OCBC TREASURY RESEARCH

Daily Market Outlook

13 September 2021

FX Themes/Strategy

Frances Cheung, CFA
Rates Strategist
+65 6530 5949
FrancesCheung@ocbc.com

Terence Wu
FX Strategist
+65 6530 4367
TerenceWu@ocbc.com

Treasury Research
Tel: 6530-8384

- The Xi-Biden talks and marginally firmer than expected US PPI drove market sentiment in different directions. US equities slumped, while the back-end UST yields lifted. On net, the **FX Sentiment Index (FXSI)** edged towards Risk-Off on Fri. Putting aside these event-driven gyrations, the FXSI is a on clear climb towards Risk-Off since mid-June.

- The **USD** closed the week supported, with the **EUR-USD** and **AUD-USD** both testing supports at 1.1800 and 0.7350 respectively. The NZD was the outperformer on Fri on the back of improving domestic pandemic situation.

- The short term players in the investment community moved in favour of the EUR in the latest week. This could be a play on post-JH dovish Fed expectations, coupled with some hawkish ECB-speak in the late-Aug/early-Sep period. This could reverse this week after Lagarde called the recent ECB move a "recalibration" and not a "taper". The community added to already heavy AUD shorts, and moved against the GBP. On net, we detect no significant turn in overall sentiment on the USD just yet.

- The market will be eyeing the US CPI (1230 GMT) today for another signal on the Fed trajectory. Continue to view Fed expectations as the main determinant of medium-term USD prospects, with the near term being whipsawed by event-driven risk gyrations. Overall, we are not ready to call for sustained USD weakness in the near term. Prefer to see its posture as firmer within range for now.

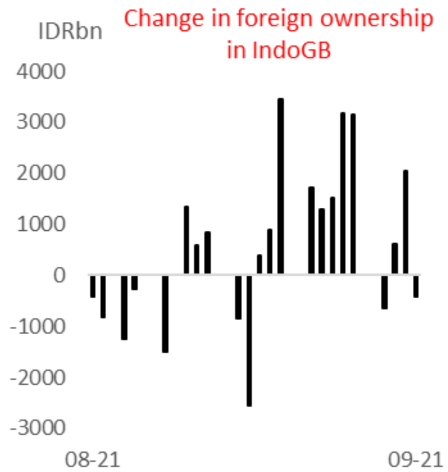
- **USD-Asia**: USD-CNY was sustained under 6.4500 since Fri, but a rather high 6.4497 USD-CNY fix on Mon morning may suggest that a quick break lower in the pair should not be expected. Ditto the USD-CNH, where a bounce off the 6.4250 lows on Fri was seen. Xi-Biden talks are a positive, and stability remains the priority. Expect a slow grind lower for the USD-China pairs.

- **USD-SGD:** The SGD NEER stands near +1.00% (1.3559) this morning, retreating from a high of +1.15% on Fri. Still see the +1.20% zone as a cap for now, but increasing price pressures may see the October MAS meeting turn more into a coin-flip. Increasing probability of the an Oct MAS move could see the SGD NEER edge higher in response. The USD-SGD dipped below 1.3400 briefly, but quickly reversed to close above. Expect the 1.3400 level to still be binding for now.

Rates Themes/Strategy

- UST yields rose in a steepening manner on Friday, characterized by higher real yields while inflation expectation beyond the short-term was little changed. On Friday, Cleveland Fed President Mester said that the August labour market report did not alter her view that taper should begin this year; this should be the consensus already and not pushing the market further. Treasuries are likely to trade in ranges in the coming sessions amid a lack of trigger for directional move. The 1.288% handle continues to serve as a strong resistance for the 10Y bond, while upside to the 10Y yield is at 1.40%/1.43%.

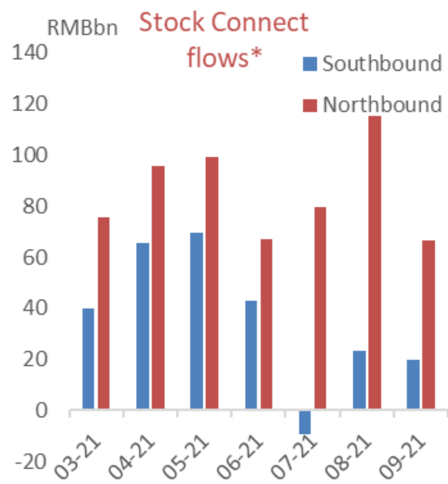
- **IndoGB** yields fell alongside USD/IDR on Friday. We remain of the view that supportive factors shall lead to IndoGB outperformance over UST in a rising yield environment, but not an extended downtrend in the absolute yield levels. This week sees IDR21trn of conventional bond supply, which represents the reduced amount since the cut in annual target. IndoGBs have seen daily inflows for most of the days over the past couple of weeks, with foreign holdings standing at IDR990trn as of 9 September. Foreign ownership has skewed further towards the 5-10Y sectors over the past few months.



Source: Bloomberg, OCBC

- **MGS** market sentiment was a bit soft on Friday with the 10Y bond underperforming. Auction of MYR4bn of 10Y bond is to be held on Tuesday, with a private placement of MYR1.5bn. Meanwhile, industrial production fell by 5.2%yoy in July, worse than consensus of -0.7%. Front-end MYR rates shall remain well anchored despite BNM's earlier decision to keep the OPR unchanged, while investors may still stay cautious towards duration on supply risks. The MGS curve may either stay stable or steepen mildly.

- In **offshore CNH**, HKMA announced details on the Wealth Management Connect (WMC) on Friday, with the scheme to be launched in about a month's time. Regarding the arrangement of currency exchange, HKMA said for Northbound investors, they "can first obtain RMB funds in Hong Kong's offshore market before remitting the funds" to their accounts onshore. It is not entirely certain as to whether offshore exchange is the only channel, but if it is, then all Northbound WMC flows will translate into a tightening in CNH liquidity, as opposed to the case under the Stock Connect or the Bond Connect where Northbound investors can choose to tap onshore CNY. With the risk that the net addition to CNH liquidity may be less than earlier expected, we stay neutral at back-end CNH for now despite the elevated levels, before further clarity.



Source: CEIC, OCBC

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Herbert Wong
Hong Kong & Macau
herberthtwong@ocbcwh.com

FX/Rates Strategy

Frances Cheung
Rates Strategist
FrancesCheung@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com