

Daily Market Outlook

17 September 2021

FX Themes/Strategy

- Firm US retail sales print overnight added more data positives onto Wed's strong manufacturing data release. US equities reversed opening losses, while back-end UST yields firmed further. Crude held on to recent gains. Overall market sentiment was stable, with the **FX Sentiment Index (FXSI)** leaning slightly closer to Risk-Off.
- Consecutively positive US data surprises spurred the market to add back hawkish Fed expectations ahead of the Sep FOMC next week. The **USD** responded higher across the board. The European complex was taken lower after the ECB publicly pushed back on a hawkish media report based on unverified sources. The **EUR** sank towards the 1.1750 handle. The **USD-JPY** also recovered the 109.50 handle on the back of the firmer back-end UST yields.
- The **AUD** underperformed among the cyclicals after a poor set of employment data, losing the 0.7300 support. We continue to stay negative on the AUD, both against the USD and the NZD. With the AUD-USD closing below 0.7300, the next downside target shall be 0.7220/30. RBA/RBNZ divergence has been a clear trading theme, and could become more stark in the run-up to the Oct RBNZ meeting. Expect further AUD-NZD downside, with the parity chatter growing.
- Supported by a round of healthy data this week, USD positivity looks to be taking hold into the FOMC next week as expected. We stay the course on looking for AUD-negativity, with EUR downside room potentially more forthcoming.
- **USD-Asia:** EM equities were broadly softer overnight, leaving no positive lead for Asian currencies. The broad-based USD bounce will likely set the tone into the weekend. Political tensions may take hold in North Asia, with China reacting angrily to the Aukus pact and inter-Korea tensions building. Overall, drivers for Asian FX weakness are centred in North Asia. USD-North expected to be most reactive higher, with the MYR, which has a strong correlation with the RMB, being dragged along. USD-IDR may be relatively sheltered for now.
- **USD-SGD:** The SGD NEER finally softened towards the the +1.00% handle, standing at +1.06% above the perceived parity (1.3601). NEER-implied USD-SGD thresholds broadly firmer on the back of the USD bounce. More action on the recently-anaemic USD-SGD saw it bounce off 1.3400 towards 1.3460. Firmer resistance at 1.3470/80. After that, next target will be at 1.3520/30 should the USD positivity continues.

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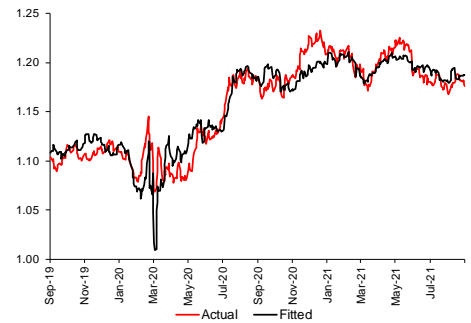
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EUR-USD

Sell on rallies. Unverified media reports of an earlier than expected ECB rate hike was firmly put down by the central bank. Coupled with the strong US data, the EUR-USD fell through the 1.1800 support before finding its footing at 1.1750. Prefer to sell on any rally towards 1.1800, targeting 1.1700 first, then potentially Aug lows at 1.1664. This would probably need the FOMC to play ball next week.



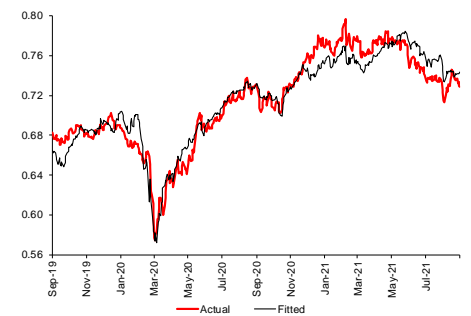
USD-JPY

Back into range. The USD-JPY quickly recovered above 109.50 on the back of higher back-end UST yields. This places the pair back into the 109.50 to 110.50 range. A sharper risk-off episode will be required for the firmer downside bias to re-emerge. Aside from that, the much broader uptrend starting Jan 2021 is technically still in place.



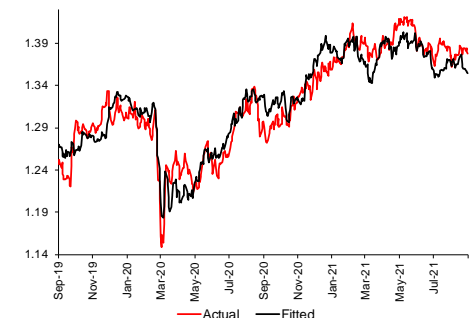
AUD-USD

Negative. A set of soft employment numbers on Thu piled domestic negatives on the AUD-USD. Having lost the 0.7300 support, the pair's downside momentum may be reinforced, with 0.7220/30 eyed at this juncture. Rising expectations for a 50 bps hike at the RBNZ in Oct may also open up further AUD-NZD downside room. Parity on the AUD-NZD cannot be explicitly ruled out.



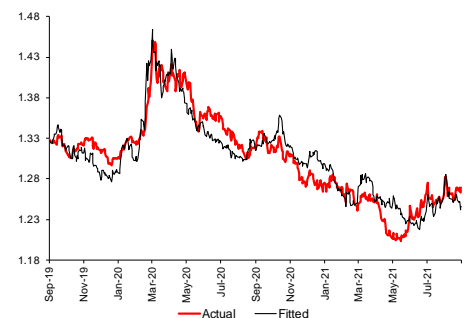
GBP-USD

Sideways. Attention shifts to next week's BOE meeting, with a hawkish bend likely to be on the offing. Rate hike expectations have been steadily building over the past two weeks. The GBP-USD has not seen much upside reaction, but this could be a function of Fed expectations also holding firm. In any case, should the BOE expectations crystallise further, the GBP would no longer be a good expression of USD strength going forward.



USD-CAD

Sideways. The crude complex held to recent gains, but this could not offset the firmer USD. The USD-CAD sailed higher towards the top end of the 1.2600 to 1.2700 range, but a clearer directional cue may be needed for it to breach the topside.

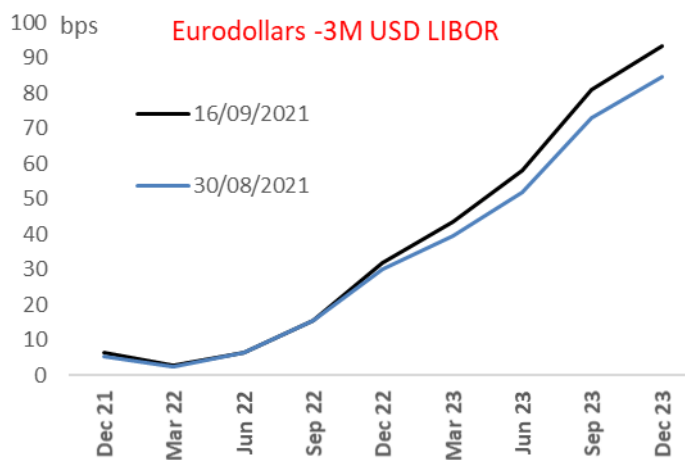


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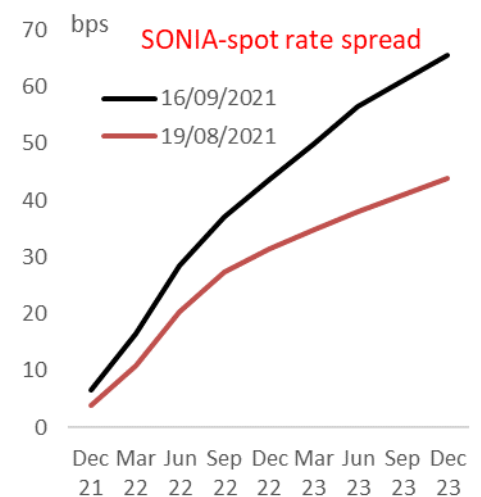
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Rates Themes/Strategy

- UST yields rose by 2-4bp across the curve on Thursday with the belly underperforming, upon the strong retail sales report. There are two focuses at the upcoming September FOMC – taper and dot-plot. We suspect an announcement of a slow taper plan will be seen as more dovish than an absence of an announcement because in the latter market will simply push expectation to the November FOMC. On the dot-plot, if the median dot is brought forward to 2022, then Eurodollar futures may turn more hawkish in line with the tendency to be ahead of the dot-plot. Range for the 10Y nominal yield is at 1.28%- 1.42%.
- Gilts extended losses on Thursday after Wednesday's high print of inflation, with yields rising further by 4bp from the belly onwards. Investors brace for a potentially hawkish BoE at its MPC meeting next week. At the August meeting, the MPC was evenly split (i.e. 4-4) as to whether there was clear evidence that the economy is eliminating spare capacity and achieving the inflation target sustainably (the minimum conditions for tightening). Market watch if the incoming Chief Economist will tilt this split to the hawkish side. SONIA pricing turned yet more hawkish, pricing in slightly more than two rate hikes (one 15bps and another 25bps) by December 2022. If the 10Y Gilt yield breaks 83/84bp, then the next level is up to 92bp.
- In the SGD space, bond investors await the announcement of the size of the inaugural 30Y SGS (Infrastructure) auction. We believe annual supply will prove well manageable, and expect decent demand at the 30Y bond. On the rates side, there is limited room for further compression on front-end SOR/SORA basis.



Source: Bloomberg, OCBC



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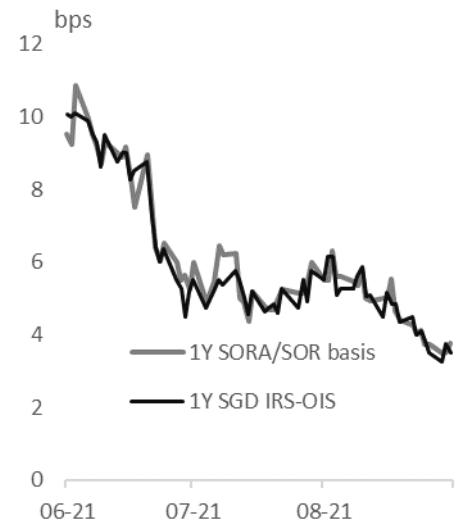
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SGD:

SGS investors await the announcement on 21 September regarding the size of the inaugural 30Y SGS (Infrastructure) auction, where we expect SGD2.3-3.0bn. YTD SGS issuance is at SGD21.8bn, with annual gross supply (including SGS (Infrastructure)) on track to stay within SGD30bn which is well manageable. Demand at the upcoming 30Y SGS (Infrastructure) is likely to be decent, including interest from real money accounts. The supply is unlikely to widen the 20s30s spread by more than 10bp.

On the rates side, front-end SGD IRS-OIS spreads and SOR/SORA basis were further compressed in recent sessions; the credit premium priced appears overly narrow at the 1Y given the different nature of the floating rates. One factor that may further narrow the SGD IRS-OIS spread is expectation on MAS tightening which may pressure the forward points affecting IRS relatively more than OIS, but this is not our base-case scenario.

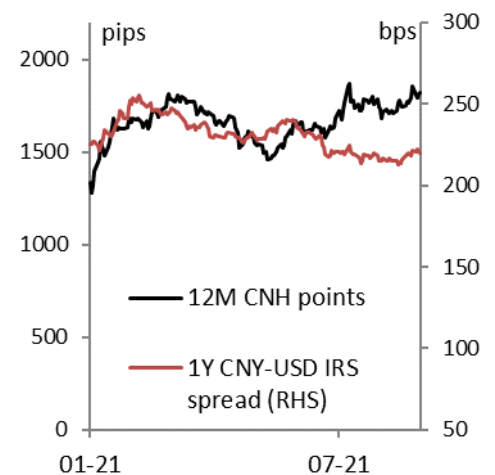


Source: Bloomberg, OCBC

CNY / CNH:

CNY and CNH FX swap points are topping but staying at high levels. As the gap with the onshore curve is closing, any further retracement in the offshore DF curve requires a lower onshore curve, or more substantial additions to CNH liquidity. In onshore, the PBoC net injected CNY90bn of liquidity into the market via OMOs this morning, which shall give some comfort to the market although this is short-term money only. In offshore, near-term offshore CNH bond supply and the arrangement of foreign exchange for the WMC and Southbound Bond Connect do not help much to improve CNH liquidity. Still, back-end CNH points look elevated compared with interest rate differentials. On balance, we prefer a sell-on-rally strategy on back-end CNH points but more forceful downward move may not happen soon.

China is to issue a total of RMB8bn of offshore CGBs, to be tendered on 23 September, comprising RMB5bn of new 2Y, RMB2bn of new 5Y, and RMB1bn of 10Y reopening. Meanwhile, RMB3.5bn of offshore CGBs mature this month; hence net supply is at RMB4.5bn. The gross issuance of RMB8bn forms part of the RMB20bn of supply announced earlier. Note there is an upcoming offshore LGB planned at RMB5bn as well. Overall, although the offshore RMB government bond supply amount is larger than in previous years, it is dwarfed by equity flows.



Source: Bloomberg, OCBC

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