

Daily Market Outlook

13 April 2021

FX Themes/Strategy

- US equities were mostly sideways overnight, but there is an increasing attention on the equity trajectory and its attendant impact on the broader market sentiment. The VIX is still pointing very much risk-on, but the CBOE put/call ratio is tilting risk-off. Feed in the earnings season and technicals – we get very divergent signals on this front. Overall, there is very limited follow-through from bullish equities to our **FX Sentiment Index (FXSI)**, which still dithers on the boundary of Risk-Neutral and Risk-On zones.
- The **broad USD** weakened against the EUR and JPY, but held out better against the antipodeans overnight. The DXY Index held at the 92.00 support. Any further breach may see it taken towards the 55-day MA near 91.40.
- In terms of positioning, **CFTC** data shows that non-commercial accounts continue to pare back on their net implied USD shorts, but the pace has slowed down as we are nearing effectively neutral levels. Leveraged accounts hold small net long USD. Individual currency basis, the paring of EUR-longs continues, but the long-GBP, long-AUD positions added in late March were reversed in the latest week – perhaps a result of (or reason for) both pairs not reacting to risk sentiment. No significant changes in the JPY positions given how the UST yields have turned sideways
- Our underlying view is unchanged. We stay pro-USD beyond the immediate term, especially against the likes of the JPY and EUR. However, price action since April are not really supportive of taking up new long-USD positions. Likewise, it is difficult to make a short USD against JPY case given elevated back-end UST yields, nor a short USD against the AUD against when risk-on sentiment is not pulling through strongly. On net, hold the horses for now while looking for new catalysts, potentially from the equities space.
- **USD-China / USD-Asia:** The USD-CNH remains well-behaved between 6.5400 and 6.5800 in the near term. Further out, USD prospects are looking better structurally, but the fundamental BOP and real yield arguments, while impinged, still net favours the RMB. See the RMB locked in between these divergent drivers, with a broad sideways posture still the main view for now.
- **USD-SGD:** The SGD NEER stands at +0.93% above the perceived parity (1.3537) this morning, continuing its well-behaved posture across the past 5 sessions. Expect the USD-SGD to consolidate ahead of MAS MPS tomorrow.

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EUR-USD

Neutral. Market reaction to the US CPI (1230 GMT) may provide the next lead of the sideways EUR-USD. If that data release catalyses another move in the 10y yield sustainably above 1.70%, we may see another leg lower in the pair. On the flipside, if reaction is muted, the EUR-USD may be encouraged higher. The technical picture leans slightly bullish at this juncture, with the immediate target at the 55-day MA (1.1976).



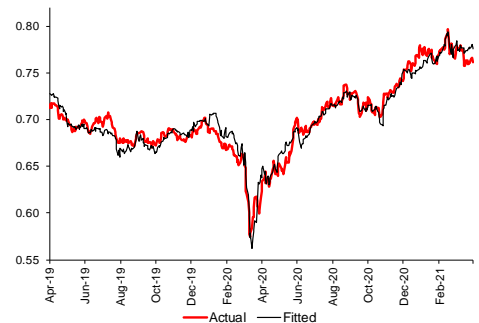
USD-JPY

Soft. The 109.00 – 110.00 range may govern the USD-JPY going forward, unless we see a clearly directional move on back-end UST yields. Short-term implied valuations are biased lower, but difficult to argue for shorts so long as the UST yield trajectory is still supported.



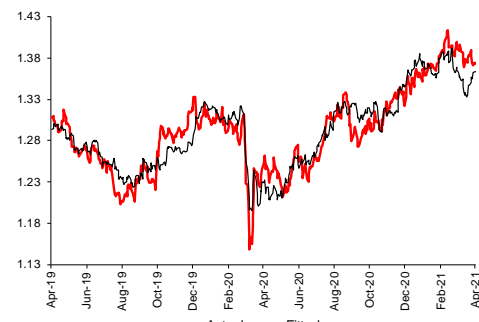
AUD-USD

Buoyant within range. A narrow 0.7600 to 0.7670 range seemed to have been established for the AUD-USD at this point, with limited impetus on both sides. Need a clearer signal from the overall risk sentiment to have a stronger directionality.



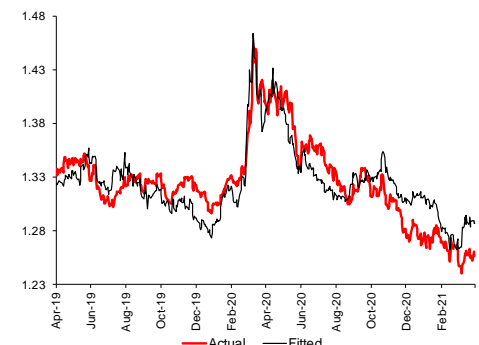
GBP-USD

Heavy within range. The GBP-USD bounced off the 1.3700 area, averting heavier downside for now. It seems difficult to look for significant downside from here given that the broad USD is still soggy and heavy. Potentially heavy within a broad 1.3700 and 1.3900 range.



USD-CAD

Range. The worsening COVID-19 situation in Canada was picked up by the market, and the question is whether this renewed surge will potentially up-end the BOC's timeline to retreat from excessive monetary stimulus. Any indication of that may severely impinge the CAD, given how much positives have to be priced in for now.

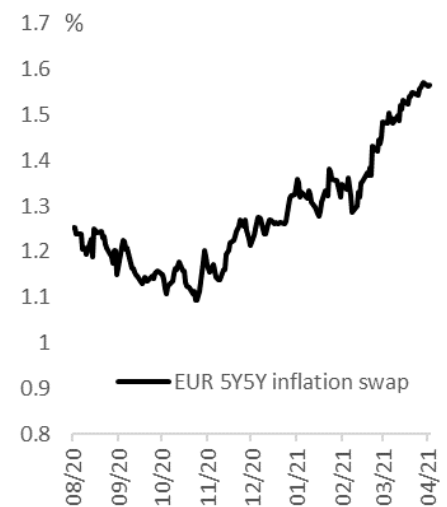


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Rates Themes/Strategy

- Treasury yields rose running into the auctions, before retracing partly lower post-auction as demand came in fair, with the 10Y bond attracting a b/c of 2.36x. There is still USD24bn of 30Y bond to be digested tonight. Our view remains that the main driver for yields is supply, while inflation expectation appears to be peaking for now, with investors awaiting confirmation of faster CPI on Tuesday, albeit on base effects. The 10Y yield is likely to trade in a 1.6-1.8% range on a multi-week horizon.
- Meanwhile, the 3M bill auction also drew a b/c of 3.02x with the meagre 2bp yield; risk of yield dipping into negative territory keeps the possibility alive that the Fed may hike the IOER and/or o/n RRP. To recap, the Fed minutes revealed that the potential for an inter-meeting tweak to the IOER was discussed – “it might be appropriate to implement adjustments to administered rates at upcoming meetings or even between meetings”.
- The Fed will also announce next month’s UST purchases. Market expectation is for it to increase purchases of the 7-20Y segment, in particular the 20Y bond, following official comments that purchases would be adjusted according to outstanding amounts.
- Gilt yields edged higher overnight, with SONIA pricing edging further to the hawkish side, for the Dec 2022 contract and beyond. Lockdown restrictions are set to ease in the week ahead, the prospect of which is likely to set a floor to Gilt yields. Bias is also to the upside to core EGB yields, as PEPP stepped-up purchase is digested, while nominal yields are lagging inflation expectations. There were two weeks of “stepped-up” PEPP (net at EUR21bn and 19bn respectively) after the last ECB meeting, followed by reduced purchase during the holiday shortened week.
- The adjustment lower in front-end SGD rates in preparation for the MAS policy meeting appears mostly done; the expectedly upbeat rhetoric alone is unlikely to exert too much additional downward pressure on front-end SGD rates. Beyond MAS decision, when the USD liquidity dynamic changes, there will be further compression in front-end SGD-USD rates spreads.
- China’s latest aggregate financing data shall not add to concerns about tightening; back-end CNY points shall face downward pressure aligning with CNY-USD rates spread.



Source: Bloomberg, OCBC

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IDR:

IndoGBs yields went up alongside higher USD/IDR, which was in turn probably triggered by liquidation in bond and equity holdings. BI awarded USD251mn in 1M DNDF at 14,677 and USD18mn in 3M DNDF at 14,765. Today's focus is the conventional auctions with an indicative target of IDR30trn which can be upsized to IDR45trn. As local yields have adjusted lower from late March, the yields acceptable by the government may be more aligned with market levels now; market waits to see if more bonds will be sold at the auctions, reducing the reliance on the greenshoe option.

MYR:

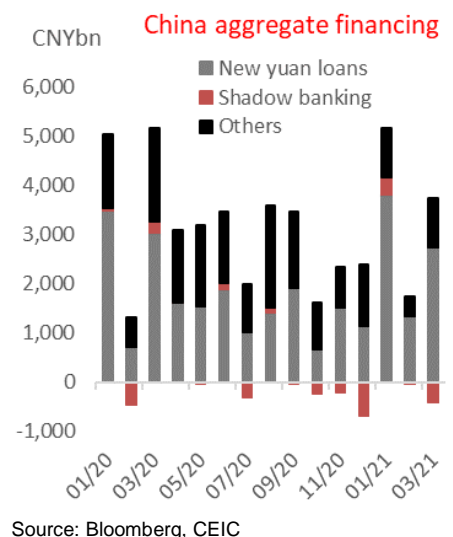
The MGS market was fairly quiet on Tuesday, with the 10Y yield hovering around the 3% handle. The supply of MYR2bn of 15Y MGII is in line with expectation; WI so far is trading slightly above market level. We continue to see MGS to exhibit a relatively low beta response to US yield movement, with range-trading the most likely scenario near-term.

SGD:

Front-end points are supported after last week's drops, as positioning ahead of the MAS policy meeting is mostly done. We expect no change to the SGD policy parameters, but there may well be some upbeat/hawkish comments. This expectedly upbeat rhetoric alone is unlikely to exert too much additional downward pressure on front-end SGD rates. Under the outside scenario where there is a re-centering, the impact on the swap points and front-end SGD rates is likely to be more muted than under a slope adjustment. Beyond MAS decision, when the USD liquidity dynamic changes, there is likely to be further narrowing in SGD-USD rates spreads.

CNY / CNH:

Aggregate financing came in below expectation (the surge from February was typical after the Chinese New Year); new yuan loans beat forecasts, while the drag came from trust loans and bankers' acceptances. The credit outcome shall not add to concerns about tightening. Money market liquidity shall stay supported given room for OMO injections if needed, despite tax payment seasons and likely pick-up in LGB issuance after a relatively quiet Q1. Front-end CNY IRS has edged lower over the past weeks, compressing CNY-USD rates spread, deviating from the forward points. Back-end CNY points are likely to face downward pressure. In offshore CNH, however, liquidity stays tight with Southbound stock outflows and Northbound inflows; offshore-onshore points spreads may widen



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