OCBC TREASURY RESEARCH

Daily Market Outlook

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FX Themes/Strategy

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- Back-end UST yields lifted off the base set post-NFP, while US equities turned slightly heavy near their record highs. Market sentiment, as seen from the **FX Sentiment Index (FXSI)**, pulled back slightly though the backdrop remains broadly Risk-On.

- The **USD** failed to hold on to gains seen in the Asian session, and was in the red against G-10 counterparts by the end of the day. Nevertheless, major pairs remain within the recent ranges, with the exception of the **USD-JPY**, which is threatening to detach from the 109.30 support.

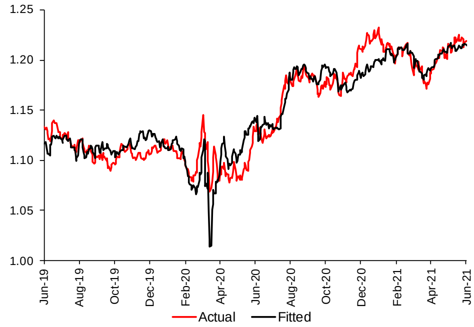
- The market will continue mulling over the Fed's tapering and rate hike expectations – suggesting to further indecisive drift in the coming sessions ahead of the upcoming risk events – US CPI (Thu), ECB decision (Thu) and the June FOMC. Our bias for the Fed has been well established previously. As for the ECB meeting, the focus will be on whether to extend the "significantly higher" higher pace of the PEPP purchases. Expect the decision either way to have marginal and near-term impact on the EUR. It will not change the underlying trend that the ECB's balance sheet is expanding faster than the Fed's (as a % of GDP), and that the ECB will be more dovish than the Fed in the upcoming quarters. Thus, we caution against being too quick in concluding on further USD weakness in both the immediate and the medium-term horizon.

- **USD-Asia:** USD-CNH hovered around the 6.3900 locus on Monday. The RMB continues to be a laggard amid USD weakness in the last 48h or so. Consolidation between 6.3500 to 6.4100 should take hold instead. In turn, this should translate to further easing on the CFETS RMB Index front. USD downside is probably better expressed through the USD-KRW for now, targeting 1105 – 1110 levels. Concerns over the MYR over the MCO and pandemic situation in Malaysia has also eased. There is scope for the USD-MYR to drift lower within the broad 4.1000 to 4.1500 range.

- **USD-SGD:** The SGD NEER marginally firmer at +1.10% above parity (1.3372) this morning. Meanwhile, the USD-SGD should continue to see decent support around the 1.3200/20 region.

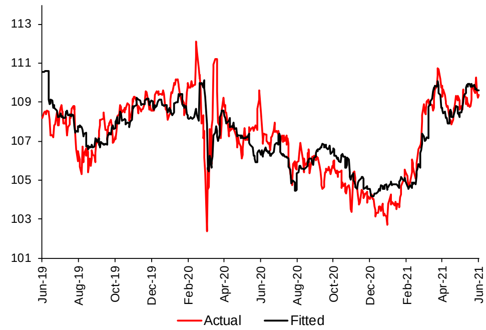
EUR-USD

Back in range. Broad USD weakness after the Asian session on Mon lifted the EUR-USD to levels just below 1.2200. Firmer resistance will come at 1.2220, before the recent range high at 1.2260/70. Note some data risk ahead today, with the German IP (0600 GMT) and ZEW survey (0900 GMT) scheduled.



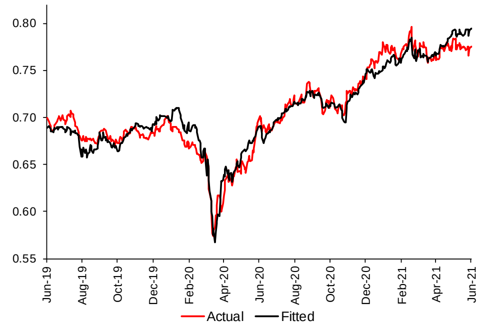
USD-JPY

Base off and climb. The USD-JPY dipped further despite UST yields edging higher on Mon. Nevertheless, the 109.00/20 support levels remain intact. Our UST yield view is for it to rise higher within range – this translates to a view for a firmer USD-JPY ahead. Expect the 109.00/20 support to hold for now.



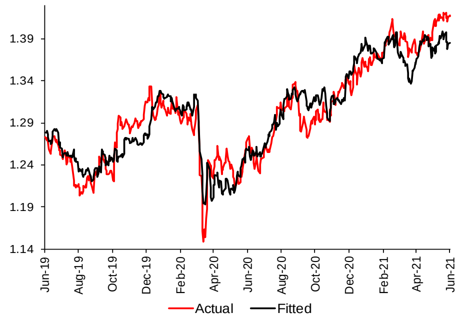
AUD-USD

Back in range. The AUD-USD continues to trudge indecisively within its recent range. Marginal positives for the AUD as the Aussie AAA credit outlook was raised from negative to neutral. Near term technical picture also improved, but the 0.7720 top end of the recent range is still the key.



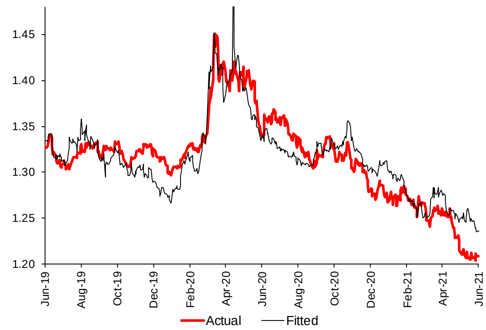
GBP-USD

Range. Aside from the central bank shifts, the other key event risk is the scheduled further reopenings later this month. The decision on that remains balanced, but market expectation should be leaning positive. This implies some asymmetric risk for the GBP-USD ahead, but is perhaps too uncertain at this point to have a convicted view on. Broad 1.4100 to 1.4250 range to limit in the immediate term.



USD-CAD

Potential consolidation. The CAD continued its near term posture as a USD proxy, underperforming in lockstep with the USD. This left the USD-CAD pair effectively static on the day.



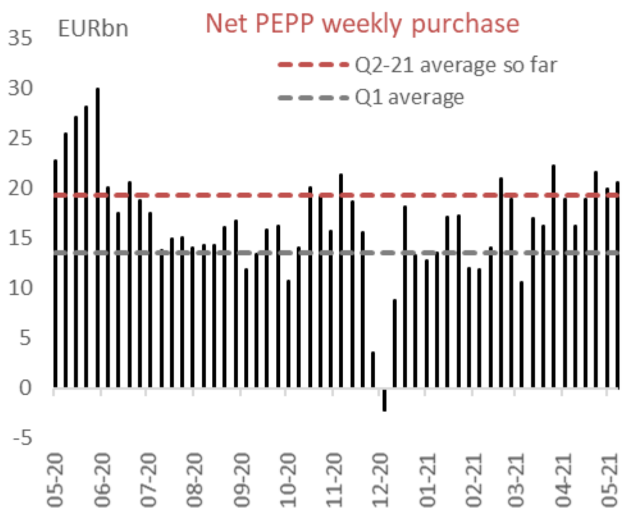
Rates Themes/Strategy

- Treasury yields were little changed to a tad higher on Monday, with a lack of catalyst for direction. TIPS underperformed reflecting mildly lower inflation expectations. Yields are likely to trade in tight ranges in the days ahead, before the May print of CPI which may provide some impetus. Tonight's coupon supply of 3Y shall come without much fuss given the tenor has not been the pressure point. Key resistance for the 10Y bond stays at 1.55% which had been tested multiple times; this level is not easy to be broken.

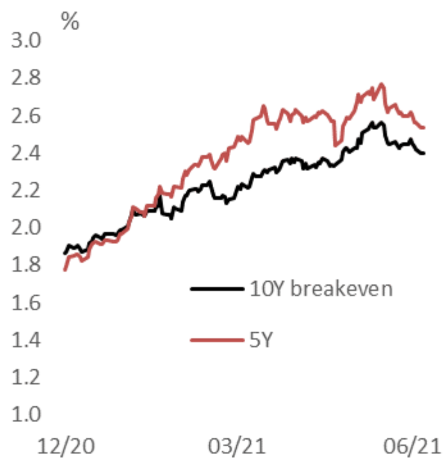
- Usage at the Fed's o/n reverse reop stayed high, but as long as the FFTR is staying at the 5-6bp area there seems to be no imminent action from the Fed, as its operation to keep the Fed fund within target is still effective.

- ECB's PEPP weekly purchase was above EUR20bn for the third week in a row. While rates are widely to be kept on hold at the ECB's MPC meeting on Thursday, the key focus is whether the central bank will opt to maintain the "significantly higher" pace of PEPP for the coming quarter. The average weekly purchase so far this quarter was around EUR19bn, higher than the run-rate of EUR17bn needed for the existing envelope to be used up by March 2022. This shall imply a higher chance for the existing envelope to be fully utilized.

- The MGS curve had steepened over the past weeks as we had expected; we turn neutral from here for now. Downside to back-end CNH swap points is limited; the CNH swap curve is likely to maintain its current steepness, if not steepen back.

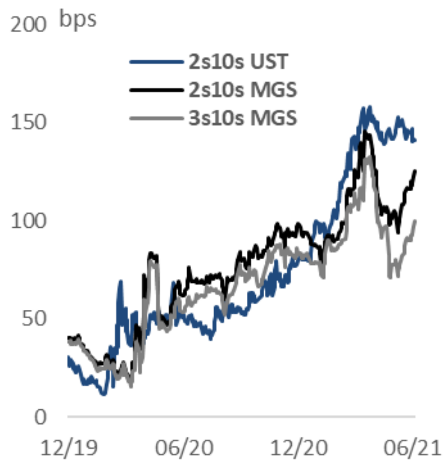


Source: Bloomberg, OCBC



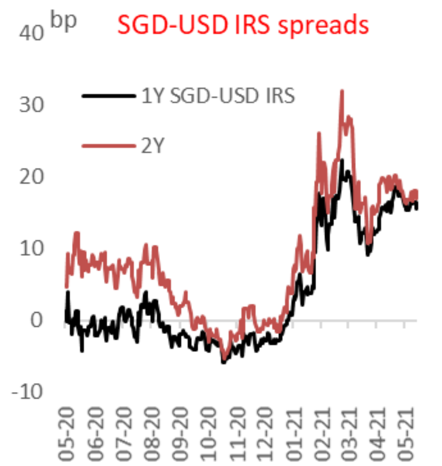
Source: Bloomberg, OCBC

IDR:
Todays's conventional bond sales will be a test as to whether the recent bond demand can hold up. We expect the auctions to go smoothly, but again potential upsize is likely to limit bond gains. Focus is on the cut-off at the 10Y – if the market level of 6.38% will hold or be broken. A relatively stable USD/IDR balanced by opposing flows is providing a constructive backdrop for the bond market in recent sessions.



Source: Bloomberg, OCBC

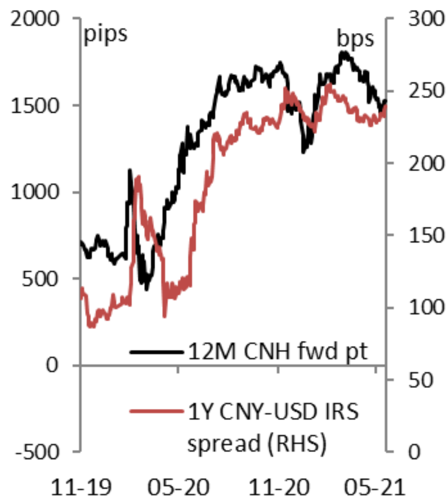
MYR:
MGS is likely to play catch-up with the post-NFP reaction as the market reopens, garnering support with the curve steepening moment coming to a pause. The 3s10s segment has widened over the past weeks as we had expected, to around the upper end of our near-term expected range; although the curve is still mildly flat vis-à-vis the UST curve, we turn neutral from here for now waiting for a catalyst for another leg of steepening move. 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.



Source: Bloomberg, OCBC

SGD:
SGS yields were mostly flat on Monday, with tenors 10Y and beyond outperforming. SGD IRS was mildly offerish following the soft USD rates the day before. SGD-USD rates spreads have been trading in tight ranges as expected – as USD liquidity stays flush, there is limited scope for the spreads to tighten despite supportive domestic liquidity as well.

CNY / CNH:
Downside to back-end CNH swap points is limited while investors may adopt a buy-on-dip strategy. 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; and the rates spread has widened back of late. Third, offshore back-end CNH points are trading higher than onshore counterparts. Fourth, additional liquidity to the CNH pool has been. 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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