Daily Market Outlook

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FX Themes/Strategy

- Slight risk-off tone early in the global day gave way to positive US/EZ equities, which then provided some support for overall risk sentiment. The **FX Sentiment Index (FXSI)** tilted back into the Risk-On zone, continuing to dither on the Risk-Neutral / Risk-On boundary.

- The **USD** traded within narrow ranges against the EUR and JPY. The antipodeans got a boost from a risk-positive tone and the CAD in the NY session to end higher.

- The **USD-CAD** outperformed overnight, with the BOC first out of the gates in terms of tapering asset purchases. In a positive statement overall, the guidance on inflation and output gap seemed to imply that rate hikes may be on the table by late-2022 – perhaps earlier than what the market expected the BOC to communicate and ahead of other major central banks. Expect the BOC's stance to place a cap above the USD-CAD going forward, although further downside in the immediate term will require a cleaner break of the 1.2500 support. Continue to favour the CAD within the G-10 space in the medium term.

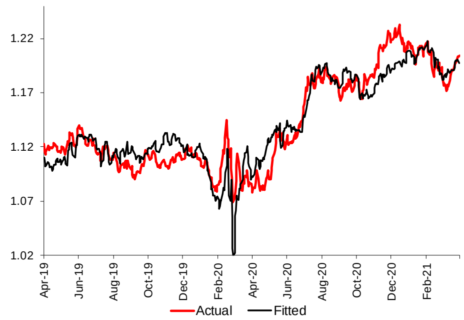
- Expect consolidation within the FX space ahead of the ECB meeting later today (1145 GMT). Nevertheless, with no significant shifts in policy stance expected, the market may have to parse comments on the PEPP guidance (may not be much here too, given that a full assessment is only due in June), and its attendant impact on the bund-UST spread. Further out, any shift in RBA's stance to be more alike to the BOC may see the AUD supported in the mid-term, however, that is not the base case for now.

- **USD-Asia:** Positive lead on for Asian currencies on the back of risk-on and firm equities overnight. Nevertheless, risk has been fickle of late, leaving USD-Asia lacking clear directionality. Lower than expected USD-CNY fix (6.4903) this morning perhaps gave the stamp of approval for the **USD-CNH** to move further on the downside. If the USD remains directionless, do not rule out a larger move in the USD-CNH towards the 6.4000 area.

- **USD-SGD:** The SGD NEER stands this morning at +1.18% above the perceived parity level (1.3440) this morning, with the +1.20% to +1.25% range still seen capping. The **USD-SGD** held within a tight 1.3280 to 1.3320 range. Continue to expect limited downside impetus for now, barring another leg lower for the USD.

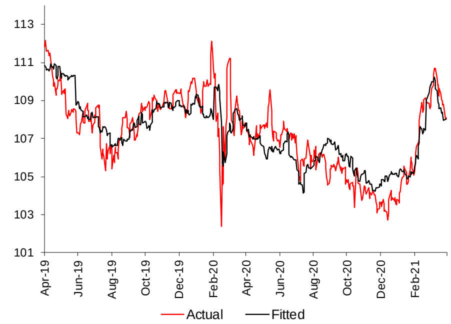
EUR-USD

Supported. The EUR-USD should remain consolidative ahead of the ECB meeting later today (1145 GMT). The risk is for the ECB to lean less-dovish, especially on the rhetoric surrounding asset purchases. Retain a positive bias for now, with the immediate target at 1.2080. A dip below 1.1980 would ease upside bias.



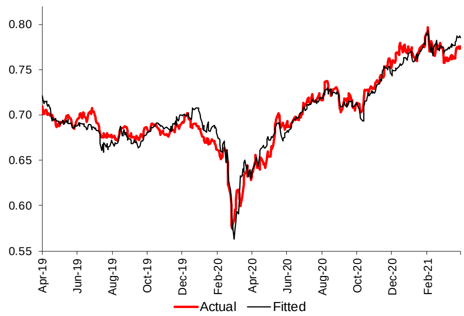
USD-JPY

Precarious. The USD-JPY has thus far continued to close above the 108.00 support. A close below that level would add to the downside impetus, and risk 107.70/80, especially if the back-end UST yields remain soggy. Pair needs to retake 108.60 to regain upside bias.



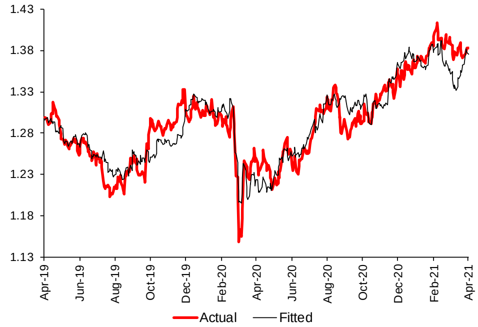
AUD-USD

Consolidate. Some early pressure on Wed on risk-off, but the AUD-USD then saw support from positive US equities and firming CAD and CNH. Sideways risk leaves the pair with limited directionality, but the renewed strengthening momentum in the RMB complex may be a positive. Expect the pair to lift towards the top end of the recent 0.7700 to 0.7820 range.



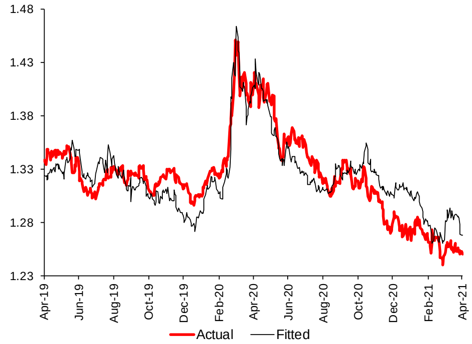
GBP-USD

Consolidate. The GBP-USD consolidated between the 1.3900 and 1.3950 range on Wed. The 1.4000 resistance remains under pressure for now – though a firmer catalyst and a more sustained uptick in risk sentiment still not forthcoming just yet. Interim range between 1.3800 and 1.4000 holds, but the risk is to the upside.



USD-CAD

Sell on rallies. The CAD recovered from Tue's underperformance as the BOC came in more positive than expected. The 1.2450/00 support zone again into play for the USD-CAD. Any further breach would leave the pair targeting the 1.2370/00 March lows. Stay negative on CAD-crosses as well.



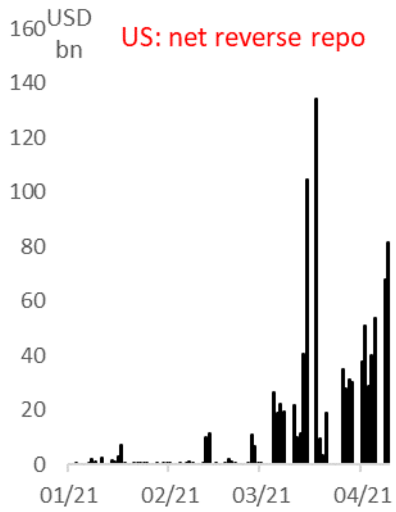
Rates Themes/Strategy

- USTs were little changed on the day, recouping intraday losses post-auction. The 20Y auction went well, with direct bidders taking 20.2% of the offer. Treasuries are in a consolidation mode amid a light data calendar and ahead of FOMC next week. The Eurodollar and Fed fund futures have pared back hawkish hike expectation at the Dec 22 contract over the past couple of weeks.

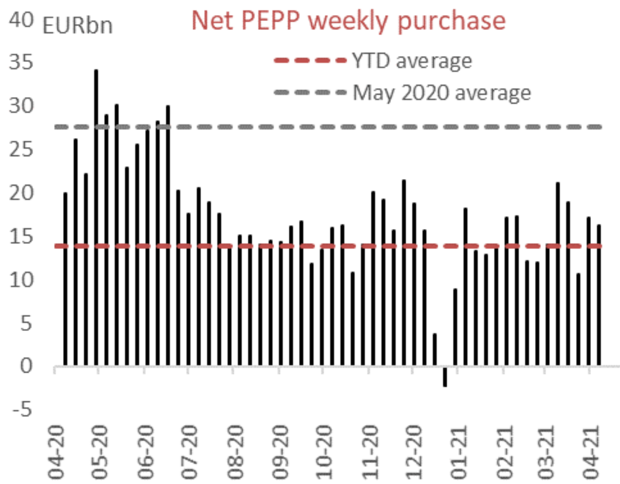
- Front-end liquidity has stayed flush, with the Treasury set to pay down USD43bn of cash (injecting liquidity to the market) this week. The Fed's reverse repo operation absorbed yet a bigger amount at USD81.3bn. The liquidity situation keeps the possibility alive that the Fed may tweak the IOER and/or o/n RRP rate, or at least fine tune the reverse repo operations.

- In the EUR space, market awaits any hint regarding the ECB's thought on the path to withdrawing market support, while the quarterly joint assessment to determine the pace of PEPP within the existing envelope is not due yet. The "step-up" in the weekly purchases have not been spectacular so far in this quarter, with only one week having net purchase above EUR20bn. Inflation expectations in Europe have been risen steadily since Oct 2020, and nominal yields are lagging – with the gap wider than in UST's case pointing to more room for a catch-up. With lower absolute yield levels, core EGB yields are still likely to move less rapidly than UST yields in bp term, but this outperformance may become less pronounced going forward.

- The issue size of the 15Y SGS has been announced at SGD1.7bn, on the low side of expectation. There is every flexibility to adjust the size of SGS (Market Development) supply to pave way for SINGA bond, if needed. Long-end SGS are likely to outperform USTs from here.



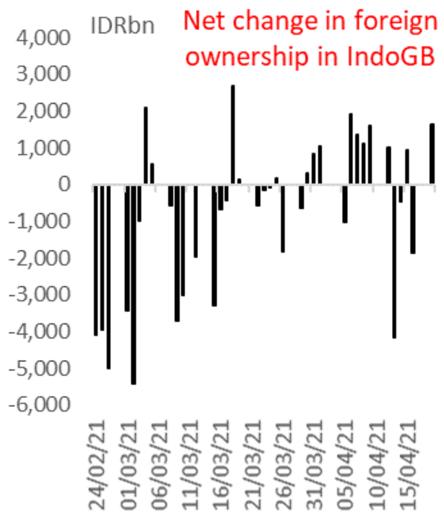
Source: Bloomberg, OCBC



Source: Bloomberg, OCBC

IDR:

IndoGBs have benefitted from a relatively stable USD/IDR, and the favourable real yield differentials have seen pockets of foreign inflows. That said, a sustainably upbeat risk sentiment is needed for investors to focus on this medium-term real yield differential consideration, rather than FX volatility and short-term nominal carry. After the latest bout of retracement in IndoGB yields, the nominal spreads have become less appealing. We are at best neutral IndoGBs from here. At auctions, while incoming bids and the "acceptance rate" have been higher recently, there is still some misalignment between the yield levels as seen appropriate by the government and the market levels.



Source: Bloomberg, OCBC

MYR:

The 3Y MGS auction was well received, at a b/c ratio of 2.08x and with bids around WI levels. MGS yields were again little changed, and 3% remains a resistance for the 10Y bond. The MGS curve is not as steep as before the recent adjustment lower in long-end yield; the steepness is around 6M average across the 3s10s segment - this segment is likely to trade in the 88-95bp range near-term. Further ahead, on our expectations for stable EPF holdings, and as external borrowing helps alleviate some domestic supply pressure, market sentiment shall improve.

SGD:

The issue size of the 15Y SGS has been announced at SGD1.7bn, on the low side of expectation. There are two more auctions of long-end bonds beyond April, and if those issue sizes are also tweaked lower, then that shall pave the way for the first SINGA bond issuance in Q4. There is every flexibility to adjust the size of SGS (Market Development) supply to cater for demand if needed, as the proceeds from SGS (Market Development) is not for funding spending after all. Meanwhile, there may be some demand coming back to the long end, with investors staying at the sidelines earlier in the year awaiting SINGA bond details. We expect long-end SGS to outperform UST, with the 10Y SGS yield likely moving back to below its USD counterpart.

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