

Daily Market Outlook

21 September 2021

FX Themes/Strategy

- Evergrande jitters spread beyond Asia overnight, with global equities and core yield curves broadly softer. Sub-indices in the **FX Sentiment Index (FXSI)** covering equities and G7 FX vols flashed red, pushing the FXSI sharply higher into the outright Risk-Off zone.
- Rather mixed session for **USD**, sinking risk sentiment saw the DXY Index taken higher near 93.50. The subsequent retreat reinforced our view that the broad USD is supported, but not looking to break out without further signals from the FOMC. The **EUR-USD** ended flat on the day, bouncing off the 1.1700 take-profit level ahead of risk events. Beyond the immediate horizon, downside risks still outweighs upside for now for EUR-USD, overall preference is to sell on rallies.
- The **GBP-USD** softened further on the back of a rethink in BOE expectations. Implied probabilities for rate hikes have retreated over the past 2 sessions, but is still materially more hawkish compared to early Sep. We remain cautious regarding GBP downside on the heightened BOE expectations, and take the opportunity, with the GBP-USD near recent range lows, to close our tactical short GBP-USD idea in the FX Ideas portfolio at an implied +1.47% profit.
- Retain the view for a supported USD into the FOMC, but we await clearer cues from the FOMC before establishing our view on the broad USD's next leg of directionality. The fundamental cues lean in favour of the USD. Riskies out to 6m for the major pairs (with the exception of the USD-JPY) are also moving in favour of the USD. The greenback aside, we keep close tabs on the GBP, especially in the crosses.
- **USD-Asia:** With onshore guidance, the USD-CNH swung towards 6.4900 on Evergrande issues, leading most of the USD-Asia higher. 1m KRW also higher even though spot is closed. USD-IDR more resilient around the 14,250 mark. Domestic factors likely dominate for the IDR, with the BI decision scheduled. No change expected.
- **USD-SGD:** The SGD NEER slipped further overnight, standing close to +0.80% above the perceived parity (1.3626) this morning. The USD-SGD retreated after surfacing above 1.3530, and now stands near the 1.3500 handle. With the SGD NEER materially lower compared to the past week (+0.80% compared to +1.10%), upside in the USD-SGD may now start to stall in the near term.

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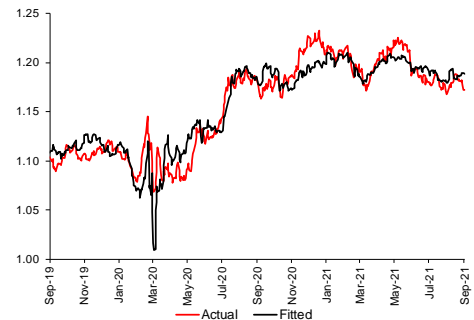
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EUR-USD

Sell on rallies. EUR-USD bounced off 1.1700, almost on cue. Technicals, underlying risk-off, and the pending FOMC decision all conspire to keep the pair weighted lower. Continue to prefer to sell on rallies, especially towards 1.1800, targeting 1.1680/00.



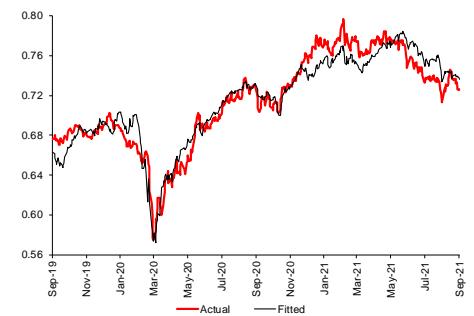
USD-JPY

Back into range. The USD-JPY back at the base of the 109.50 to 110.50 range, but clearer downside bias may only be established should the pair breach 109.00/20. The pair will still need to navigate the risk events this week.



AUD-USD

Negative. RBA minutes laid bare the delay in progress towards inflation and employment goals. This stance reinforces the decision to drag out the tapering timeline, and again reminding investors of the RBA's implicit dovishness relative to the other central banks. The AUD-USD bounced off the mentioned 0.7220/30 support. Opportunity to re-enter shorts should the pair reapproach 0.7300/20.



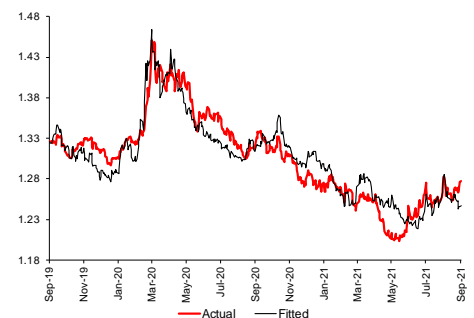
GBP-USD

Heavy. The GBP-USD reacted lower to the pull-back in implied BOE rate hike probabilities this week, and now stand not far off recent lows at 1.3600. Our GBP view is in review for now, and we will be watching the upcoming BOE decision closely.



USD-CAD

Buoyant. The recent risk-off episode is negative for the CAD, but the extended move in the USD-CAD looks unjustified. Spot is diverging from its short-term implied valuations again. One reason could be election noise, but the market should start to see the results flowing through soon. Potential for increased volatility.

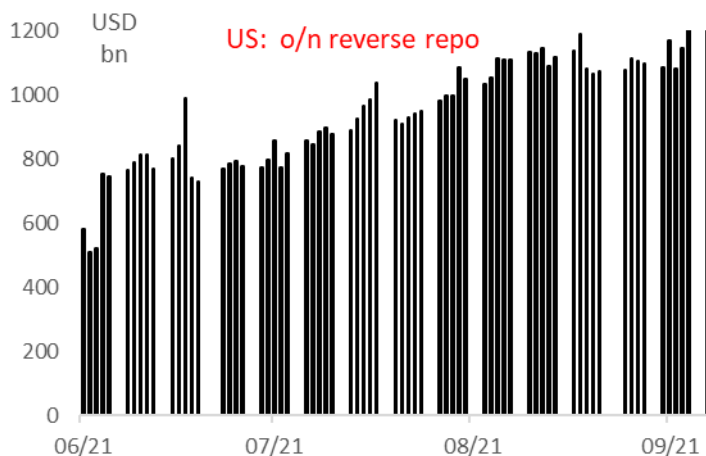


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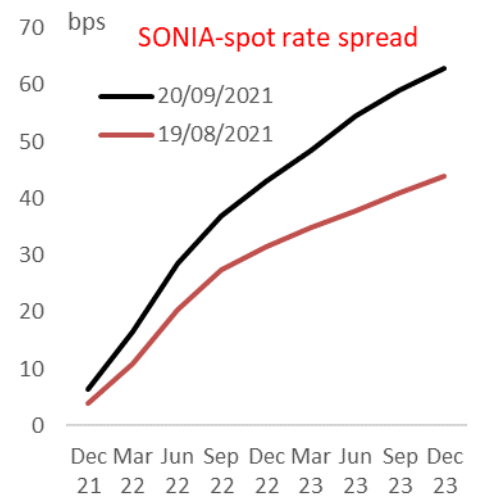
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Rates Themes/Strategy

- UST yields fell across the curve on Monday amid the global equity sell-off, with the 10Y breakeven lower by 4bp and real yield down by 1bp. At the upcoming FOMC, market expectation is not necessarily for a formal announcement, but as long as the Fed does not backtrack on its intention to taper by year-end, the outcome shall be neutral to the market. As for 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 and there is also room for interpretation as to when during 2022 the hike is forecast.
- Usage at the Fed's o/n reverse repo reached a fresh record high of USD1.224trn on Monday. 3M and 6M bill auctions yielded 3.5bp and 4.5bp respectively, 0.5bp lower than at prior auctions. The divergence in the auction results of the 3M and 6M bills versus earlier 4W and 8W bills reflect investors see uncertainty surrounding the debt ceiling in October.
- Gilt yields fell by 4-5bp across the curve and SONIA pricing retraced slightly but stayed hawkish 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. At current pricing, the bar appears high for the BoE decision to push the market further to the hawkish side.
- 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



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MYR:

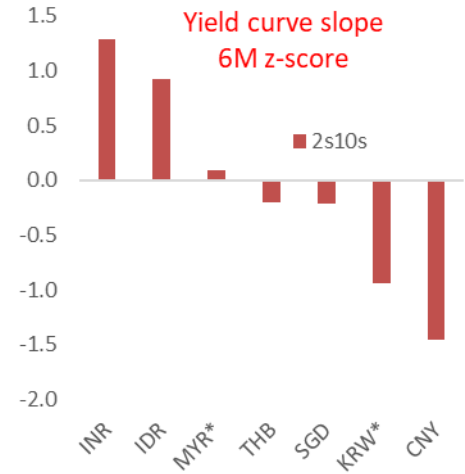
MGS underperformed in recent sessions, probably amid the risk-off sentiment and a mild supply risk. The belly led the sell-off on some pre-positioning ahead of the 5Y MGII supply later this month. Thanks to flush USD liquidity though, FX swaps were fairly stable. The 3s10s part of the MGS curve is trading at around 6M average, pointing to some room for a mild steepening move if front-end rates remain anchored.

THB:

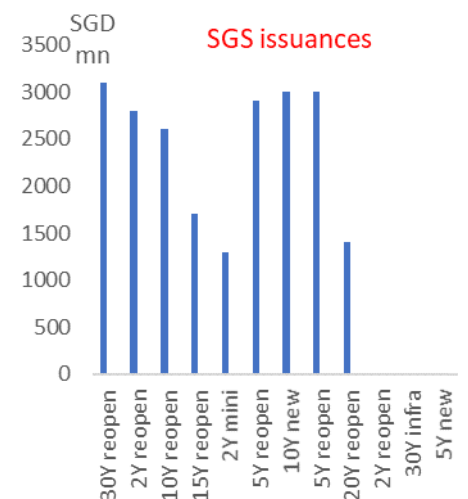
Thailand confirms to raise its debt ceiling to 70% from 60%. As this was flagged at the PDMO meeting last week, market reaction was relatively muted. The overall financing need for FY2022 and the budget deficit are similar to earlier estimates; the strategy to rely more on LBs (48% in FY2022 vs 31% in FY2021) to finance the gap shall be seen as prudent, in securing longer-term funds rather than relying too much on promissory notes and term loans as an interim arrangement. Still, the planned 30% increase in LB supply is somewhat more than market expected, which shall continue to weigh on the domestic bond market sentiment although the government may not rush to issues bonds with surplus funds left. Still, the LB curve is relatively flat and assuming no rate hike expectation building up, it shall be biased to steepening.

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. Assuming each of the 2Y reopening and the new 5Y later in the year comes with a 2bn size or below, than annual gross supply (including SGS (Infrastructure)) will likely be 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.



Source: Bloomberg, OCBC
*3s10s



Source: MAS, OCBC

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