OCBC TREASURY RESEARCH

Daily Market Outlook

9 April 2021

FX Themes/Strategy

- Fed's Powell continued his dovish tone, calling the US recovery "incomplete". Despite not presenting new information, the USTs reacted higher and the USD lower, perhaps exarcebated by the worse than expected initial jobless claims. Risk assets cheered the dovish tone, with US equities marking further gains. There is also better follow-through into the **FX Sentiment Index (FXSI)**, which moved sharply to the boundary between Risk-On and Risk-Neutral.

- The **broad USD** returned to its soft posture. Antipodeans outperformed overnight, but largely still contained within their recent ranges. The USD-JPY dipped to the next threshold at 109.00 amid the softer yid, while the EUR moved clear of 1.1900 resistance.

- As highlighted previously, the GBP saw signicant underperformance overnight. Expect an ongoing attempt to re-assess the post-Brexit and vaccine positives associated with the GBP in the coming sessions.

- The unwinding of the long USD stance may not yet run its course, especially with risk-on sentiment again threatening to pull through. The next tactical target on the DXY index may come in at 91.30/40, coinciding with the previous low and the 55-day MA. Nevertheless, given our underlying pro-USD bias, we will keep a constant watch for potential turnarounds. The recent move is very much EUR- and JPY-led. Watch for a potential catch-up in the laggards like the AUD.

- **USD-China / USD-Asia:** The USD-CNH lifted higher despite the softer USD. The pair was nevertheless capped at 6.5600, underlying the range-bound posture. Note that the CFETS RMB Index has been grinding lower in line with the DXY. Expect North Asians to outperform the South amid USD weakness. Focus on USD-KRW downside in the coming sessions.

- **USD-SGD:** The SGD NEER stands at +0.93% above the perceived parity (1.3524) after staying well-behaved between +0.90% and +1.00% throughout Thu. No explicit reaction to the political headlines. Our view is that there is limited upside for the SGD NEER from here, with the expected positives from the MAS MPS likely priced in. Translated to USD-SGD, the 1.3380/00 support continue to hold for now. Prefer to buy on dips.

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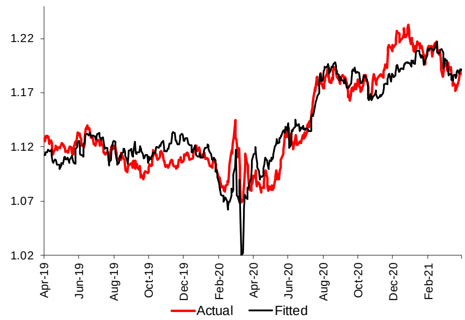
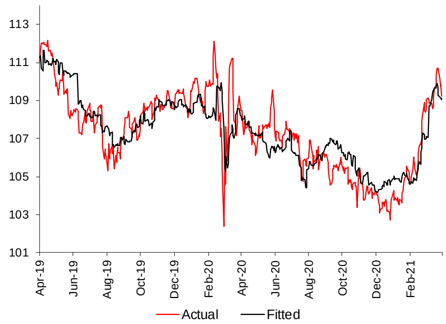
EUR-USD

Neutral. The EUR-USD looks to be driven more by US headlines for now, with the market latching on the soft initial jobless claims and Powell's comments to push the USD lower. A sustained run above 1.1900 leaves the 55-day MA (1.1985) in sight. Remain neutral at this level, although the pair is likely buoyant for now.



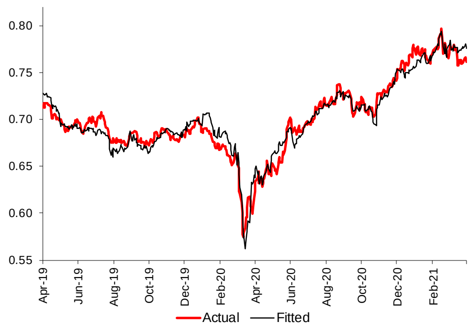
USD-JPY

Soft. The USD-JPY is again impinged by the softer back-end UST yields, with the pair taken to the 109.00 support. Any further declines would see the previous low at 108.30/40 come into play. With Treasury auctions restarting next week, there is potential for the decline in back-end yields (and therefore the USD-JPY) to be arrested.



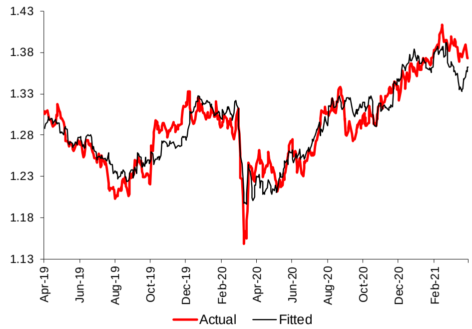
AUD-USD

Buoyant within range. The AUD-USD bounce again found limited traction around the recent highs at 0.7660. The technical picture is leaning increasingly positive for this pair, but a more definitive range break may be needed for better directionality.



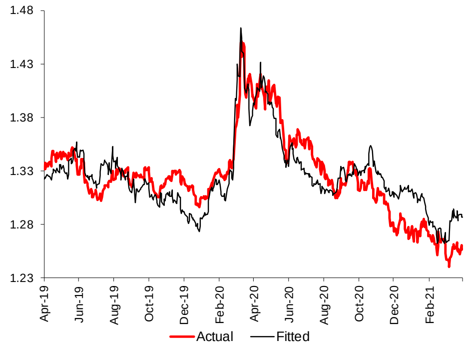
GBP-USD

Heavy within range. Selling on the GBP-crosses probably weighed on the GBP-USD despite the broad USD weakness. GBP-positives are likely to go on an ebbing phase – a breach of the 1.3670/00 support will open up further downside room.



USD-CAD

Range. The risk-on bias should follow through to a softer USD-CAD ahead, but a clearer driver will probably be needed to drive a clearer range break at this point. Sideways oil doing very little for USD-CAD directionality at this stage.



Rates Themes/Strategy

- Treasury yields fell, amid higher-than-expected initial jobless claims and dovish comments from Powell. The 20Y outperformed upon speculation that the Fed may buy more, after comment that the New York Fed is ready to make technical adjustments to its purchases. Inflation expectations stayed fairly stable, and real yields fell. Coupon supply resumes next week – 3Y, 10Y and 30Y; our view remains that the main factor that will likely drive yields higher is supply headwinds.

- The New York Fed also showed intention to broaden its counterparties for its overnight reverse repo facilities – a step seen as trying to set a floor to interest rate. If this measure is proved ineffective, we believe the chance is for an adjustment in the o/n RRP or the IOER. A situation of negative front-end rates across instruments is unlikely to be sustained.

- In the THB space, the selection of destination bonds under the bond switch programme is mostly in line with expectations, except one expected destination bond was not included. Investors likely stay on the sidelines until the switch is over, as there is uncertainty over the actual demand for individual bonds. Most of the supply is likely to come from the new 10Y benchmark (LB31DA), while longer tenors cater for the needs of onshore investors including pensions and insurance companies. The duration supply has added to the steepening momentum in the ThaiGB curve which has followed the UST curve move. The 2s10s segment is at more than 2 standard deviations from 6M average, relatively steep compared with some regional peers. The curve may flatten back mildly when this switch in the form of syndication is over.

- IndoGB performances were mixed on Thursday, with longer end bond garnering some buying interest probably helping to cap USD/IDR. Local bonds have benefited from lower US yields and pockets of foreign inflows in recent sessions. With the lowered local yields, levels seen as appropriate by the government shall be better aligned with the market, which shall be constructive for fund raising. Meanwhile, real yield differentials remain supportive.

- MGS yields ended Thursday lower, after hitting intraday highs. The curve is still steep, but after the recent falls in the 10Y yield, 3% looks like a strong resistance near-term.

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