

## Daily Market Outlook

10 November 2021

### FX Themes/Strategy

- The market is digesting headlines of the a potential Brainard-led Fed, together with a series of rather dovish Fed speak. The UST curve reacted flatter and lower, and US equities also fell after a strong run of gains. Overall, market sentiment appeared slightly shaken during the NY session, with the **FX Sentiment Index (FXSI)** reversing after two sessions of moving towards Risk-On.
- A somewhat choppy session for the broad **USD**, with the DXY Index fluctuating on either side of the 94.00 mark. The **EUR** closed a shade below 1.1600 after seeing limited traction above that level. The **JPY** outperformed the lot, with the USD-JPY testing a low at 112.80. Even at this level, the USD-JPY is still overbought relative to our short-term implied valuation, which stands closer to 112.00. This gap is also one of the reasons why we did not explicitly pursue long USD-JPY ideas even though the Fed-BOJ divergence is as compelling as the Fed-ECB divergence as a theme.
- The antipodeans underperformed across the board as risk soured by late LDN session. The **AUD** retested 05 Nov lows at 0.7360 before seeing a slight rebound. Expect further downside in the near term should this support level be breached.
- A number of different analyses of how the market will react to a Brainard Fed surfaced as headlines that she is being interviewed for the Fed Chair position flowed through. Our view is that she leans dovish, and has not detracted much from Powell in terms of monetary policy. There are suggestions that she is more dovish than Powell, but we think that may not be materially so. Overall, a Brainard Fed may not represent a clear change in monetary policy direction, and any market reaction should be short-lived. No imminent shift in our core long-USD view for now, and the technical picture should remain USD-positive so long as the DXY Index stays above 93.50.
- **USD-Asia:** PPI and CPI data out of China this morning were both firmer than expected. Market attention shifts to the Xi-Biden virtual summit set for next week. The USD-China pairs remains locked in in a tight range. USD-Asia as a whole has been heavy in recent sessions, but expect any further dip to be shallow from current levels. Do not rule out a retracement higher, especially for the likes of USD-KRW.
- **USD-SGD:** The SGD NEER is static at +1.13% above the perceived parity (1.3624) this morning. Some implicit heaviness in the USD-SGD, but the downside is well-contained near 1.3450. No change in our slight positive bias for now.

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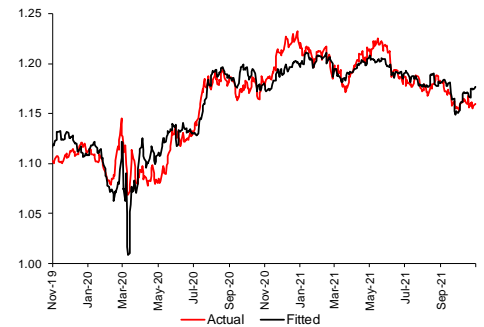
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### EUR-USD

**Downside bias.** The ZEW survey entered mixed yesterday, with supply side constraints limiting positivity in the immediate term. There is, however, more confidence in the expectations gauge. Attention shifts to the CPI releases (from 0700 GMT) today. The EUR-USD range between 1.1520 and 1.1620, with a range break required for better directional bias.



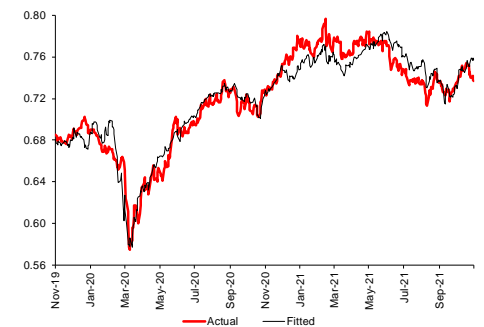
### USD-JPY

**Consolidate lower.** The USD-JPY fell through and held below the 113.00 level. This could signal further declines in the coming sessions, with the next support entering only near 112.00, a level that is more aligned with our short term implied valuations. Slumping UST yields could add further weight to the pair.



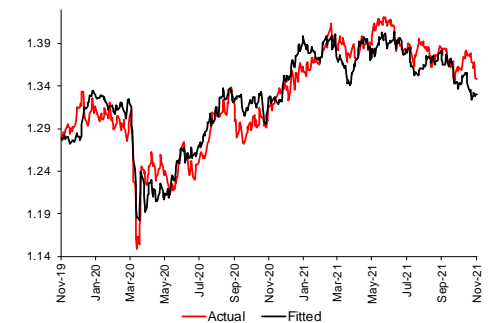
### AUD-USD

**Biased south.** The AUD-USD continued to flex against the 0.7360 support, and any breach will leave further downside open. The divergence between market expectations and the RBA over the rate hike trajectory remains wide, and there is more for market expectations to normalize. This is a near-term weight on the AUD. Also prefer to stay negative on AUD-NZD.



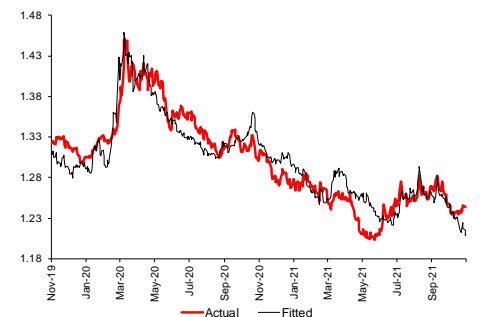
### GBP-USD

**Consolidate within broad range.** The GBP-USD is in a consolidative mode after recent gyrations, and may remain so until comments by BOE's Teneyro (1400 GMT) and the large data dump on 11 Nov. The wide 1.3400 to 1.3800 range may persist for some time, with limited signs that the market is willing to push the pair in either direction.



### USD-CAD

**May turn south.** The USD-CAD is edging lower again after hitting a cap at the 200-day MA (1.2476) over the past 4 sessions. Global cues such as broad USD directionality and crude prices will remain the main drivers for now.

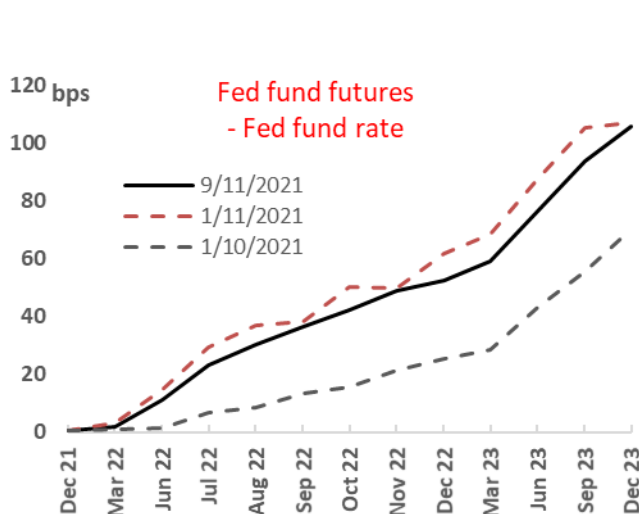


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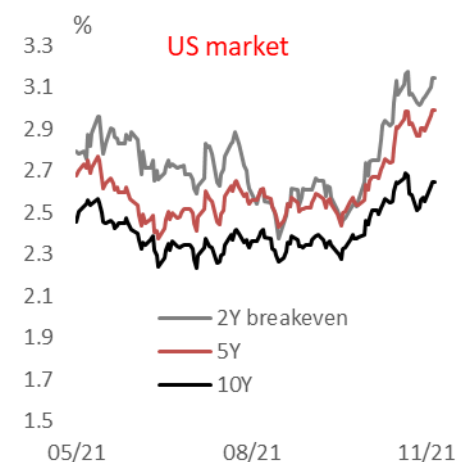
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### Rates Themes/Strategy

- UST yields fell across the curve with real yields going deeper into negative territory. The recent downward move in real yields appears to be driven more by higher inflation expectations rather than a direct reflection of a pessimistic shift in the growth outlook. Or, the situation can be described as investors hesitating in pricing in a more promising growth outlook. The 10Y coupon auction cut off at 1.444%, 1.2bp higher than WI level. The tailing however did not dampen bond market sentiment, as it happened after yield had already fallen from day high observed in Asian hours. US CPI is due out tonight.
- Overnight brought a couple of dovish Fed comments, and news on Brainard's interview for the Fed's top job, which might have added to the optimism in the bond market at the margin. Meanwhile, there was little takeaway from Powell's opening remarks at the Conference on Diversity and Inclusion, except the details on how he looks at maximum employment which may have a very subtle, indirect implication on his take on monetary policy. Comparing market pricing and central bank prospect, we still reckon the gap is not particularly wide in the USD market. Fed Fund futures and Eurodollar futures pricings were little changed overnight.
- Asia: While domestic conditions have stayed favourable for IndoGBs, foreign investors have yet to make a strong comeback. The 3Y and 5Y MGS yields are trading around our year-end targets of 2.6% and 3.1% respectively; we expect consolidation/range-trading around these levels in the coming sessions. The PBoC continued with its daily CNY100bn of OMO this morning, allowing for a smooth transition back to neutral OMOs on Friday and thereafter.



Source: Bloomberg, OCBC



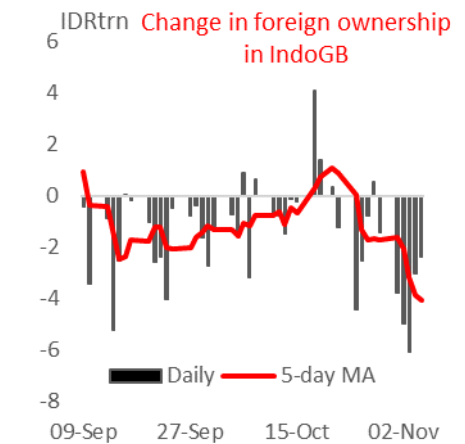
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### IDR:

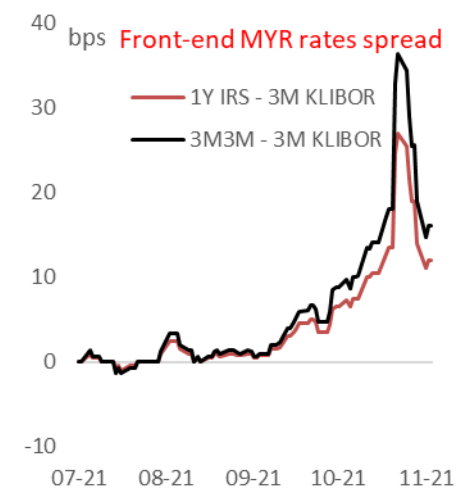
IndoGB yields continued to trade on the soft side on Tuesday, amid a lack of supply through year-end and supportive domestic liquidity. The 10Y yield (FR91) edged towards the 6% handle - previously when the yield broke below this level some profit-taking flows were seen; this level shall be tested again on and off. More buying interest was seen at the 5Y and at the 20Y and beyond on Tuesday. Foreign outflows continued. Cumulative outflows amounted to IDR61trn since the trend started on 9 September; foreign holdings of IndoGBs stood at IDR929trn as of 5 November. While the domestic conditions stay favourable for the bond market, foreign investors may hesitate to make a strong comeback as long as global yields remain volatile, while IndoGBs had already outperformed. Foreign investors may choose to focus on (the narrowed) nominal yield differentials, rather than (the still very supportive) real yield differentials as the latter can become more unstable than usual being distorted by “transitory” inflation.



Source: Bloomberg, OCBC

### MYR:

MGS mostly followed USTs in terms of direction, but ended Tuesday little changed with some support to the 3Y and 10Y bonds. The government said it is likely to meet its 6.5% deficit target for 2021, meaning no further strain on supply near term. Today, bond market sentiment shall turn for the better, taking cue from the global market. The 3Y and 5Y MGS yields are trading around our year-end targets of 2.6% and 3.1% respectively; we expect consolidation/range-trading around these levels in the coming sessions. On the economy, September manufacturing sales improved to 11.6%yoy, while industrial production also rebounded to 2.5%yoy. These improvements, however, are unlikely to be enough to revive rate hike expectations yet.



Source: Bloomberg, OCBC

### CNY / CNH:

The PBoC continued with its daily CNY100bn of OMO this morning, net injecting CNY50bn to the market. This amount of daily operations will allow for a smooth transition back to neutral OMOs which is possibly the case. We remain of the view that if only short-term liquidity tools are deployed, any downside to CNY rates cannot be huge. While a pick-up in CPI and PPI had been expected, the higher-than-expected prints may set a floor to rates and yields for now, as the inflation backdrop nevertheless limits the room for more broad-based easing – which is not the preferred policy direction to start with. Indeed, the authorities have been focusing on target tools both on the monetary and fiscal sides.

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