Daily Market Outlook

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FX Themes/Strategy

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- US initial jobless claims entered better than expected overnight, underlying the health of the US labour market. Spurred also by a tech rally, US equities were firmer overnight, but EZ/EM equities were broadly lower. Global core yield curves were softer across the board. The **FX Sentiment Index (FXSI)** steadied within in the Risk-Neutral zone, with G-10 FX vols also easing lower. Market sentiment is starting to settle after a move towards the Risk-Off zone.

- The **broad USD** consolidated lower for the second consecutive session, although the DXY Index held above the 95.50 mark. The **NZD** and **EUR** are the outperformers within the G-10 pack. Aside from the NOK, the **JPY** is the only other G10 currency that weakened against the USD.

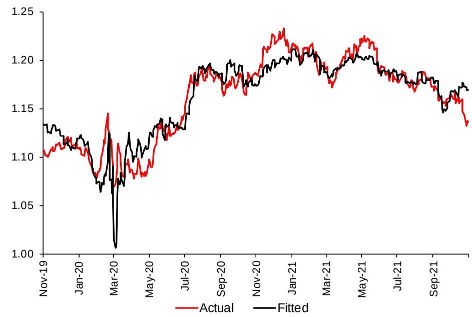
- President Biden is expected to put forward the nominee for the Fed Chair position within days – our baseline case is for Powell to be re-nominated, with the Brainard being the alternative. Brainard is thought to lean more dovish than Powell, though not by much. Should she be nominated, the immediate reaction may be negative for the USD and UST yields. However, the impact is also likely short-lived. This decision is unlikely to materially impinge on the Fed-led USD positive arguments into year-end.

- **USD-Asia**: CFETS RMB Index is on a relentless march higher, now pushing towards 102.00. Continue to expect sideways to heavy posture for the USD-CNH despite USD strength within the G10 space. Elsewhere, BI kept its policy rate unchanged, reiterating its growth focus. As it stands, the next move by BI is likely to be higher.

- **USD-SGD:** The SGD NEER took a step lower towards a +0.80% low before recovering to stand at +0.90% above the perceived parity (1.3691) this morning. The USD-SGD may see a range between 1.3550 and 1.3600 for now, with the 1.3600 being a trendline resistance. Retain positive bias for the USD-SGD.

EUR-USD

May consolidate after outsized move. Short-covering allowed the EUR-USD to consolidate higher. This is not out of expectations after the recent outsized moves. In the immediate horizon, the pair may track sideways between 1.1300 and 1.1400 to work away the oversold technicals, before resuming the downward move into the 1.1200 zone.

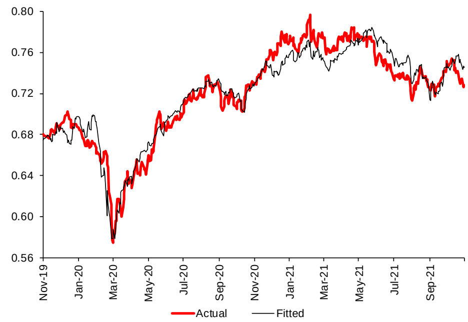


USD-JPY

Choppy within range. A larger than expected fiscal stimulus package is expected today, and this is keeping local equities and the USD-JPY supported. Nevertheless, this alone is unlikely to push the pair through recent extremes. On net, still prefer to trade the pair within the 112.70 and 115.00 range for now.

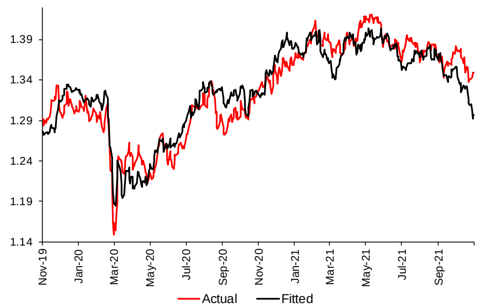
AUD-USD

Heavy. The AUD-USD bounced off trendline support at 0.7250 overnight, but the downward trend should not be impinged until the pair can breach 0.7350. Still expect the 0.7200 support to inherently attract. Note that the AUD-NZD cross is also approaching year-to-date lows. Retain overall negative bias.



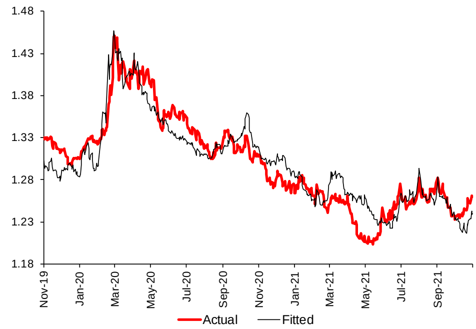
GBP-USD

May have based for now. The GBP-USD is effectively static on the day, slowing down the gains seen in recent sessions. A BOE rate hike is still expected in Dec, but its effect on the GBP is debatable. Short-term implied valuations point to further downside. Our bias leans negative, with a preference to sell on rallies towards 1.3550.



USD-CAD

Supported. The USD-CAD gains stalled overnight, with the pair consolidating just north of the 1.2600 mark. Talk of the US and China coordinating a release of crude from their respective strategic reserves kept the WTI heavy, and the USD-CAD buoyant. Note that short-term implied valuations are supportive of the up-move. Should the pair build base around the 1.2600 mark, the next target zone may be between 1.2650 and 1.2750.

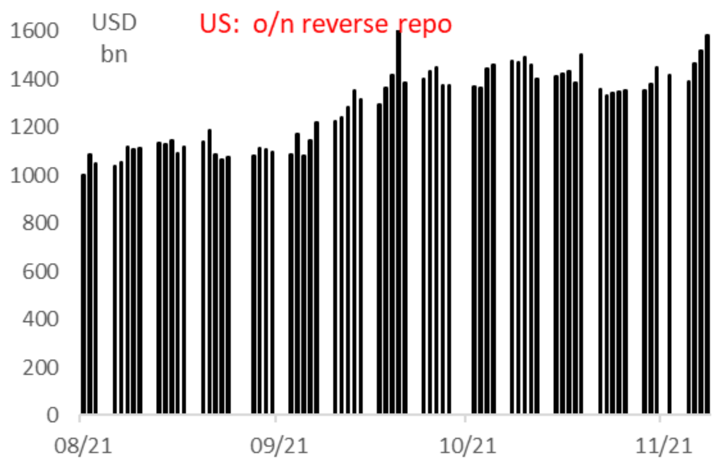


Rates Themes/Strategy

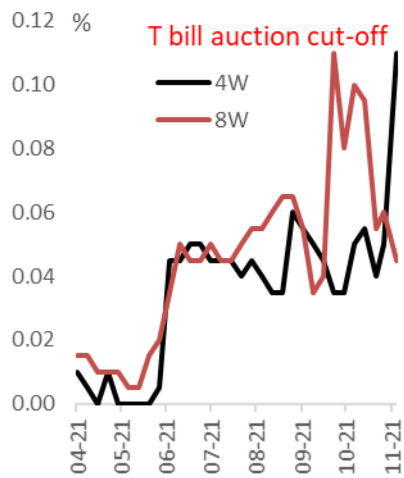
- USTs traded in tight ranges, while the 10Y TIPS auction result reflects investor concerns stay on inflation. The re-opening of the 10 TIPS cut off at a record low of -1.145%, with indirect bid rising to 76.8%. Bias from here is for inflation expectations to be maintained, while there is potential for the deeply negative real yields to edge higher, pushing nominal yields higher. Range for the 10Y UST yield is likely at 1.55%-1.70% in the coming sessions.

- There have been a couple of hawkish Fed comments overnight. NY Fed president Williams said longer-term price expectations have moved up “quite a bit” and cautioned the Fed should not let that trend continue; he saw some broader-based increases in inflation and opined that “clearly demand is very strong” in the US. Atlanta Fed president Bostic says it is appropriate to normalize policy next year, and he mentioned “by the summertime of next year”. While the two have been leaning more on the hawkish side, and there were more balancing comments from other members including Evans, the explicit mentioning of a rate hike timeline linking to mid-2022 still provides a piece of additional information for the market to digest. We continue to see monetary pricing in the USD market as not overly aggressive compared with peers.

- The flush USD liquidity is finding way into both bills and Fed facility, although investors require a premium in view of the debt ceiling issue. The 4W bill auction cut off at 11bp, higher than the 8W bill cut-off of 4.5bp, as it is the 4W bill that crosses the debt ceiling “deadline”. Still, demand at the 4W bill was high, with direct award rising to a record 41.9%, likely as investors took advantage of the higher yield. Meanwhile, usage at the Fed’s o/n reverse repo rose further to USD1.584trn on Thursday, just shy of the all-time high of USD1.604trn recorded in late September.

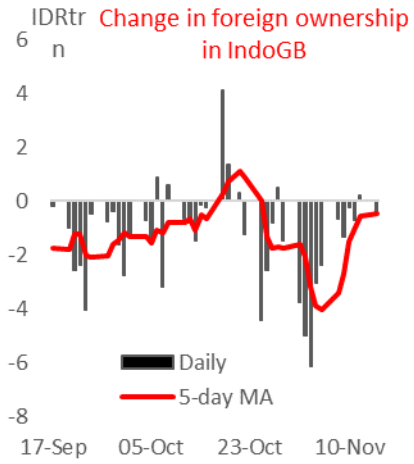


Source: Bloomberg, OCBC



Source: Bloomberg, OCBC

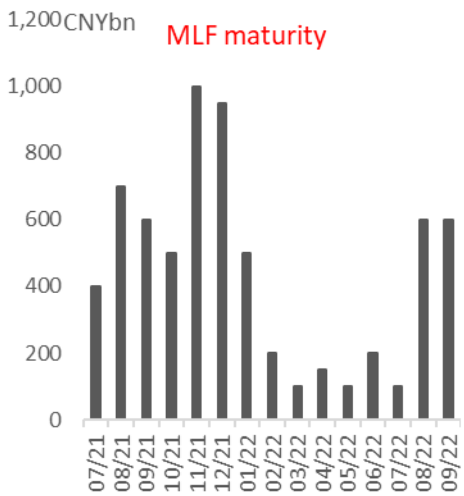
IDR:
IndoGBs were supported on Thursday, amid the well behaved NDF points and sideways move in spot USD/IDR. Bank Indonesia kept its policy rate unchanged as widely expected, citing efforts to boost growth and to ensure Rupiah stability. IndoGBs were further supported as the central bank sounded more positive in the economic outlook – room for the rupiah to appreciate further and for growth to accelerate. Yields nevertheless ended the day little changed with the 10Y yield (FR91) still hovering around the 6% handle. This level is likely to be tested again but we remain of the view that the 10Y yield is unlikely to trade below 6% sustainably despite the favourable domestic conditions, with global yield movement the major swing factor. The bond flow dynamic stabilized recently; still, foreign investors may hesitate to invest substantially in the domestic bonds where nominal yield spreads had been compressed and global yields stay volatile.



Source: Bloomberg, OCBC

MYR:
The 3Y MGS underperformed on the curve, upon the announcement of the 3Y MGII auction at a size of MYR4.5bn, which revert to the “normal” sizes prior to the few downsized auctions recently. WI levels were wide at 2.7%/2.8% versus secondary market level of 2.7%. Sentiment may stay subdued in the run-up to the auction on 22 November. Beyond that, upside to MGS yields at the front to mid-segment shall be limited by the absence of a hawkish monetary policy outlook domestically, while there appears to be no further pressure point on supply in the near term. Meanwhile, the “switch auction” later this month shall be nominal neutral, aiming to enhance secondary market liquidity and the government’s debt structure.

CNY / CNH:
The PBoC granted CNY50bn of OMO this morning, thereby finishing the week with a total net withdrawal of CNY290bn of liquidity. The slightly lighter maturity next week allows the PBoC to gradually wind down OMOs back to neutral, which is the likely base-case stance. With the government increasingly focusing on fiscal tools and targeted measures to support economic activities, while the PBoC also appears to have chosen to manage liquidity via shorter term tools such as OMOs and MLF, the chance of an RRR cut before year-end has become slim. In the absence of an RRR cut, we expect continued liquidity support on other fronts, including another rollover of MLF in December



Source: CEIC, OCBC

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