Daily Market Outlook

15 September 2021

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FX Themes/Strategy

- The overnight US CPI miss led to attempts to impute risk-on as Fed expectations marginally pared back and UST yields retreat. However, sentiment soured as crude pared gains and US equities softened throughout its session. On net, the **FX Sentiment Index (FXSI)** continued to lean towards Risk-Off.

- The **USD** shook off CPI-driven declines on the turn in risk, with the DXY Index only marginally softer. Traditional havens, **JPY** and **CHF** outperformed, while the cyclicals bloc, led by the **AUD** lead losses.

- The AUD's underperformance stemmed from comments by RBA's Lowe, who was explicit in questioning market expectation for RBA rate hikes in 2022 and early 2023, and reiterated that conditions for rate hike may not in place before 2024. Lowe essentially corroborated the record number of AUD shorts added by the investment community in the latest week. Couple this with the extended tapering timeline, AUD-optimism from RBA tapering should be doused.

- Softer back-end UST yields post-CPI disadvantages the USD on yield differential arguments, but the actual translation to the USD may be limited given that Fed expectations have not shifted materially. Retain a net positive bias on the USD, but reiterate that the overall posture is likely flat-to-higher. With the recovery softening but not off the cliff, and still a lack of clarity on the Fed tapering front, expect this less than convicted market action to continue. Preference still to be short of the AUD against the USD and NZD.

- **USD-Asia**: The Chinese retail sales / industrial production data dump came in broadly softer than expected. Limited immediate follow-through on the USD-China pairs for now. USD-Asia broadly sideways for now.

- **USD-SGD:** The SGD NEER stands at +1.06% above the perceived parity (1.3578) this morning. Remain of the view that current levels of the SGD NEER is elevated, and is likely to be toppish. Similarly, prefer to buy dips in the USD-SGD, leaning against the 1.3400 support.

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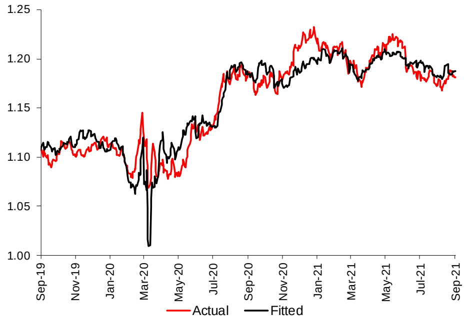
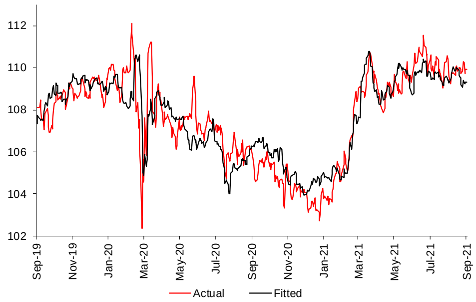
EUR-USD

Biased south. The EUR-USD initially rose on the GBP's slipstream, but also saw no follow-through at 1.1850. Fed expectations still the main determinant for the pair, but a clear market conviction on either side is still lacking. 1.1700 and 1.1900 are the respective targets for the different sides of the divide, but they may also be the respective take-profit levels. This leaves the pair likely range-bound in a multi-session horizon. Our bias is towards 1.1700.



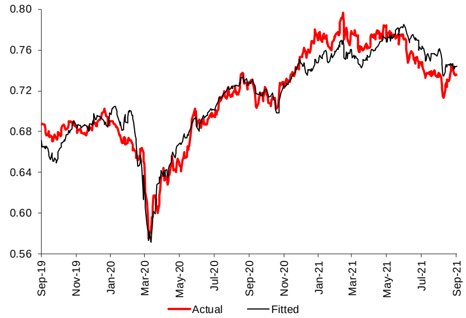
USD-JPY

Looking for direction. The USD-JPY nears the 109.50 bottom of the recent range. Positioning is short on the JPY, but there is very limited translation to spot movement. Continue to see limited directional impetus for now. Any breach of 109.50 will leave 108.80/00 in sight.



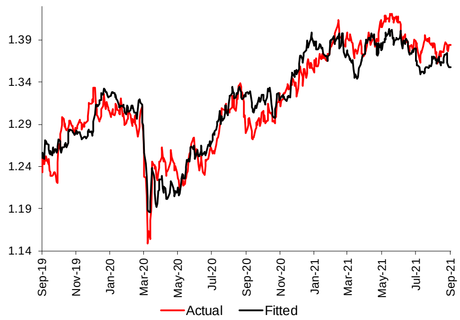
AUD-USD

Southbound. The AUD-USD slumped on dovish comments from RBA's Lowe. This puts AUD-longs in their place, and could leave the pair reeling again. Overlay with softening macro and risk cues, bias remains southbound. 0.7250 may be the next waypoint.



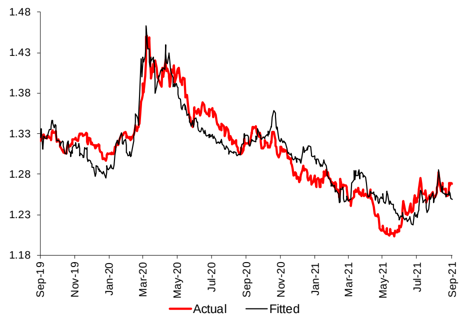
GBP-USD

Toppish. Buoyant jobs data provided gave support to the recent hawkish BOE rhetoric, and the GBP-USD saw a swift uplift early in the global day. However, there was no follow-through after 1.3900, and the subsequent risk-off turn saw the pair taken back to the 1.3800 handle. This action suggests that UK domestic factors may not be sufficient to set the medium-term tone for this pair. Another failure at 1.3900 means that the lower base around 1.3720/30 is still in play.



USD-CAD

Supported. The paring of gains in the crude complex put a floor on the USD-CAD downside, while the broader risk-off tilt saw the pair taken higher again towards 1.2700 handle. Likely supported for now.

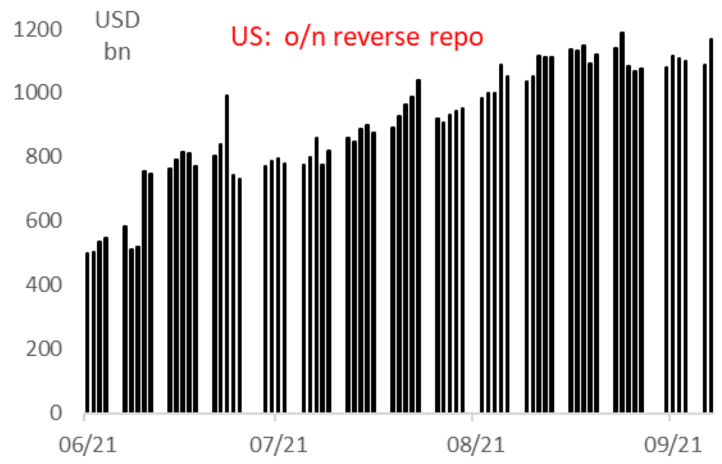


Rates Themes/Strategy

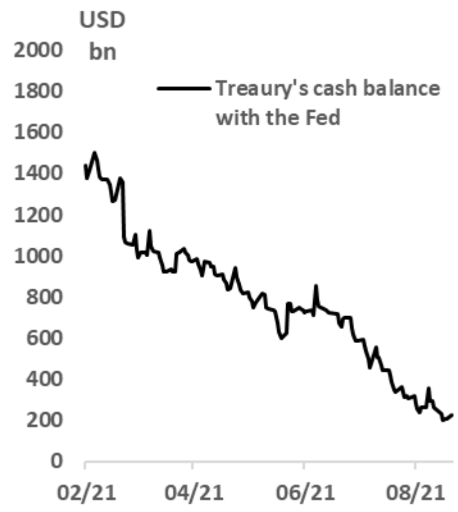
- UST yields fell across the curve in a flattening manner upon the soft print of CPI; breakevens fell while real yields were stable. While the slower m/m inflation supports the notion that inflation pressure is temporary, it is unlikely to alter the Fed's taper plan – even the weak payroll did not seem to have changed the Fed's intention. The inflation outcome may mean there is no rush to hike rates after taper is complete and market watch where the next Fed dot-plot is. Implied rates from Eurodollar futures only edged down by 1bp, suggesting USTs might have overreacted. Overall, USTs may continue with range-trading with a lack of directional impetus in the coming sessions, with the 10Y nominal yield in a range of 1.25% - 1.35%.

- Meanwhile, there is still an impasse regarding the debt ceiling discussion. Republicans in Congress reportedly continued to withhold support for efforts by the Democrats to increase the debt ceiling. Usage at the Fed's o/n reverse repo edged higher to USD1.169trn on Tuesday, while Treasury's cash balance with the Fed stood at a low level of USD225bn. The paydown of bill this week accelerates to USD68bn.

- The PBoC fully rolled over the CNY600bn of MLF that matures today, which shall comfort the market. Back-end CNH points look to be topping, which are elevated compared with interest rate differentials. A key risk is equity flow under the Stock Connect, which is the dominating factor affecting CNH liquidity.



Source: Bloomberg, OCBC



Source: Bloomberg, OCBC

IDR:

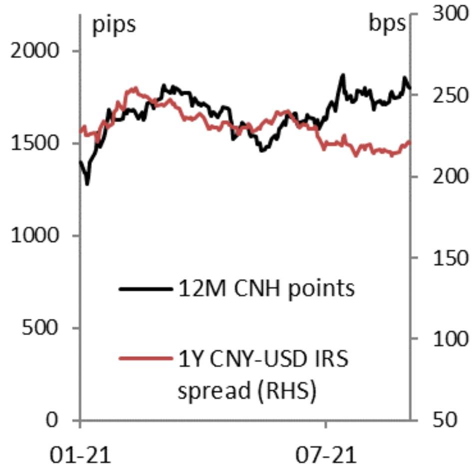
The conventional bond auctions attracted incoming bids of IDR80.665trn, smaller than at the previous auctions but a still decent amount. IDR21trn of bonds were awarded meaning no upsize, hence still a favourable demand-supply dynamics. The auction cut-off at 6.0% for the 10Y bond was aggressive - lower than secondary market level, pointing to investor interest there. Indeed, most of the auction demand was at the 5Y (FR0090) and 10Y (FR0091) bonds; the curve flattened in response. We remain of the view that IndoGBs shall outperform USTs in a rising yield environment – but not an extended downtrend in the absolute yield levels, more so if the Rupiah manages to stay stable. The 1M DNDF in the afternoon auction absorbed USD22mn.

MYR:

The MGS curve has been steepening gradually in line with our view based on supply risks. Tuesday's auction did not go well, garnering a low bid/cover ratio of 1.6x despite some concessions running into the auction. The 10Y MGS subsequently underperformed on the curve. The 3s10s segment of the MGS curve is now back to around 3M and 6M average (vs 1 standard deviation narrower just a couple of weeks ago). Supply so far has proved manageable and there is probably limited ammunition for fiscal policy even upon a higher debt ceiling. That said, investors are likely to stay cautious towards duration as there is nevertheless a mild supply risk. The MSG curve shall continue to exhibit a steepening bias although the momentum may be slowing.

CNY / CNH:

The PBoC fully rolled over the CNY600bn of MLF that matures today, which shall comfort the market. During the morning session on Tuesday the CNY and CNH FX swap curves continued to be paid up, before selling flows came in in the afternoon. The offshore CNH curve retraced more, closing its gap with the onshore curve. Reasons such as golden week preparation and flush USD liquidity are not convincing enough to explain the move at the back-end in recent sessions – the former shall be more relevant for the front-end, while the latter did not happen overnight. Back-end CNH points look to be topping, which are elevated compared with interest rate differentials. A key risk is equity flows under the Stock Connect, which are still the dominating factor affecting CNH liquidity.



Source: Bloomberg, OCBC

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