OCBC TREASURY RESEARCH

Daily Market Outlook

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FX Themes/Strategy

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- US equities were softer overnight, while the UST yields also took a slight breather. The curve turned lower and flatter, with the back-end outperforming. The **FX Sentiment Index (FXSI)** marched towards the Risk-Off boundary for the 7th consecutive session, fuelled in part by the spike in G-10 FX vols after the EUR's decline accelerated this week.

- The **broad USD** (DXY Index basis) made an intraday high in the Asian session before giving up gains. Overall, the USD had a mixed session, marking gains against the **AUD** and **CAD**. The commodity currencies underperformed in general as crude fell towards US$80/barrel. The **JPY** outperformed as it stayed choppy within a wide range. The **GBP** strengthened after another round of firm data added to BOE's hiking pressures. The **EUR** recovered intraday losses to close above 1.1300.

- The outsized US CPI print late last week reinforced Fed rate hike expectations, and set the tone for the USD to outperform this week. The primary narrative surrounding the Fed is still about the tapering ending earlier than expected and/or the hiking pace faster than expected. These bullish expectations should undergird the broad USD, especially against the EUR.

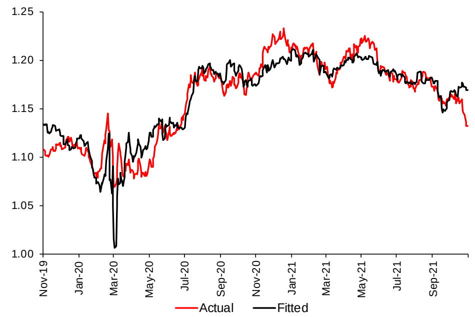
- EUR weakness may still persist, but expect the pace of declines to slow south of 1.1300 as it enters a consolidation zone on a technical perspective. With the USD-JPY effectively locked in at the 114.00 anchor, shift near-term USD positive focus to the AUD.

- **USD-Asia**: Asian currencies have broadly stayed resilient against the USD in its latest run higher, sheltered in part by the strong RMB comples. The USD-CNH has effectively drifted lower during this bout of broad USD strength, leaving the CFETS RMB Index sharply higher towards the 102.00 resistence. Elsewhere, look for the Southeast Asian currencies to outperform, with the THB potentially leading the way. Meanwhile, USD-IDR may stay within the 14,200 to 14,300 range in the immediate horizon, but do not rule out further downside bias.

- **USD-SGD:** The SGD NEER stayed largely static at or just north of the +1.00% above the perceived parity (1.3693). Expect this sideways drift to persist in the upcoming sessions, but the upwards bias remains in the multi-week horizon. The USD-SGD tracked higher with the broad USD. Expect the pair to flex against 1.3600 on the topside for now.

EUR-USD

May consolidate after outsized move. Oct EZ CPI came in flat to marginally weaker than expected. This contrasts with the outperforming price gauges in the US and UK, and potentially reinforces the ECB's dovish position. Meanwhile, ECB's Schnabel reiterated the "transitory-inflation" theme, which is looking increasingly out of place in the central bank landscape. Fundamentals still point to EUR-USD downside, but watch for a period of consolidation around 1.1300 after outsized moves in the previous sessions.

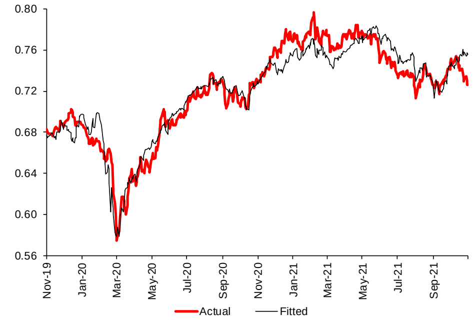


USD-JPY

Choppy within range. The USD-JPY returned to the familiar zone near 114.00 after marking new extreme levels on either side at 112.70 and 115.00 over the past 7 sessions. Marginal positive bias towards 115.00 for now, but no clear directional cues until the resistance is convincingly broken.

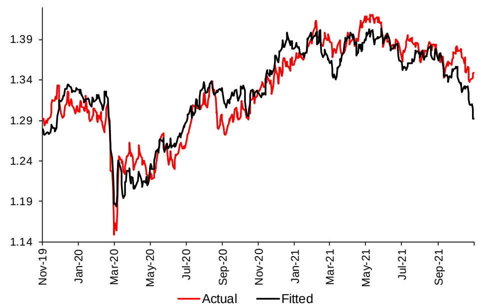
AUD-USD

Heavy. The AUD-USD retained a heavy tone, although the positive Xi-Biden virtual summit probably contained the downside somewhat. Nevertheless, with the broad USD in the ascendancy, expect the pair to drift towards the 0.7200 support. Expect similar downside bias for the AUD-NZD, especially after its recent run higher.



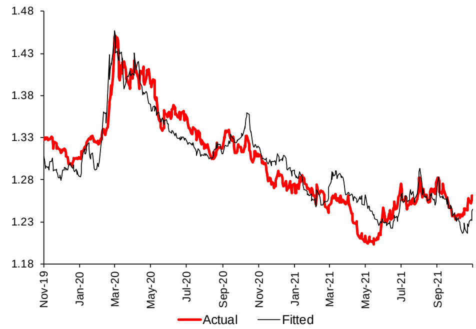
GBP-USD

May have based for now. The GBP-USD may have based out at 1.3360/00 for now. Firmer than expected data rebuilt BOE rate hike expectations, and that may support the pair for now. However, the market may be wary after the BOE surprise in the last meeting. Overall, the pair may be supported for now, but remain skeptical on clear upside bias so long as it remains under the 1.3560/00 zone.



USD-CAD

Supported. The USD-CAD tracked higher alongside the broad USD move, and may see more upside potential after clearing the 1.2530/50 resistance zone. The failing crude complex also supports for now. Should the pair hold above the 1.2600 mark, expect the pair to try for the next peaks at 1.2650 and 1.2750.



Rates Themes/Strategy

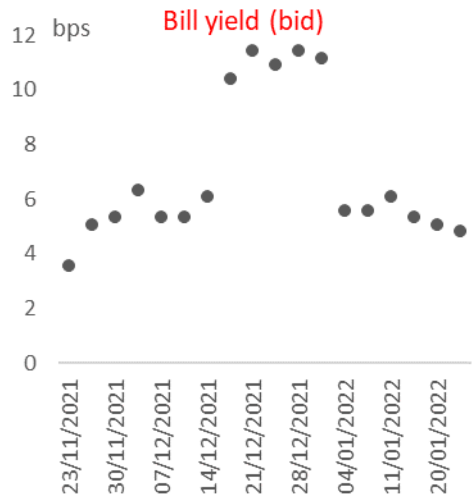
- Treasury yields fell across the curve with the long end underperforming amid a risk-off session. The 20Y coupon auction cut off at 2.065%, 1.4bp higher than WI level although that was after the rally into the auction; indirect bidder share fell to 60.2%. The auction had been seen as benefitting from the reduced size and Fed's decision to keep purchase amounts at that segment, and hence the outcome shall be considered as lukewarm. Nevertheless, the movement in bonds on Wednesday appeared to be a function of risk sentiment. The 10Y yield is likely to trade in a range of 1.55%-1.70% in the coming sessions.

- Usage at the Fed's o/n reverse repo rose to a second highest USD1.52trn on Wednesday, while there is a small USD7bn of bill pay down by Treasury on the week. One day after Yellen warned about running out of cash, T-bills reacted, with yields on those maturing in December being paid up. Treasury cash balance was at USD199bn as of 16 November.

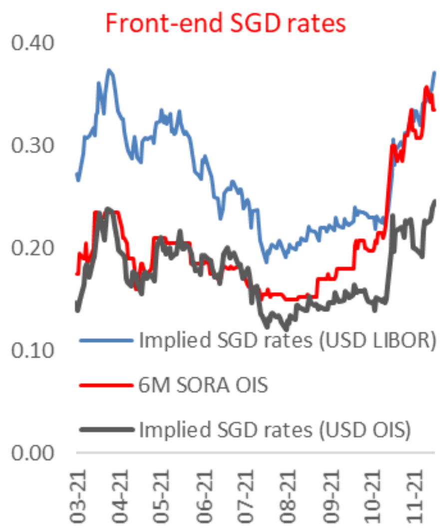
- In SGD space, some offering at front-end SORA was seen but the 6M to 1Y SORA continued to trade near the implied SGD rates from the USD LIBOR curve, being 10bp and 16bp higher than implied SGD rates from the USD SOFR OIS curve. Our medium-term view remains that the front-end of the SORA OIS curve shall revert gradually to the USD SOFR OIS curve, although the flush USD liquidity may mean the move is slow for now.

- In China, the PBoC again did CNY50bn of OMO this morning, thereby net withdrawing CNY50bn of liquidity from the market. Total net OMO withdrawals look set to reach CNY290bn assuming CNY50bn of operation tomorrow; the slightly lighter maturity next week allows the PBoC to gradually wind down OMOs back to neutral, which is the likely base-case stance. Premier Li reiterated China will support growth via fiscal tools, and will not go for aggressive monetary easing. FX settlement data will be released on Friday.

- Korea PPI will be out on Friday. The KRW rates market has already priced in almost two rate hikes on a 3-month horizon; a high print of PPI shall not move the market further. At the longer end, our bias is for KTB-UST yield spreads to further narrow, especially when UST yields resume an uptrend, though a high PPI print may weaken the momentum somewhat. The 5Y and 10Y KTB-UST yield spreads are historically wide, while the relatively suppressed basis are supporting asset swap trades.



Source: Bloomberg, OCBC



Source: Bloomberg, OCBC

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