OCBC TREASURY RESEARCH

Daily Market Outlook

8 April 2021

FX Themes/Strategy

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- US equities largely sideways near recent highs, back-end UST yields arrested their recent decline. Overall, the **FX Sentiment Index (FXSI)** is still vacillating in the Risk-Neutral zone. The risk-on tilt seen early April has yet to translate into a stronger underlying risk-on environment.

- With risk stalling somewhat and back-end UST yields finding its footing, the **broad USD** buying appetite returned, especially after the Fed minutes came in as expected. The cyclicals and the GBP underperformed. The EUR-USD turned tail after briefly breaching 1.1900, while the USD-JPY held at the 109.50 support.

- The FOMC minutes was not too much of a surprise. The tone on the macroeconomy was generally upbeat, but there was a united front behind the still-dovish Powell. It is clear that a Fed tapering of monetary stimulus still not at hand. This is not expected to weigh on the USD significantly. The less-dovish aspect of the Fed is its hands off attitude to the rising back-end yields, and that stance has not changed.

- Going forward, the GBP may be in focus. Astra vaccine issues appear to be hampering the vaccination rollout in the UK, with attendant impact on the pace of economic reopening. Political uncertainties over Scotland may also weigh. Overall, these developments should compel the market to rethink the positives already factored into the year-to-date outperformance in the GBP, thereby curtailing further upside.

- Correlation between the broad USD and USD-G10 yield differentials is still intact. With the 10y UST yield potentially holding support at 1.60 – 1.62%, the USD decline may take a breather. Near term risk for the USD is still the risk-on/weak-USD dynamic. Overall, we see no fundamental change in the yield environment just yet, implying then that this bout of USD-decline more of a correction in terms of price action, rather than a fundamentally driven turn in overall trajectory.

- **USD-China / USD-Asia:** The USD-CNH bounced off 6.5400, just off the base of an upward trendline. Retain the view that the pair will be sideways for now. Meanwhile, with the broad USD also basing off, USD-Asia may also have seen a bottom for now.

- **USD-SGD:** The SGD NEER stands this morning at +0.95% above the perceived parity (1.3539) after hitting a high near +1.05% briefly on Wed. The MAS MPS is scheduled for 14 April. The recent rise in the SGD NEER (and dip in SGD fwd points) may be reflective of an optimistic expectation on the MPS. The outside risk for the MAS to under-deliver on that front, which may then see the SGD NEER revert closer to parity. For now, expect the 1.3380 / 1.3400 figure support for the USD-SGD to remain intact.

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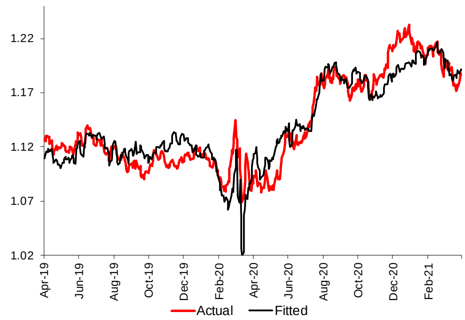
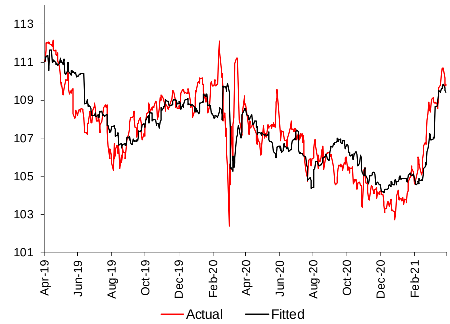
EUR-USD

Neutral. The EUR-USD found little traction after breaching the 200-day MA (1.1894), and closed below that overnight. The pause in risk also gives some hope for stubborn bears for now. Underlying data prints remain supportive for this retracement higher, with the svcs/composite PMIs for the major economies mostly better than expected. Stay neutral at this level, with the pair likely governed by the 1.1800 to 1.2000 range going forward.



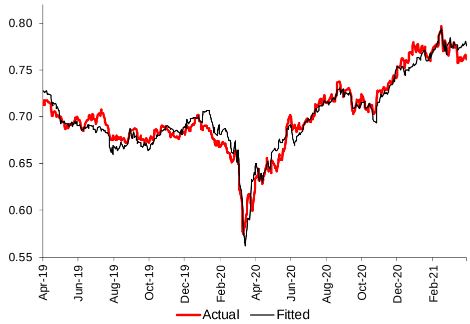
USD-JPY

Supported. The USD-JPY found decent support at 109.50 as the decline in back-end yields are arrested. Underlying yield dynamics still favourable to the USD for now. Expect the pair to be supported at the 109.50 level.



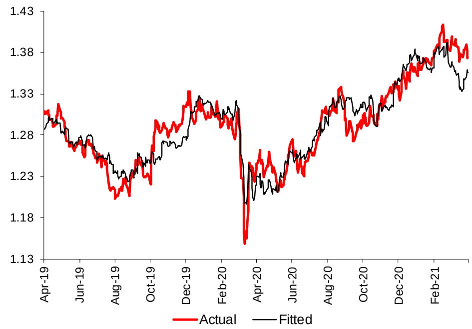
AUD-USD

Buoyant within range. The AUD-USD remains firmly within recent range after the decline overnight towards the 0.7600 support. The stalling of US equities this week did the pair no favours for now.



GBP-USD

Range. The GBP-USD quickly turned heavy after breaching the 55-day MA (1.3841) on Monday. The base at 1.3670/00 now comes into focus. Stay neutral for now, pending a stronger range break that provides clearer directionality.



USD-CAD

Range. The USD-CAD reverted higher sharply over the past 48h back to the recent range high at 1.2620/40 levels. Expect the 55-day MA (1.2638) to cap. Prefer to sell on rallies near these levels.

Rates Themes/Strategy

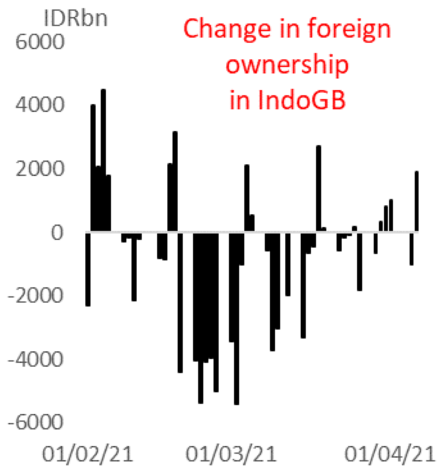
- The UST curve steepened, with the belly outperforming again leading to further retreat in the 2s5s10s fly as market further pared back pricing of Fed hikes upon the release of the Fed minutes. Auctions resume next week, and our view remains that the main driver for yields (to go higher) is supply headwinds, when inflation expectation is peaking.

- USD liquidity stays ample at the front-end, with net reverse repo operations again. The Fed minutes revealed that the potential for an inter-meeting tweak to the IOER was discussed – "it might be appropriate to implement adjustments to administered rates at upcoming meetings or even between meetings". This supports our view that a situation of sustained negative front-end rates across instruments is unlikely, as the Fed will likely react to such situation.

- Some profit-taking flows on IndoGB near-term shall not be surprising, given how much yields have fallen and likely renewed upward pressure on USD/IDR. Meanwhile, MGS may underperform as investors focus on supply overhang following a lukewarm auction. The adjustment lower in front-end SGD rates in preparation for the MAS policy meeting appears mostly done; that said, when the USD liquidity dynamic changes, there will be further narrowing in SGD-USD rates spreads.

IDR:

IndoGB yields fell across the curve on Wednesday, taking cue from UST performance. Meanwhile, the greenshoe option filled the funding gap of the sukuk auction. With likely some renewed upward pressure on USD/IDR and given that local yields have fallen by more than 30bp from peaks across the curve, some profit-taking flows near-term will not be surprising.

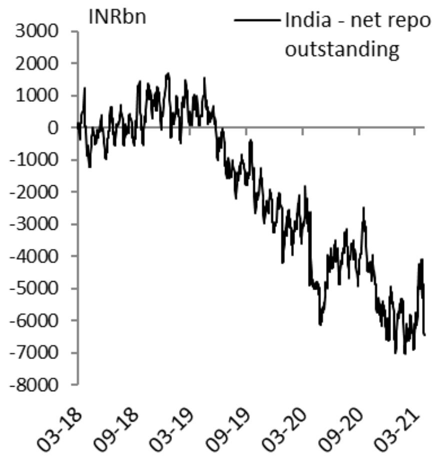


Source: Bloomberg, OCBC

- Jokowi was on the wire, saying Bank Indonesia's mandate should include growth and jobs. This is not a surprising remark, coming amid a broader review of legislation governing the central bank, and hence immediate impact on the market is likely limited. The evolution of the debt-sharing programme remains to be seen. Without fresh commitment, the room for Bank Indonesia to buy from the primary market is falling, and there needs to be a convergence between appropriate yield levels seen by the government and by the market.

INR:

G-Sec yields fell upon RBI's announcement of the G-SAP – there had been demand for an "OMO calendar", but market had not held high hope of it. The G-SAP is committed upfront; the INR1trn amount in one quarter is higher than last year's average and probably reflects a front-loading of this year's plan. The first purchase under G-SAP 1.0 is scheduled on 15 April for an aggregate amount of INR250bn. Governor Das tried to convey the message that the aim is to ensure orderly evolution of the yield curve (presumably engineering a flatter curve than otherwise as driven by market forces), rather than targeting any specific levels. 10Y yield fell by 13bp at one point from intraday high, ending the day around 7bp lower; the 6% handle is the next resistance.



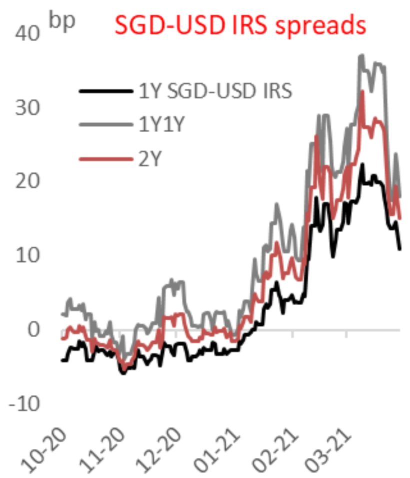
Source: Bloomberg, OCBC

MYR:

MGS performance was mixed on Wednesday, upon lukewarm demand at the 7Y auction. The MYR4.5bn of 7Y bond sales drew a bid/cover ratio of 1.59x, with yield higher than WI levels. As MGS revert to a lower beta response to US yield movement, the market is driven mainly by the domestic supply-demand dynamics. While we have argued, that on the demand side impact of EPF withdrawals on MGS is manageable, the market is fixating on supply overhang currently, which may render MGS underperforming near-term.

SGD:

The SGD liquidity situation has continued to normalize with front-end points trading at around par. On the IRS side, receiving flows might have arisen from investors positioning for some upbeat/hawkish comments from the MAS. The adjustment lower in front-end rates in preparation for the MAS policy meeting appears mostly done; the expectedly upbeat rhetoric alone is unlikely to exert too much additional downward pressure on front-end SGD rates. That said, when the USD liquidity dynamic changes, there will be further narrowing in SGD-USD rates spreads.



Source: Bloomberg, OCBC

TWD:

There appears to be a lack of lifers' flows in recent sessions, probably as the outlook for the TWD has turned somewhat neutral. Swap points are supported subsequently. Near-term factors aside, the overseas investment portfolios are most likely to be enlarged, with some buffer to investment caps while yield differentials shall be appealing.

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