OCBC TREASURY RESEARCH

Daily Market Outlook

8 November 2021

FX Themes/Strategy

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- US NFP and a series of labour market indicators were firmer than expected on Fri, but the bond market waved that side to take the UST curve flatter from the back-end. Global equities were broadly firmer. The **FX Sentiment Index (FXSI)** still neutral, but is starting to lean towards the Risk-On boundary this week.

- The DXY Index touched an intraday high, but the **USD** eventually closed flat to softer against G-10 counterparts on Fri. The JPY outperformed, with the USD-JPY dipping to recent range-lows near 113.40. The **EUR-USD** dipped to a low of 1.1514 before rebounding. The **AUD-USD** also failed to sustain declines towards 0.7360.

- Latest **CFTC** data show both the leveraged and non-commercial accounts reduced their net implied USD longs marginally. The pattern has been consistent for a number of weeks, with EUR shorts being pared and JPY shorts increasing. JPY shorts on a z-score basis is rising to historically elevated levels – they have not been rewarded thus far. AUD shorts are off record highs but still at elevated levels. Big increase in NZD longs – if you want to back the antipodeans, choose the NZD rather than the AUD – at least the RBNZ is clearly hawkish.

- We re-assess the current landscape after two weeks of central bank-led flux: (1) the Fed is perhaps most aligned / comfortable with the hawkish market expectations, (2) doves are still in control at the ECB, and they have come out stronger after the soft response at the ECB policy decision, (3) BOE is an “unreliable boyfriend”, and its guidance is rather confused, (4) BOC and antipodean central banks have scope to lean more hawkish / less dovish.

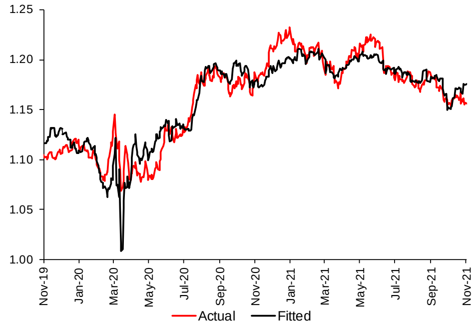
- The relationship between the central banks and the market is still not at equilibrium – expect ongoing reassessment based on data releases and central bank-speak. Based on the current slate, Fed-ECB divergence still the main theme – stay negative on the EUR. Reduce medium-term negative view on the AUD, although there is scope for it weaken near term on the normalization of RBA expectations.

- **USD-Asia**: The USD-CNH remains well-contained. Overlay with the DXY Index’s move higher, this translates to upside in the CFETS RMB Index. Continue to expect RMB strength on the basket, prefer to stay long the RMB against North Asian counterparts.

- **USD-SGD:** The SGD NEER is mostly sideways between +1.00% to +1.20% for now, standing at +1.16% above the perceived parity (1.3659). The USD-SGD tracked higher as expected, and we retain a positive bias. Should the pair stay sustained above 1.3500, expect a grind towards 1.3600.

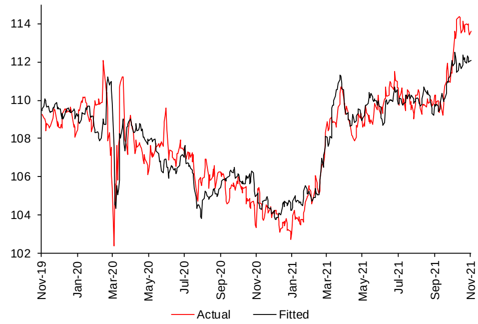
EUR-USD

Re-engage downside. The EUR-USD touched a new recent low at 1.1514 before rebounding. Fed-ECB divergence is our central theme, and this leaves us negative on the pair on a multi-session horizon. Expect any bounce to be capped at 1.1620 for now. Watch for ZEW survey (Tue) and a swathe of CPI releases later in the week.



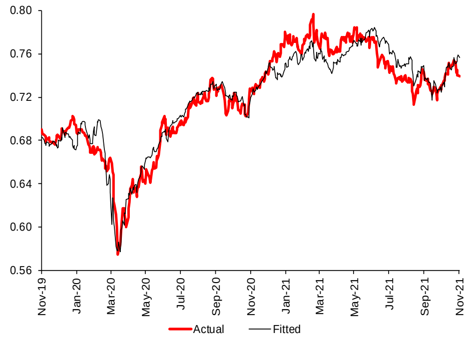
USD-JPY

Buy on dips. The base near 113.20/40 is a strong support and a buy-zone. The investment community remains committed to JPY shorts, even as USD-JPY upside has not materialized over the three weeks. Yield differentials may start to weigh as both front- and back-end UST yields revert lower.



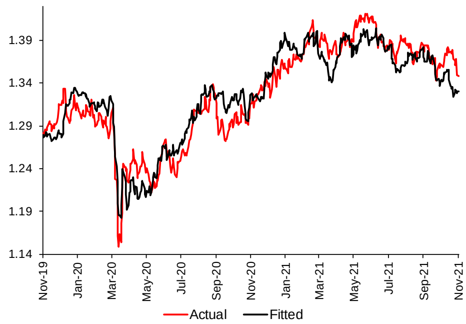
AUD-USD

Neutral. The RBA eased away from the dovish extreme last week, and may be increasingly comfortable doing so. This leaves us more cautious in terms of medium-term weak-AUD expectations. Near term, there may be some negative bias as the hawkish expectation normalize – eye the 55-day MA (0.7359) as a key level on the downside.



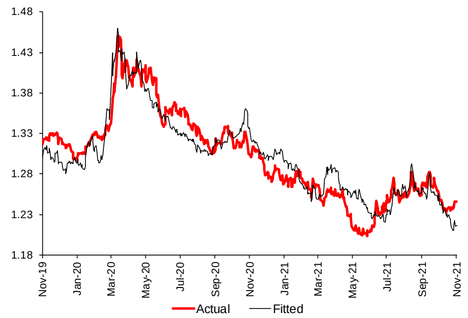
GBP-USD

Consolidate within broad range. The BOE surprised the market on the dovish side in its last meeting, and the GBP corrected lower as an immediate response. That is within expectations, but it may not be straightforward to extrapolate this into a sustained depreciation phase. Some have argued that the BOE avoided a policy mis-step, which thus is a GBP-positive. Wait and see for now, pending more clarity on the BOE and Brexit fronts.



USD-CAD

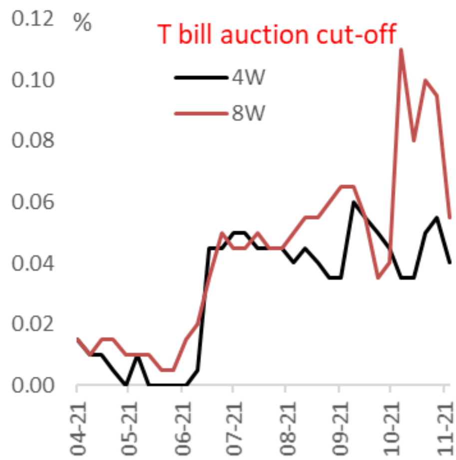
Range. Despite the more hawkish than expected BOC, the USD-CAD has not traded lower in the sessions since. The 200-day MA (1.2479) now forms a key resistance, and a close above that level may see us reverse our CAD-positive view in the near term. Note that the short-term implied valuation has arrested its decline, even though the gap with spot remains wide.



Rates Themes/Strategy

- UST yields retraced lower across the curve despite a strong labour market report, as market continued to react to central banks' patience in raising rates. Fed fund futures pricing eased mildly at the Jul 2022, Aug 2022 and Sep 2022 contracts. US PPI and CPI are due out this week; regardless of the outcome, Powell is likely to stay with its "no rush" rhetoric. The 10Y yield has broken below the 50DMA, with the next levels to watch at 1.40% to the downside, and 1.55% to the upside.

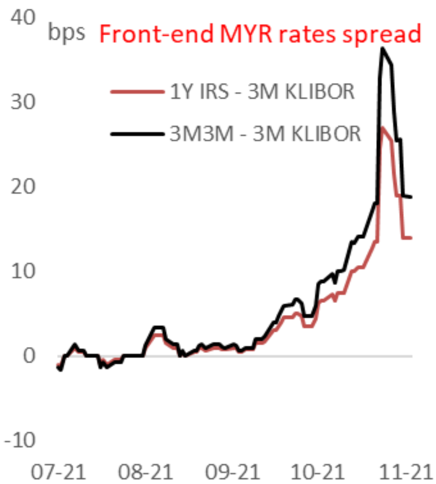
- Usage at the Fed's o/n reverse repo stayed steady at USD1.354trn on Friday. The flush USD liquidity is feeding through onto both the usage at the reverse repo and bill demand – the closing gap between the yields at the 4W and 8W bill auctions last Thursday was a case in point. Indeed, investors appears not much worried about the debt ceiling issue for now.



Source: Bloomberg, OCBC

- In GBP, SONIA pricing eased further, but stays overly aggressive in our view, especially in the tightening path priced for 2022. Meanwhile, front-end Gilt yields have retraced more rapidly than SONIA pricing; from here, the room for further downward adjustment in yields may be more limited than before.

- IndoGBs were little changed on Friday, failing to benefit from the softer global yields, amid some upward pressure on USD/IDR. Given another leg lower in global yields, there is the prospect for some comeback of foreign flows. Cumulative outflows amounted to IDR56trn since the start of the recent trend on 9 September. Foreign holdings stood at IDR960trn as of 3 November.



Source: Bloomberg, OCBC

- MGS rallied across the curve led by the 3Y, 5Y and 7Y bonds on Friday, as the global environment became more favourable for bonds. While the 3Y and 5Y yields have fallen to near our targets of 2.6% and 3.1% respectively, short-term momentum appears to stay on the downside given Friday's global bond rally.

- MAS has announced 2022 issuance schedule, including the re-opening of the 30Y SGS (Infra) to be auctioned in September 2022. In addition, MAS plans to issue a new long-tenor SGS (Infra) via syndication. Nevertheless, including this syndication, total number of auctions (excluding the optional mini-auctions) for 2022 is planned at the same as for 2021 – the two 30Y auctions in 2021 are essentially replaced by one 30Y reopening and one long-tenor new SGS (Infra). There is no additional supply pressure at the long end.

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