Daily Market Outlook

9 June 2021

FX Themes/Strategy

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- Some renewed crypto jitters over the past 24 hours, with bitcoin lower to US$31,000 at one stage. US and global equities were mixed but little-changed. 10y UST yield dipped below 1.55%, but with back-end breakevens also softer, US real yields were effectively static. Overall, the **FX Sentiment Index (FXSI)** showed a further pull-back from the risk-on backdrop.

- The **USD** firmed up against most of the G-10 counterparts, with the **NZD** underperforming across the board. However, the sideways drift continued to persist, with major pairs still locked in within ranges.

- The divergent ADP and NFP outcomes left the FX space looking for new catalysts again. The broad USD trajectory is in stasis ahead of event risks later this week. This leaves room for secondary drivers to pull their weight. German industrial production and ZEW survey results were both weaker than expected. This underscored our general scepticism over any exceedingly positive Eurozone growth expectations. Expect this to provide further argument for the ECB to not move too far from the dovish end of the spectrum come Thursday.

- The **GBP** was also under renewed pressure as the UK's reopening time-line is at risk of being extended by two weeks. Beyond this idiosyncratic risk, there is scope for the BOE to be the next central bank to lean less dovish, especially in comparison to the RBA and ECB. There is perhaps scope to use any near term reopening setback for the GBP to accumulate the GBP on the EUR-GBP; GBP-AUD crosses.

- **USD-Asia:** USD-CNH back near the 6.4000 handle this morning, tracking the broad USD higher. The CFETS RMB Index edged higher, but remains on a slow grind lower from the highs above 98.00 on a multi-session horizon. As concerns over the pandemic situation in Asia broadly eased, expect USD-Asia to revert to being reactive to USD directionality going forward. Slight bias for USD-South to be heavy.

- **USD-SGD:** The SGD NEER mostly sideways, standing at +1.06% above parity (1.3372) this morning. Meanwhile, the USD-SGD lifted higher from the 1.3200/20 support on the back of the broad USD and USD-CNH. Bias continues to be positive on the pair on a multi-session horizon.

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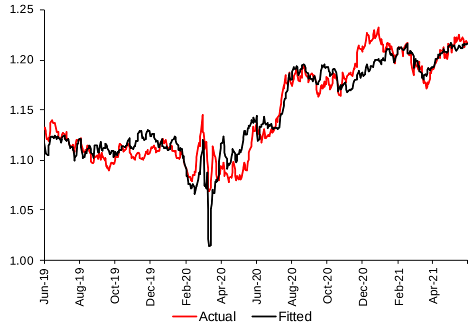
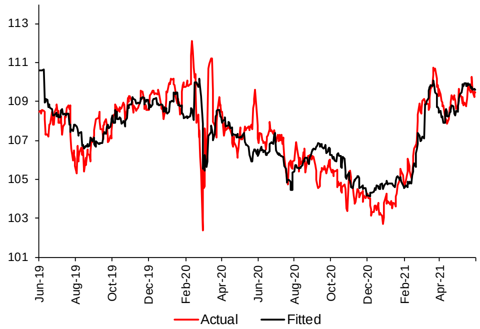
EUR-USD

Back in range. Soft German IP and ZEW survey contributed to some marginal weakness in the EUR-USD ahead of the US CPI and ECB decision on Thu. Net neutral for now, pending further catalysts.



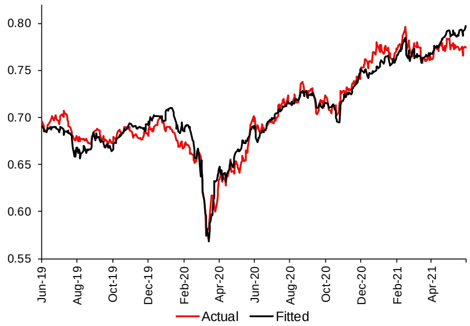
USD-JPY

Base off and climb. The USD-JPY lifted away form the 109.00/20 support despite back-end UST yields turning softer still overnight. This reinforces the strength of the 109.00 floor in the near term. Bias remains positive, with the pair perhaps the best expression for any potential USD positivity ahead.



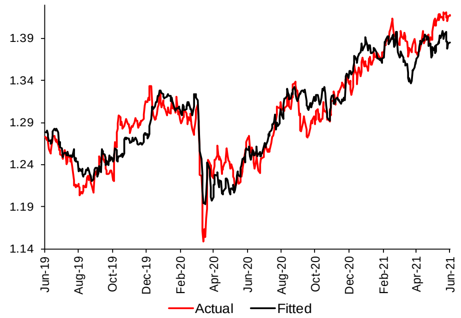
AUD-USD

Back in range. RBA's Kent sounded positive the macro prospects Down Under, with the market increasingly expecting the RBA to undertake policy tweaks in its July meeting to move it away from the dovish extreme of the spectrum. This provides some near term support for the AUD-USD. Range-bound for now.



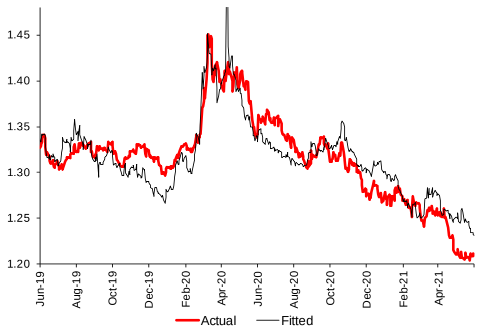
GBP-USD

Range. The GBP-USD remains broadly static towards the lower end of the recent range. Uncertainties over the reopening continue to weigh at the margins, with the UK government looking to delay the decision by another week to get more evidence. Any disappointment on this front may be short-lived, and present an opportunity to accumulate the GBP on crosses.



USD-CAD

Potential consolidation. Focus on the BOC policy decision (1400 GMT) today, with the risk being that the BOC edge back to the dovish side after two months of misses in the key employment numbers. However market expectations is for the BOC to hold ground for now. Range-top for the USD-CAD at 1.2130/40 remains at risk for now.

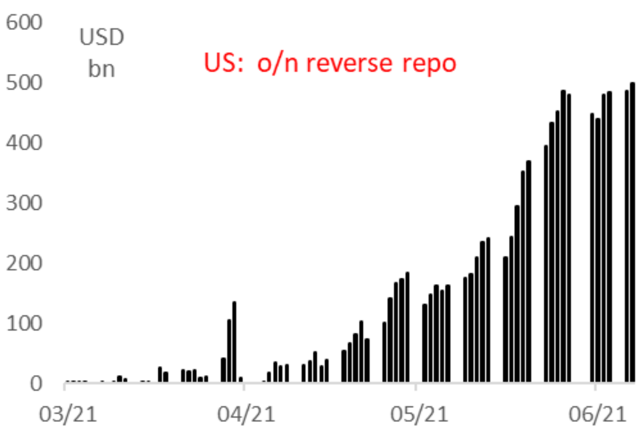


Rates Themes/Strategy

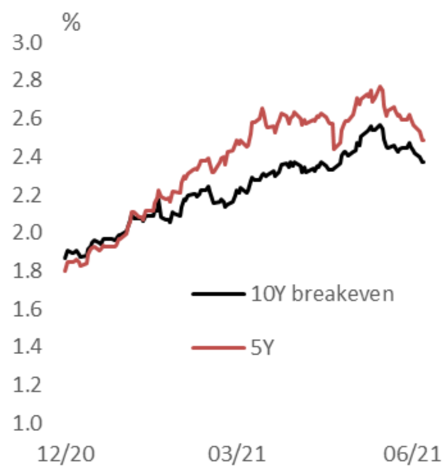
- The UST curve bullish flattened led by the long-end, while TIPS continued to underperform reflecting lower inflation expectations/breakevens. Yields fell notwithstanding the solid 3Y coupon auction at which end-user demand rose to 72.4%, and the latest JOLTS report showing an increase in job openings. Eurodollar pricing has stayed hawkish from the Dec 2022 contract onwards. The upcoming USD38bn of 10Y reopening may need some concession given the recent falls in yield. The next key market-moving data to watch is May CPI.

- Usage at the Fed's o/n reverse repo reached a record high at USD497.4bn, but as the effective Fed Fund rate 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. The causes of the flush liquidity are bill reduction and Fed purchases; the former may be mitigated when the debt ceiling is resolved, while the latter shall add to justification for a re-assessment of the asset purchase program. A re-calibration of the SLR calculation may also help encourage banks to absorb some of the liquidity.

- Tuesday's IndoGB auctions garnered decent demand with a mild upsize only; the outcome, together with a relatively stable USD/IDR, is supportive of domestic bonds. The MGS curve had steepened over the past weeks as we had expected; we turn neutral from here for now. CNY rates reaction to the high print of PPI so far is adding to the upside bias to back-end CNY and CNH swap points.



Source: Bloomberg, OCBC



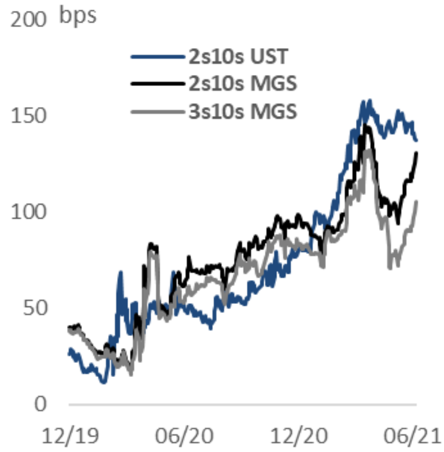
Source: Bloomberg, OCBC

IDR:

Tuesday's conventional bond sales garnered decent demand, with the MoF upsizing it only mildly to IDR34trn from an initial target of IDR30trn. This outcome was supportive of the bond market. The 10Y bond attracted a bid/cover of 2.3x with average yield at 3.9%, the low end of forecast range. The 10Y yield fell further after the auction. Foreign demand for IDR assets has helped cap USD/IDR, counteracting dividend flows. Foreign investors added IDR5.8trn to bond holdings on 4 June. A relatively stable USD/IDR is providing a constructive backdrop for the bond market in recent sessions. IndoGBs shall trade on the bid side today taking cue from the global market.

MYR:

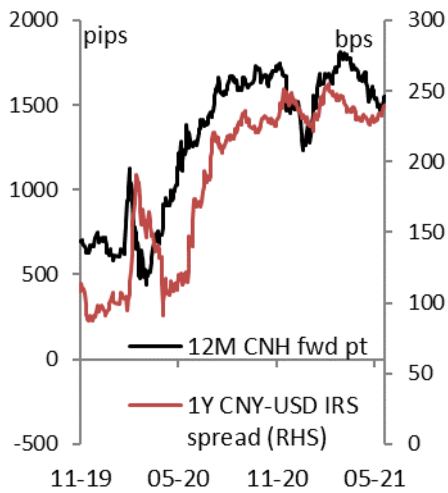
MGS yields fell across the curve led by the 10Y on Tuesday, as concerns over fiscal spending lingered. Meanwhile, the reopening of the 10Y MGS attracted a healthy bid/cover ratio of 1.966x, but that was after yield went higher over the past week. The 3s10s segment has widened over the past weeks as we had expected, to around the upper end of our near-term expected range; although this part of the curve is still 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



Source: Bloomberg, OCBC

CNY / CNH:

CNY IRS edged up, after opening lower this morning, in response to the high PPI print. May PPI accelerated to 9%yoy, while CPI came in softer than expected at 1.3%yoy. Although the pass-through onto the consumer level has stayed muted, high commodity prices will still add to concern that supply-side inflationary pressure may last for a little longer than expected. CGBs may underperform today. Potential widening in CNY-USD rates spread will add to an upward bias to back-end CNY and CNH swap points.



Source: Bloomberg, OCBC

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