

Daily Market Outlook

14 April 2021

FX Themes/Strategy

- US CPI prints came in stronger than expected, although it was mostly overshadowed by a strong Treasury auction and negative vaccine headlines. Risk assets, including cryptocurrencies, powered higher. On net, sentiment edged cautiously towards Risk-On, with **FX Sentiment Index (FXSI)** tilting into the Risk-On zone.
- The **broad USD** weakened across the board on the back of back-end UST yields slumping back towards recent range lows. The EUR detached northwards from the 1.1900 handle, marginally outperforming within the G-10 space. The JPY broke through the 109.00 resistance early Wed. The cyclical, however, remain within their established ranges.
- Overall, the DXY index was left south of the 92.00 support. This leaves the near-term technical picture bearish for the broad USD, with the immediate target at the 55-day MA (91.52). This round of USD weakness is EUR- and JPY-led, rather than cyclical-led as in the case in the early-Feb and mid-March. Overlay this with the resurgence of confirmed cases in places like India and Canada, and the J&J vaccine set-back, this lack of reaction from the cyclical may be a reflection that the vaccination / recovery positives have been fully priced in. Large short positions for the likes of AUD and CAD were pared among the non-commercial accounts were pared in 2H 2020, but there is no sign of net longs building this year. Overall, there is room to question the structural global recovery / weak USD theme. Our baseline expectation is still a pro-USD one beyond the immediate term.
- **USD-SGD:** The MAS MPS decision came in as expected, with the SGD NEER parameters left unchanged. The statement rhetoric is definitely more optimistic compared to October 2020. The bullish bits include signalling that growth may exceed the current 4-6% forecast, and the removal of the “of some time” guidance in referring to the accommodative stance. Nevertheless, the continued highlight of the output being below potential in 2021 and slowing price pressures in 2H 2021 kept the overall balance in the statement. As it stands, we have not seen enough in the current statement to regard a tightening move in October 2021 to be the baseline. This translates also to our view that the SGD NEER will remain within a +0.50% to +1.00% range, and not move sustainably higher towards the top-end of the tolerance band.

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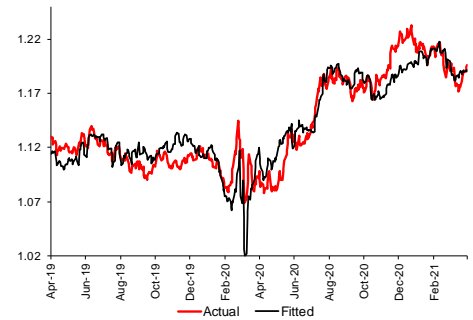
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EUR-USD

Supported. Better than expected US CPI was brushed aside as the USD traded lower alongside the back-end UST yields. Near-term weakness in the USD should persist, leaving the EUR-USD biased towards the 55-day MA (1.1974) and 1.2000. However, we see limited upside beyond 1.2000 unless new catalysts emerge. Note also that short term implied valuations are lagging spot in this recent run higher.



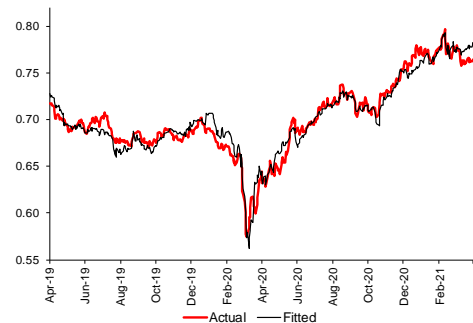
USD-JPY

Soft. The breach of 109.00 early Wed may open downside momentum for the USD-JPY. The immediate target may be the 108.30, base of the consolidation phase just before the break-out toward 110.90/00.



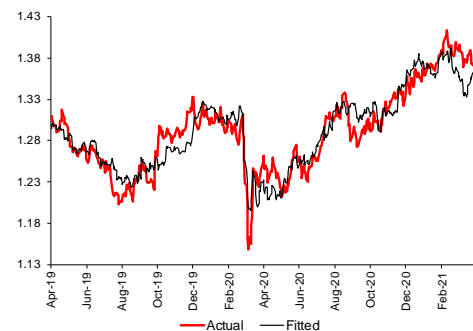
AUD-USD

Buoyant within range. The soggy USD has translated to very little apart from dip-buying in the AUD-USD. Upside sensitivity has been muted month-to-date, with the pair still capped below recent range highs. Will need a clear breach of the 0.7650/70 resistance for better upside momentum.



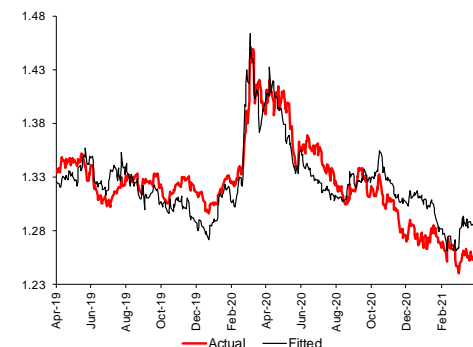
GBP-USD

Heavy within range. The GBP-USD again bounced off support at 1.3700. Headlines of a BOE-hawk, Haldane, leaving the BOE may weigh temporarily on the GBP. Expect the GBP to be a laggard in this round of USD weakness, with the 1.3700 to 1.3900 broad range still persisting.



USD-CAD

Range. The J&J vaccine headlines probably hit the CAD disproportionately, especially if we overlay it with the worsening COVID-19 situation in Canada. Nevertheless, broad sentiment in Canada, as measured by the BOC's sentiment gauge is still at record high. Some readjustment in terms of overall BOC expectations cannot be ruled out – that would be a CAD-negative.

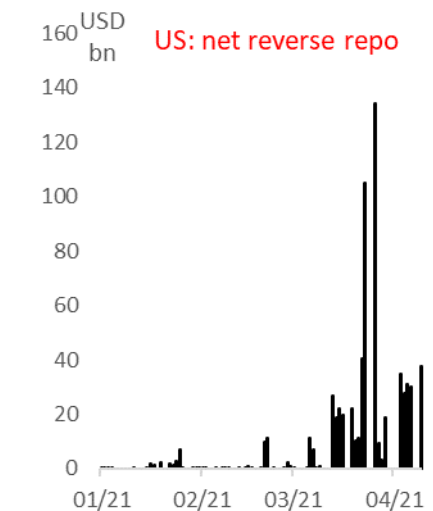


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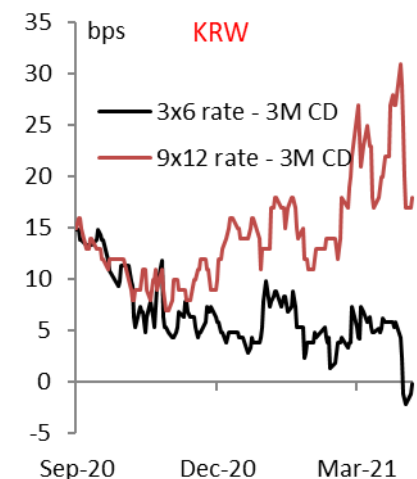
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Rates Themes/Strategy

- Treasury yields touched intraday highs before retracing to end the day lower. The 30Y auction went well at a b/c of 2.47x with relatively high end-user demand. Apart from the 30Y auction, vaccine setback is probably another factor that has supported Treasuries overnight. Next week brings the 20Y auction; the NY Fed keeps its planned purchase amount unchanged for May, against market expectation for a step-up for this tenor in the coming months.
- The CPI outcome did not move the market further – neither inflation expectations nor nominal yield as higher CPI had been well flagged. Our view remains that inflation expectations are peaking. With more data points confirming the inflation pressure, nominal yields shall catch up with inflation expectations, pushing up real yields.
- Front end bill yields continued to hover around 2bp; net reverse repo operations rose slightly, as there was excessive liquidity in the market to be absorbed. Risk of front-end yields dipping into negative territory keeps the possibility alive that the Fed may hike the IOER and/or o/n RRP.
- Gilt yields edged lower overnight, with SONIA pricing easing slightly but staying hawkish for the Dec 2022 contract and beyond. Easing lockdown restrictions and subsequent prospect of recovery in economies activities shall limit the downside to Gilt yields. Bias is also to the upside to core EGB yields, as PEPP stepped-up purchase is digested – and with a possibility that this step-up may not be extended beyond the current quarter, while nominal yields are lagging inflation expectations.
- The MAS outcome shall not exert much additional downward pressure on the SOR and front-end SGD rates. When the USD liquidity dynamic changes, there is likely to be further narrowing in front-end SGD-USD rates spreads; however, the momentum is not there at the moment.
- In the MYR space, the average issuance size, together with overnight UST movements shall lend support to today's 15Y MGII auction.
- The BoK is widely expected to stay put on Thursday. The KRW rates market has turned neutral from mildly hawkish in monetary policy pricing, which looks fair to us.



Source: Bloomberg, OCBC



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IDR:

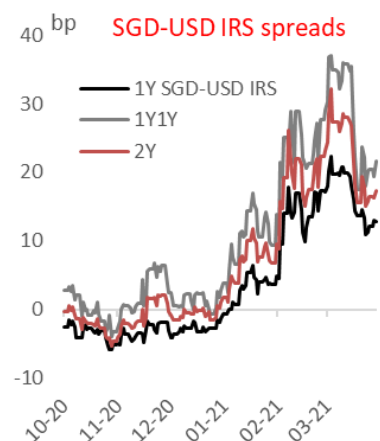
IndoGBs yields went up across the curve alongside higher USD/IDR, while DNDF was not helpful absorbing only a tiny amount. The conventional auctions attracted IDR42.97trn of incoming bids, healthier than before; the acceptances by the Ministry of Finance was still below target, but not too far away at IDR24.23trn, with the rest to be covered by the greenshoe option. As local yields have adjusted lower from late March, the yields acceptable by the government shall be more aligned with market levels now.

MYR:

MGS yields rose by 1-7bp across the curve on Tuesday, with some paying interest in IRS as well. Bonds underperformed swaps, ahead of the 15Y MGII supply. The average issuance size, together with overnight UST movements shall lend support to this auction. The 10Y MGS yield continue to hover around the 3% handle which appears to be a key resistance for the bond.

SGD:

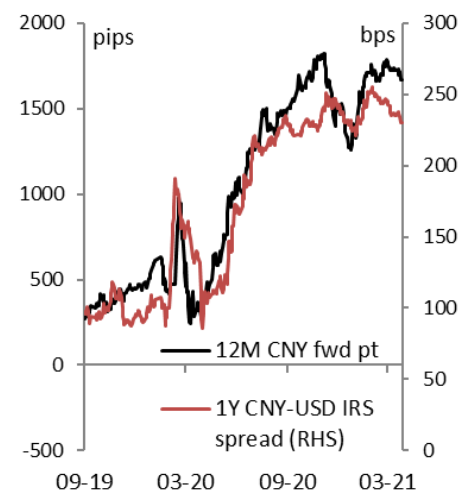
Initial market reaction suggests that investors might have paid more attention to the dropping of the perceived forward guidance “for some time” from the MAS MPS. However, we note that the overall statement is not as hawkish as some might had expected. MAS try to downplay growth optimism and inflation pressure. First, MAS expect the output gap to stay negative this year, although the economy is expected to grow at an above-trend pace. Second, on inflation, “notwithstanding some upside risks to global price pressures, inflation in Singapore is projected to rise at a more gradual pace in H2 2021.” On balance, the outcome shall not exert much additional downward pressure on the SOR and front-end SGD rates. When the USD liquidity dynamic changes, there is likely to be further narrowing in front-end SGD-USD rates spreads – in particular the 1Y1Y and 2Y spreads; however, the momentum is not there at the moment.



Source: Bloomberg, OCBC

CNY / CNH:

The recent comment from the PBoC monetary policy department has continued to soothe the local market, with the near-term goal likely being to ensure LGB supply is readily absorbed. Reasonably ample liquidity can be achieved given room for OMO injections if needed; the CNY100bn of MLF that matures on Thursday can also be easily rolled over if the PBoC chooses to do so. Back-end CNY points may fall further, given soft front-end CNY rates. In offshore CNH, however, liquidity stays tight with Northbound stock flows outpacing Southbound flows of late; offshore-onshore points spreads may widen further.



Source: Bloomberg, CEIC

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