OCBC TREASURY RESEARCH

Daily Market Outlook

20 September 2021

FX Themes/Strategy

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- US equities reverted back to a downward posture on Fri, with US Treasuries also selling off alongside. This gave a rather risk-off start to this week, with the **FX Sentiment Index (FXSI)** nearer Risk-Off. The broad **USD** ended the past week on a strong note, with the DXY Index back above the 93.00 handle. USD gains were broad-based, with the **European complex** underperforming together with the **CAD**. The JPY was relatively more resilient, with the **USD-JPY** holding at 110.00.

- The latest **CFTC** reading shows net implied USD longs slightly reduced for both the non-commercial and leveraged accounts. AUD shorts were again extended. Non-commercial accounts now hold the largest AUD short position on record, and leveraged accounts largest since late-2019. GBP shorts reversed back into a net long position – not surprising after recent data mostly supported hawkish BOE-speak. Net positioning on the EUR is largely stable.

- Eyes on the FOMC decision (Thu) – we have been leaning net-positive on the USD into the FOMC, but wasn't very convinced of a clear break out higher. The underlying USD-positive drivers (ie. slowing recovery pace and the hawkish Fed expectations) are still present, but have not been extending over the past 4-6 weeks. What the USD bulls will be looking for, over and above the tapering announcement/pace, is for the dot plot to show a 2022 lift-off. This would represent an extension of the hawkish-Fed, USD-positive narrative that had ran slightly out of steam by Aug, and thus be another watershed for the USD. Implied probabilities are now at 0.8 hikes in 2022, so it is not inconceivable for the Fed to move in-line to the market.

- Overall, near term technicals favour the USD. Short AUD is still our main expression of USD strength, though we are wary of a short-squeeze should the Fed be less hawkish than expected. Cautious that GBP not reacting to the markedly more hawkish BOE expectations – that may reverse after BOE this week (Thu).

- **USD-Asia**: Aside from the FOMC, Asia will also be watching the Evergrande deadline on Thu. Sentiment will be jittery, and that could implicate the RMB. North Asia being out for most of this week also means the run-up is less than ideal. Couple with the USD stance, Asian currencies is likely open weaker. IDR and INR likely less affected.

- **USD-SGD:** The SGD NEER leans soft this morning, standing at +0.90% above the perceived parity (1.3631). With the 1.3470/80 resistance breached, attention shifts to 1.3530 for the USD-SGD this week. Upward momentum building again.

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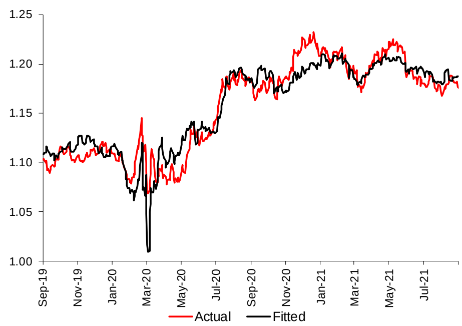
EUR-USD

Sell on rallies. Fed- and USD-driven cues will rule the roost for the EUR-USD this week. EUR bounces were quickly sold down, and the pair is near our first downside target at 1.1700. Further extensions beyond the Aug lows at 1.1664 may be subject to Fed's signaling. Remain structurally negative on the EUR.

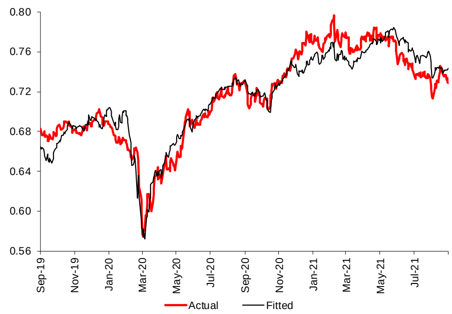


USD-JPY

Back into range. The USD-JPY right in the middle of the 109.50 to 110.50 range. BOJ scheduled on Wed this week. Nothing major expected, but we may see the BOJ leaning less optimistic on the macro outlook. Swathe of risk events this week, ranging from central banks to Evergrande. Sideways range has held for a long time, but do not be complacent.

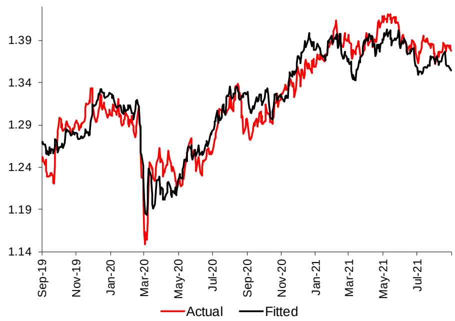
AUD-USD

Negative. The AUD-USD is fast approaching the 0.7220/30 support, and may see a deeper move towards 0.7200 ahead of the FOMC. Short-AUD is a crowded trade now – keep an eye on a short squeeze should the FOMC turns out less hawkish than expected. RBA minutes due on Tue.



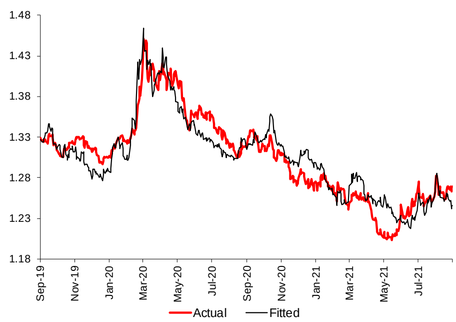
GBP-USD

Sideways. The lack of reaction in the GBP-USD to a hawkish BOE and BOE expectations is discomforting. This could be a function of the market being more focused on the USD-driven cues. BOE decision (Thu) may upend that. Stay cautious on the GBP in general, and potentially look for upside on the GBP-crosses should BOE expectations flow through to the market action.



USD-CAD

Sideways. The USD-CAD spiked above the 1.2700 range high without a clear signal (crude oil lower perhaps?). This points to some overbought technicals for the pair. 1.2800 the next target to watch.



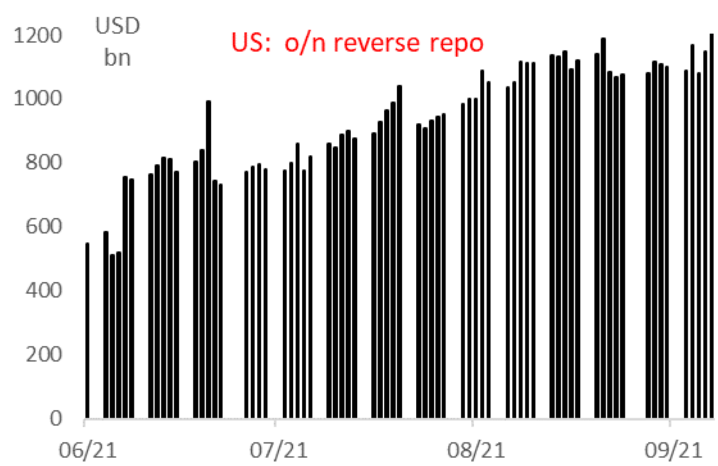
Rates Themes/Strategy

- UST yields edged up by 2bp across the curve on Friday mainly on the back of higher real yields, ahead of the September FOMC and the USD24bn of 20Y reopening. Apart from the message on taper – expectation is not necessarily for a formal announcement, market also watch if the Fed's median dot is brought forward to 2022; if that happens then Eurodollar futures may turn more hawkish in line with the tendency to be ahead of the dot-plot. Having broken the 200DMA, the 10Y yield's next key level is at 1.42%, while the downside sits at 1.29%.

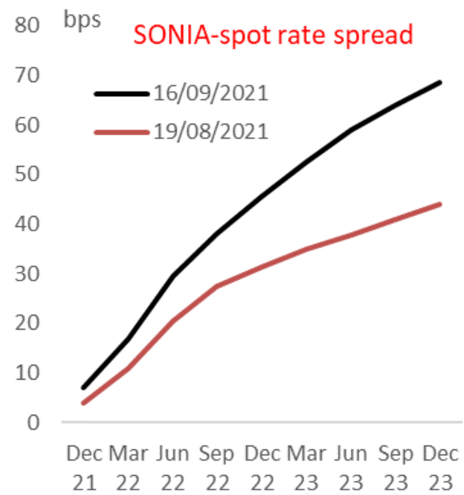
- Treasury Yellen again warned of the ramifications if the debt ceiling is not raised or suspended. Treasury's bill paydown is set to accelerate further this week, to USD116bn. Meanwhile, usage at the Fed's o/n reverse repo reached a fresh high of USD1.218trn on Friday.

- In the GBP space, SONIA pricing moved further to the hawkish side pricing in more than two rate hikes (one 15bps and another 25bps) in 2022. Investors brace for a potentially hawkish BoE at its MPC meeting on Thursday. At the August meeting, the MPC was evenly split (4-4) as to whether the minimum conditions for tightening were met; the new Chief Economist may tilt the balance. A Bank of England survey of late showed that consumer inflation expectation has risen, to 2.7% over the next year and 3% over the next five years.

- In the SGD space, bond investors await the announcement of the size of the inaugural 30Y SGS (Infrastructure) auction, which we expect at SGD2.3-3bn. We believe annual supply will prove well manageable, and expect decent demand at the 30Y bond.

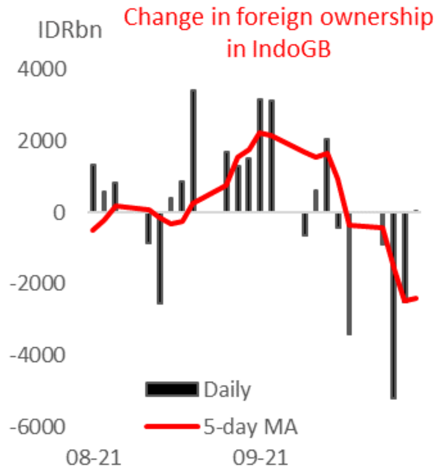


Source: Bloomberg, OCBC



Source: Bloomberg, OCBC

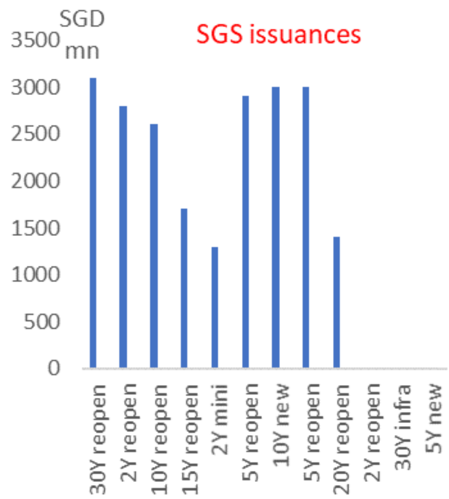
IDR:
IndoGB yields managed to close a tad lower on the week despite higher UST yields, as the IDR outperformed. The stable IDR on the back of sustained trade surplus, together with well-behaved forward points and availability of DNDF, shall continue to be supportive of bond market sentiment. We remain of the view that IndoGBs shall outperform USTs in a rising yield environment – but this does not mean an extended downtrend in the absolute IndoGB yield levels. Foreign inflows into IndoGBs have been slowing with the 5-day average reaching a recent peak at the start of the month, when the 10Y yield also hit a cyclical bottom. The 10Y yield has rebounded mildly since, which was a healthy adjustment to maintain the attractiveness of IndoGBs. This week brings Sukuk supply which shall be readily absorbed by the flush domestic liquidity.



Source: CEIC, OCBC

SGD:
SGS investors await the announcement later today regarding the size of the inaugural 30Y SGS (Infrastructure) auction, which we expect at SGD2.3-3.0bn. The absence of the second optional mini auction and the light 20Y reopening supply pave the way for the 30Y bond. 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.

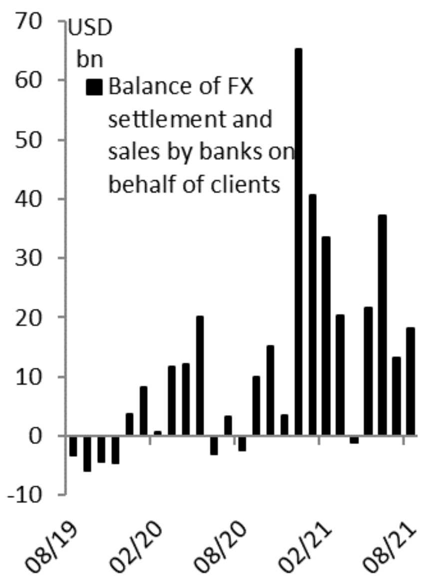
This upcoming 30Y SGS (Infrastructure) is the only supply of such bond this year, while the MAS will announce next year's annual calendar as usual in October/November, including both SGS (Market Development) and SGS (Infrastructure). Issuance of green SGS (Infrastructure) is expected to start from 2022.



Source: Bloomberg, OCBC

CNY / CNH:
The PBoC net injected CNY100bn of liquidity via 7-day and 14-day reverse repos on Friday, to cover liquidity demand at quarter end and ahead of the holidays, which should not be seen as a monetary policy signal but nevertheless lent market some comfort. LPR is expected to be kept unchanged on Wednesday given the steady MLF rate. Balance of FX settlement and sales by banks on behalf of clients was a positive USD18.1bn during August, higher than the USD13.1bn in July, but not particularly huge; overall it suggests there has still been some excess USD liquidity mainly form receipts via the trade and FDI accounts.

The offshore CNH curve is likely to trade in ranges given onshore is out. The PBoC said to issue RMB5bn of 6M offshore PBoC bills to be tendered on 24 September; this is to cover the same amount of bills maturing and hence is neutral to CNH liquidity.



Source: CEIC, OCBC

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