OCBC TREASURY RESEARCH

Daily Market Outlook

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FX Themes/Strategy

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- Reversal day for most asset classes on Monday, with US equities higher, UST curve steeper and the broad USD softer. Some sense that risk appetite may be returning. However, post-FOMC jitters still not completely weathered through, with FX and Treasury vols still staying elevated. The **FX Sentiment Index (FXSI)** also still showed a gradual fading of Risk-On bias.

- The **USD** retraced lower from the LDN session onwards on Monday, as major pairs mostly reversed last Friday's moves. The **cyclicals** and **GBP** outperformed as a group. The EUR regained the 1.1900 handle, while the **USD-JPY** lifted back above the 110.00 resistance.

- Heavy schedule of Fed speakers give the market more chances to re-assess last week's FOMC developments. Notably, regional Fed presidents are sounding more hawkish – Kaplan favouring tapering "sooner rather than later", but the Board members still favour the transitory inflation storyline – as seen in Powell's prepared comments and Williams. Market will try to attribute dots from the comments, and focus on the voting members in 2022 and 2023. Eyes also on Powell's full testimony today

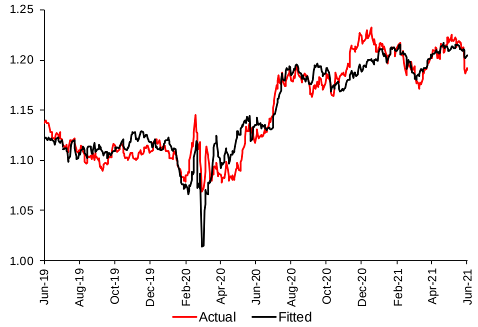
- Rate hike expectations as seen from Eurodollar futures were not materially changed. Nevertheless, we should not be surprised by the pull-back after two sessions of strong gains. Expect market action on Monday to be once-off, and not materially change USD prospects. Preference is to use the retracement as better entry levels for USD longs. The USD-JPY perhaps not the best expression for USD strength at this juncture given the soft back-end UST yields. Instead, prefer to be short on the EUR-USD.

- **USD-Asia:** Push-back by the PBOC on chatter of liquidity tightening saw the USD-CNY and USD-CNH squeeze higher on Monday. As expected, the CFETS RMB Index could not sustain at levels above 98.00, easing lower in response as the RMB underperformed. Overall, with the market still digesting the FOMC shift, expect USD-Asia to still see upside pressure for now.

- **USD-SGD:** The SGD NEER marginally firmer this morning at +0.56% above the perceived parity (1.3515). The SGD NEER fell from around +1.00% above parity pre-FOMC to the +0.50% zone. Doing a breakdown of the basket of currencies suggest that this move is almost entirely attributable to the stronger USD and JPY against the SGD. Thus, this is mostly an externally driven move, and not a reflection of MAS expectations.

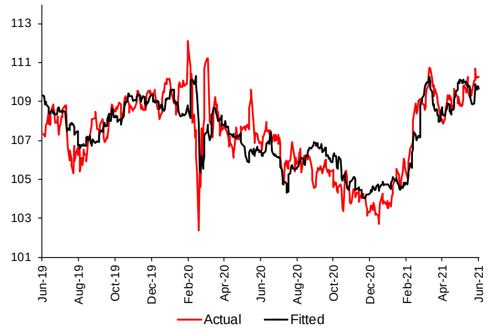
EUR-USD

Heavy. Comments from Lagarde still leans dovish, especially when set against the Fed, citing that EZ and US are in "different situation" relating to inflation. She also mentioned space to cut interest rates if needed. Relative central bank dynamics should continue to set the EUR softer against the USD. Near-term, the bounce above 1.1900 eased downward pressure, but we expect the reprieve to be temporary. Multi-session targets at 1.1800 and and the April low of 1.1704.



USD-JPY

Laggard amid USD strength. The bounce higher in back-end UST yields saw the USD-JPY supported amid the USD retracement on Monday. Nevertheless, the 10y UST yield may need to consolidate between 1.50-1.70% range for the pair to see more significant upside. Not the preferred expression for USD strength at this point.

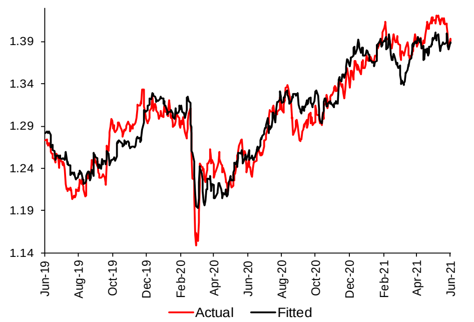


AUD-USD

Heavy. The bounce on Monday failed to retake the 200-day MA (0.7557), leaving the technical posture still negative for the pair. May need more help from improving risk sentiment in the near term, but we do not expect it to be forthcoming. Prefer to use bounce to enter shorts in this pair.

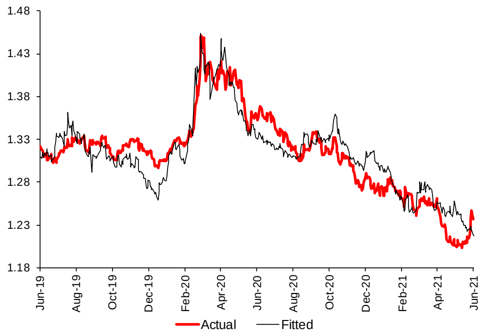
GBP-USD

Heavy for now. The GBP-USD also failed to recover the 100-day MA (1.3943) in the bounce overnight. Focus will be on the BOE decision (Thu), especially to see if there will be any hawkish champions after Haldane leaves. This should keep the GBP perhaps more stable compared to the cyclicals into Thu.



USD-CAD

Firmer. The USD-CAD retraced after a test of 1.2500 on Monday. 1.2400 will again need to be recovered – our bias is that it will be materialized in the upcoming sessions.



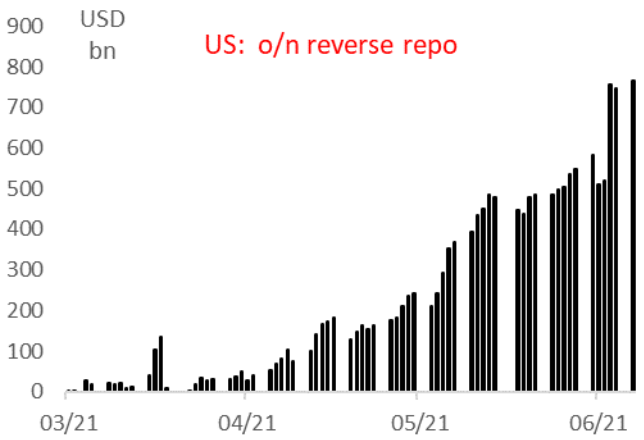
Rates Themes/Strategy

- The UST curve bearish steepened overnight, undoing part of the excessive flattening move post FOMC. The 10Y yield rebound, after touching an intraday low of 1.35%, to close at 1.49% near day high level but still a tad below the 100DMA. Near-term driver is likely to shift back to supply, with the 2Y, 5Y, and 7Y coupon auctions lining up. The 2Y and 5Y have not been the pressure point, and we expect this situation to remain so.

- NY Fed Williams said the economy is way off from substantial further progress, reiterating the usual rhetoric, while Bullard said it seems unlikely that the Fed will raise rates while it is tapering asset purchase. These comments might have helped stabilize front-end yields. The adjustment at Fed fund futures and Eurodollar futures appears done, before the Fed turns yet more hawkish. In this regard, Powell's testimony and a slew of Fedspeak this week are closely watched.

- USD liquidity has stayed flush. Usage at the Fed o/n reverse repo facility reached a fresh record high of USD765.1bn on Monday, while the bill auctions overnight drew strong demand; yields at the 3M and 6M bills were 2bp and 1.5bp higher than at previous auctions, at 0.045% and 0.055% respectively, tamer than the 5bp hike in the o/n RRP rate. USD liquidity may only start to normalize upon a resolution to the debt ceiling, and further when the Fed's tapering kicks in.

- In IndoGB, focus today is the conventional bond auctions, which are likely to draw strong demand as yields have become more competitive; we are neutral to the curve shape. In the CNH space, there are signs that back-end CNH points may be peaking.



Source: Bloomberg, OCBC

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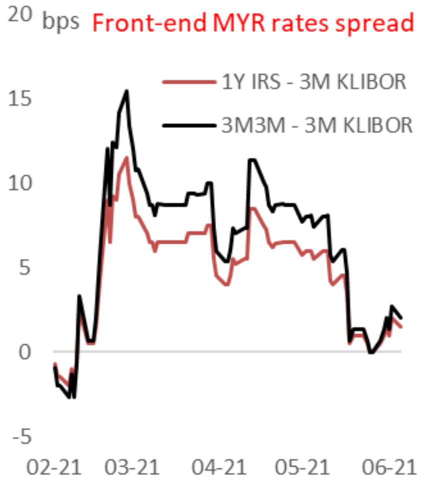
IDR:

The IndoGB curve steepened in the past week despite the flattening move in the UST curve, with most of the buying interest concentrating at the 5Y or shorter tenors. In IndoGB, focus today is the conventional bond auctions, which are still likely to draw strong demand as yields have become more competitive. Meanwhile, a relatively stable USD/IDR amid opposing flows and DNDF support is setting a constructive backdrop for the bond market, where real yield differentials over USTs are favourable. We have earlier turned neutral to the curve shape from a steepening view.

MYR:
MGS failed to take full advantage of falling long-end UST yields, with the 10Y ending Monday lower by a meagre 1bp. MYR IRS outperformed bonds, ending the day lower by 1-5bp across the curve. Front-end rates were paid up mildly moving slightly away from 3M KLIBOR, simply following global move and not representing a shift in domestic expectations. Front-end rates spreads are still narrow. Today market watches the 3Y MGII auction. We maintain our bias for shorter duration.

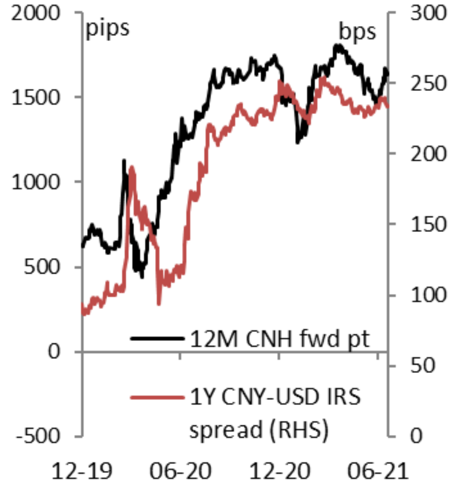


Source: Bloomberg, OCBC

SGD:
The SGS curve traded with a flattening bias on Monday, following partially the UST curve move. Given the steepening bias overnight, there is room for long-end SGS to outperform long-end UST. The offered amount at the upcoming 10Y auction has been announced at SGD3.2bn with SGD300mn intended for the MAS. The amount came in roughly in line with expectation. Year-to-date, issuance amount is on track with annual estimates, and shall not post much pressure. The 10Y SGS yield shall revert to trading below its UST counterpart.

CNY / CNH:
The onshore liquidity situation stays mostly neutral, with daily OMO continuing with the CNY10bn pattern, while the 1Y and 5Y LPR were kept unchanged. CGBs have continued to exhibit a low beta response to global market move; domestic factors remain the key drivers, and at the mid to long end, investors brace for some pick-up in LGB supply, leading to a mild upside to long-end yields. The 10Y CGB yield is likely to trade in a range of 3.0-3.3% over the coming months.

In the offshore market, there are signs that back-end CNH points may be peaking. The points have started to diverge with CNY-USD rates spreads again and are mildly above onshore points. While addition to the CNH liquidity pool has stayed minimal, CNH liquidity situation shall improve when the Wealth Management Connect and southbound flows under the Bond Connect kick start later this year.



Source: Bloomberg, OCBC

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