OCBC TREASURY RESEARCH

Daily Market Outlook

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FX Themes/Strategy

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- US equities softer overnight, but a broad risk-on sentiment still pulled through, with EZ/EM equities, commodities and crypto all firmer. The **FX Sentiment Index (FXSI)** continued to pull into the outright Risk-On zone after some hesitation over the past week. Note that the put/call ratio on US equities still flash Risk-Off for now.

- The **broad USD** stayed soft, with the DXY Index still tilted southwards towards support levels at 91.40/50. The EUR-USD and USD-JPY continue to push towards the key 1.2000 and 118.30/40 key levels. The antipodeans lurched higher after being laggards month-to-date, although the CAD saw limited reaction from the firmer oil.

- Overnight, Powell outlined the tapering of bond purchases “well ahead” of raising interest rates. Market expectations for the Fed rate hike is 4Q 2022 – Q1 2023 earliest, while the dot plot suggest 2023. Bring the timeline forward, we may be expecting tapering early-2022, if not late-2021. A schedule like this is likely still ahead of the other major central banks save the BOC. Thus, we still prefer to see Fed rhetoric as positive, rather than excessively dovish at this stage.

- Near term, the technical picture still unfavourable to the USD as data positives fail to carry and USD longs continue to liquidate. The antipodeans bolted higher just as we asked if their recent lack of reaction is a hint of market fatigue over the global recovery consensus. There are also signs of this outside of the FX space. No quick answers, but this is definitely something to chew on. The global recovery consensus often raised as a structural USD-negative. If this falls through, what is left on the medium term is potentially a US growth that is outperforming the rest of the world – a strong USD-positive.

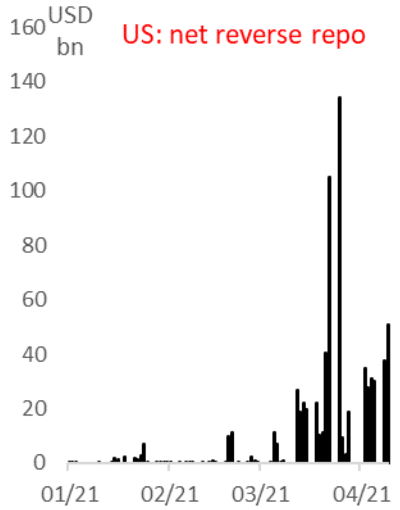
- **USD-Asia:** The US Treasury’s currency manipulater report due later today, with Taiwan and Thailand likely to be named. Not expecting significant movements on the USD-TWD space, save for a possible kneejerk lower, as it has been well telegraphed by the CBC.

- **USD-SGD:** The SGD NEER topped off at +1.08% above parity yesterday post-MAS, and stands just above +1.00% above this morning. This should be a function of the weak USD and the market perhaps wanting to focus on the bullish bits in the statement itself. Retain our baseline view of the SGD NEER being range-bound between +0.50% and +1.00% above parity. It is easy to widen the range (+0.50% to +1.50%; stronger half of the tolerance band) to be more likely correct, but what’s the point? Rather wait and see if it pulls further beyond +1.00%. Meanwhile, the USD-SGD continues to be impinged from the USD’s end. 1.3330/50 may implicitly attract broad USD directionality.

Rates Themes/Strategy

- Treasury yields edged up by 1-3bp across the curve overnight, while inflation swap was paid up mildly as march import prices came in higher than expected. Powell's speech provided little additional information on the Fed's thought on the timeline to rate hikes. Despite his reiteration that the two conditions for rate hikes are unlikely to be met before 2022, market pricing stays hawkish from the December 2022 contract onwards.

- The amount at reverse repo operations rose further, to USD50.9bn (and no bid to repo operations, again), as there continued to be excessive liquidity in the market to be absorbed. Meanwhile, the 119-day cash management bills were sold at a yield of 0.025%. 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.



Source: Bloomberg, OCBC

- On coupon supply, 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.

- Bund yields rose by 2-3bp across the curve, as Bank of France Government commented that the ECB could possibly exit PEPP by March 2022. This adds to the recent market speculation on how and when the ECB is to withdraw injections. Earlier, ECB minutes already confirmed that there is a quarterly joint assessment to determine the pace of PEPP, meaning that the step-up decision is not automatically extended beyond three months.

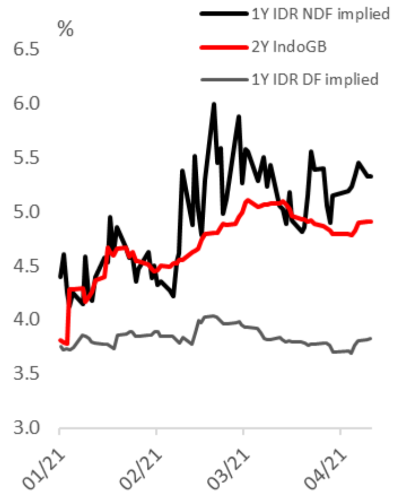
- Some stabilization in the IndoGB and MGS markets has been observed, as recent auctions fared well/better than before. That said, supply overhang means IndoGB yields are more likely to trade in ranges. The 10Y MGS also faces resistance at 3%.

- The BoK kept its policy rate unchanged at 0.5% as widely expected. The KRW rates market pricing had been neutral and as such market reaction is muted. Asset swap into KTBs remain appealing, with outward FDI related flows shall help cap CCS/forward points.

- The PBoC granted CNY150bn of MLF this morning, which covers the CNY100bn MLF maturing today and the CNY56.1bn of TMLF maturing on 25 April. Hence overall it represents a neutral operation. We have been expecting back-end CNY points to fall along with soft front-end CNY IRS/narrowed spreads over US rates – the downward move does not appear to run its course yet.

IDR:

The greenshoe option auction went well; this, combined with the bigger incoming bids at the bond auction itself the day before, points to some stabilization in the IndoGB market. As local yields have adjusted lower from late March, the yields acceptable by the government shall be more aligned with market levels now. The backdrop is a tight trading range for USD/IDR. A stable FX and supportive DNDF are key to sustaining foreign holdings/inflows, given high implied NDF rates. Tuesday registered an outflow of IDR4.1trn from IndoGBs, after five days of inflows.



Source: Bloomberg, OCBC

MYR:

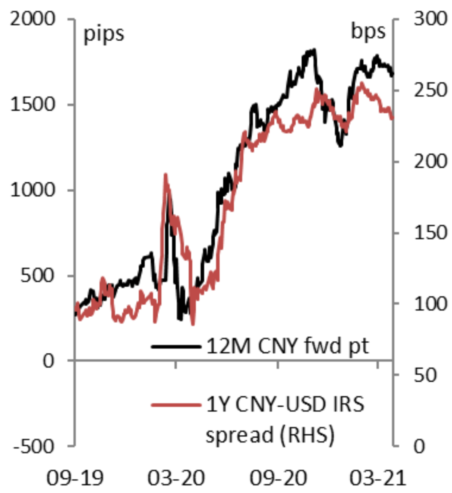
The 15Y MGII auction went well drawing a b/c of 2.54x, with yields coming in below WI levels. MGS yields ended the day lower by 1-4bp, failing to rally further likely on profit-taking flows after the auction. MGS is unlikely to react much to the mildly higher US yields overnight, instead garnering some support as supply was absorbed. That said, the 10Y bond still faces resistance at 3%.

SGD:

With MAS policy decision out of the way, liquidity conditions remain as the dominating driver for front-end SGD rates. While SGD liquidity continues to normalise, for another round of meaningful narrowing in front-end SGD-USD rates spreads, this will require a change in the USD liquidity dynamic – which may come in the near term. For upward pressure on front-end USD rates to materialise, the reduction in Treasury's cash balance (the GTA) needs to be reversed, which may happen when the latest fiscal stimulus kicks in.

CNY / CNH:

The PBoC granted CNY150bn of MLF this morning, which covers the CNY100bn MLF maturing today and the CNY56.1bn of TMLF maturing on 25 April. Hence overall it represents a neutral operation. Consensus had also been for a neutral operation, but a minority expected bigger amounts - IRS was a tad higher so far but we do not expect much further follow-through from there. The recent comment from the PBoC monetary policy department shall continue to soothe the local market, with the near-term goal likely being to ensure LGB supply is readily absorbed. We have been expecting back-end CNY points to fall along with soft front-end CNY IRS/narrowed spreads over US rates – the downward move does not appear to run its course yet. The offshore market is a bit ambiguous, with Northbound stock flows outpacing Southbound flows in recent sessions.



Source: Bloomberg, CEIC

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