommodative stance. The 10Y bond is around the key resistance of 1.55% which had been tested multiple times; this level is not easy to be broken.
- Labour market development is the key for gauging if temporary inflation factors will transform into more persistent ones. Friday's report did show hourly earnings rose by 2%yoy, beating consensus. This week also brings coupon supply of USD58bn of 3Y, USD38bn of 10Y and USD24bn of 30Y. Next key data to watch is May CPI, ahead of the June FOMC.
- A slew of dovish ECB comments over the past couple of weeks have pushed expectation on PEPP to a continued "significantly higher" pace of purchases, from previous expectation for a removal of such phrase. The average weekly purchase so far this quarter was at EUR18bn, slightly higher than the run-rate of EUR17bn needed for the existing envelope to be used up by March 2022. Thursday's decision remains a close call. While UST-Bund yields narrowed on Friday, the move was primarily driven by Treasuries; we do not expect meaningful narrowing in spreads in the run-up to the ECB meeting.
- The MGS curve widened further across the 3s10s segment on Friday and broken the upper end of our near-term expected range; the steepening momentum may be coming to a pause for now.



Source: Bloomberg, OCBC



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IDR:

This week's conventional bond sales will be a test as to whether the recent bond demand can hold up; we are more inclined to expect the auctions on Tuesday to go smoothly. While potential dividend flows may indirectly affect bonds via FX movement, global yield reaction to NFP is supportive of bond market sentiment. On balance, yields are likely to be stuck in ranges, with the 10Y yield in a range of 6.35-6.50% near-term.

INR:

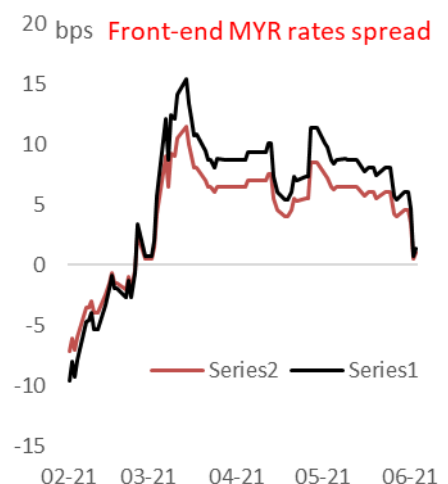
The RBI kept its key policy rates unchanged as expected. GSAP 2.0 (bond purchase) in Q2 is planned at INR1.2trn, higher than the INR1trn in Q1. Market had already expected a step-up, while the inclusion of state development loans in bond buying disappointed mildly. G-Sec yields rose in response. Overall, the RBI has stayed dovish; the reaction in INR OIS and G-Sec should have been done.

MYR:

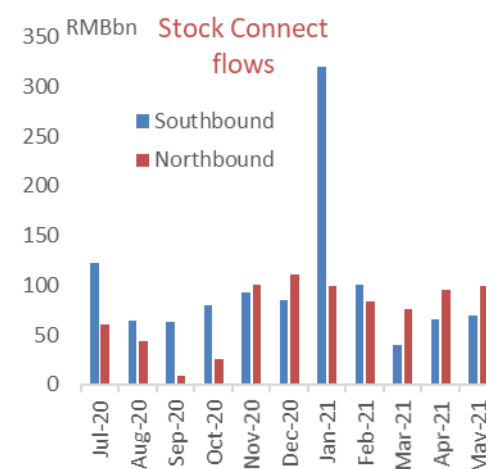
MGS is likely to take the cue from global market movements, garnering support with the curve steepening moment coming to a pause. The 3s10s segment widened further on Friday to the upper end of our expected range, and we turn neutral from here. Front-end rates shall stay anchored on monetary policy expectation; 1Y MYR IRS is near 3M KLIBOR, as market has scaled back the economic optimism built earlier and seems to be tilting slightly towards easing expectations.

CNY / CNH:

Downside to back-end CNH swap points is limited. First, inflows to onshore are expected to continue. Second, the recent downward adjustment in back-end points already played catch-up with CNY-USD rates spread. Third, offshore back-end CNH points are trading higher than onshore counterparts. Fourth, additional liquidity to the CNH pool has been minimal – Northbound stock flows outpaced Southbound stock flows; although the net CNH flow amount is not straightforward it would be fair to assume any addition has been small in recent weeks. Meanwhile, the flush liquidity appears to be affecting front-end points more at the moment. The CNH swap curve is likely to maintain its current steepness, if not steepen back.



Source: Bloomberg, OCBC



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