OCBC TREASURY RESEARCH

Daily Market Outlook

22 November 2021

FX Themes/Strategy

Frances Cheung, CFA
Rates Strategist
+65 6530 5949
FrancesCheung@ocbc.com

Terence Wu
FX Strategist
+65 6530 4367
TerenceWu@ocbc.com

Treasury Research
Tel: 6530-8384

- COVID-19 reared its head again, this time with a resurgence of cases in Europe. EZ equities were heavy in response, while US equities were also mostly lower with the exception of the tech sector. Crude oil complex also negative to close the week. Overall sentiment took a turn for the worse, with G-10 FX vols higher and the **FX Sentiment Index (FXSI)** jumping into the Risk-Off zone to start this week.

- The risk-off tone favoured the **broad USD** and **JPY** as the haven currencies saw demand at the expense of the **European complex** and **cyclicals**. The **EUR** lost the 1.1300 support in another session of heavy decline, while the **AUD** closed the week at session lows near 0.7230. The **JPY** outperformed, with the USD-JPY spending most of the LDN and NY sessions sub-114.00 before closing near that anchor.

- **CFTC** data show that non-commercial accounts reduced their net implied USD longs for the 6th consecutive week, but the difference was only marginal. Leveraged accounts also reduced their net implied USD longs for the 3rd consecutive week. Both groups moved against the EUR, reversing a pattern that has persisted for the past 5-6 weeks. Note also a broad move against the GBP.

- The resurgence of COVID-19 cases in Europe, the policy response and public reaction should capture market attention early week. Increasing restrictions are again seen across Europe, with Austria going back to full lockdown this week. The public response was violence and unrest over the weekend. The EUR (and to a lesser extent, GBP) should continue to be weighed down by these developments. Hawkish Fedspeak by Clarida and Waller (increase pace of tapering) also do the EUR no favours. Overall, expect the EUR to be attracted towards the 1.1200 handle. Meanwhile, a broader risk-off tilt cannot be ruled out. This should keep the haven currencies USD and JPY supported against the cyclicals. Looking for the AUD-USD to test the 0.7200 support.

- **USD-Asia**: Signals out of the PBOC suggest some supportive measures forthcoming. However, that will do little to tamper the RMB complex, with the CFETS RMB Index at six-year highs. Expect the USD-CNH to be muted amid the USD strength. However, the rest of USD-Asia may start to see some upside reaction, especially if risk sentiment continues to sour. Watch for the USD-KRW as potentially most reactive. Eyes on the BOK decision this week, with a hike expected.

- **USD-SGD:** The SGD NEER continued to lean heavy at +0.70% above the perceived parity (1.3713) this morning. The USD-SGD is closing on recent peaks around 1.3650. Expect the pair's gains to slow from here, especially with the SGD NEER already on the low side.

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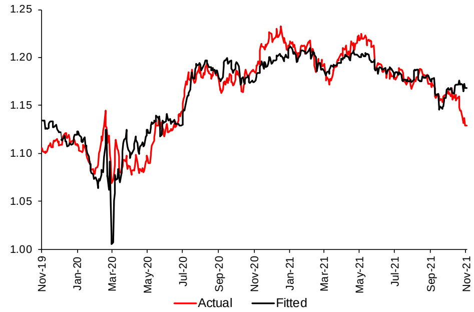
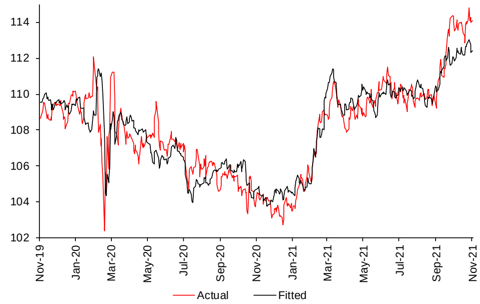
EUR-USD

Resume downmove. The EUR-USD's consolidation at 1.1300 barely lasted three sessions as headlines of renewed COVID-19 cases in EZ weighed on the pair further. Fedspeak on the potential of a faster tapering pace adds further negatives on a relative central bank dynamics basis. The 1.1300 was decidedly lost, the pair will likely be attracted to the 1.1200 handle. Watch for preliminary Nov PMI on Tue.



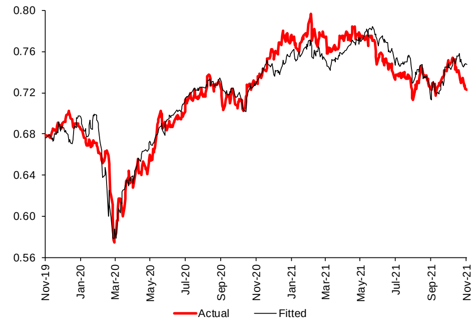
USD-JPY

Choppy within range. A risk-off tilt offsets both domestic JPY-negative and Fed-led USD-positive drivers, leaving the USD-JPY heavy on Fri. This week, these divergent factors should continue to play off one another, leaving the USD-JPY broadly sideways within range. Trade the pair within the 112.70 and 115.00 range for now.



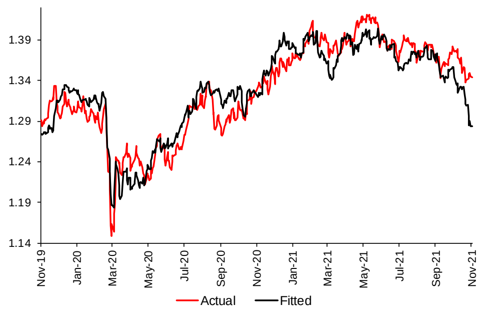
AUD-USD

Heavy. The AUD-USD fell through and closed below the trendline support at 0.7250 on Fri, keeping the downside bias very much intact. Expect 0.7200 to be the next port-of-call so long as 0.7350 is not recovered. Retain overall negative bias.



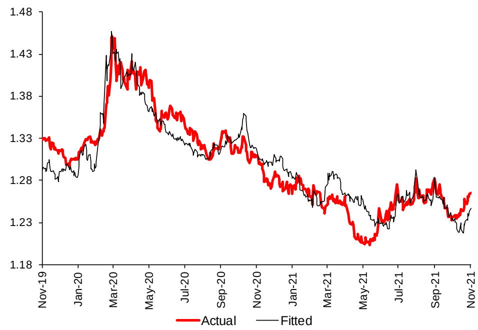
GBP-USD

Dragged lower again. The GBP-USD's rebound topped off at 1.3500 as it was also weighed down by COVID-19 developments in Europe. The Nov low at 1.3353 back in play, with preference to sell the pair on rallies.



USD-CAD

Supported. The USD-CAD stayed buoyant, although the CAD escaped relatively lightly from USD strength and slumping crude. The upswing may yet have legs, especially should the crude prices continue to turn south. Prefer to buy on dips with the 1.2650 – 1.2750 being the first target zone for now. Do not rule out an extended upswing towards 1.2900.



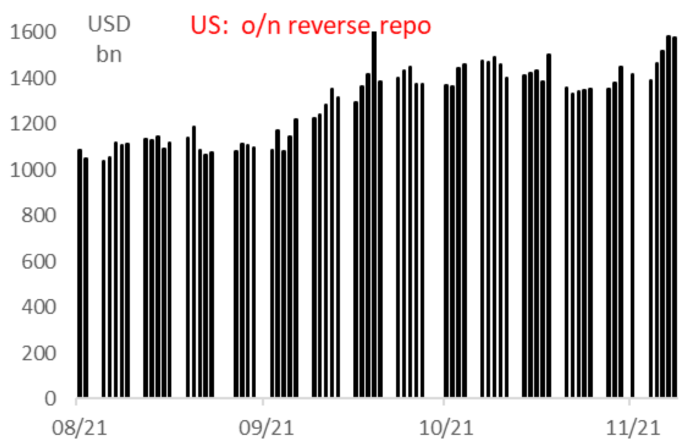
Rates Themes/Strategy

- USTs performance was mixed on Friday on hawkish Fed comments but a subdued risk sentiment amid growth worries. Treasuries initially rallied across the curve upon renewed/potential lockdowns in some European countries, but short-end yields rebounded after a couple of Fed officials talked about the prospect of a faster pace of taper, ending the day 1bp higher at the 1-3Y sector.

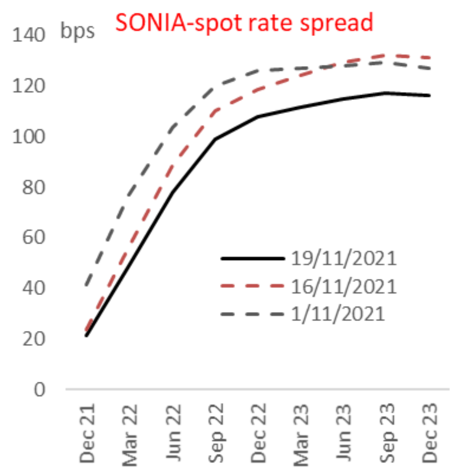
- Vice Chairman Clarida said it “may well be appropriate” at the December meeting to have a discussion on increasing the pace. Meanwhile, the development in the labour market and inflation have pushed Waller towards “favouring a faster pace of tapering and a more rapid removal of accommodation in 2022” – touching on the timelines on both taper and rate hike. Eurodollar futures pricing turned a tad more hawkish.

- On the data front, this week in the US brings November PMIs, initial/continue jobless claims, personal income/spending and PCE core inflation which may drive long-end yields. Meanwhile, supply looks to be heavy over the coming days, as the Treasury plans for a total offering of USD237bn so far, translating to a net USD144.8bn. Near-term range for the 10Y UST yield is likely at 1.47%-1.63%. At the very front-end, usage at the Fed’s o/n reverse repo stayed high at USD1.575trn on Friday. There will be a small USD17bn paydown of bills this week.

- Latest comments from BoE Bailey appear to be a somewhat watered-down version of his previous remarks about the need to act. Bailey said “if second-round effects” start to feed through into higher prices, then the central bank will have to act. Meanwhile, Chief Economist Pill reiterated that the opinion surrounding a rate hike is “finely balanced”. Implied rates from SONIA futures edged down across contracts.

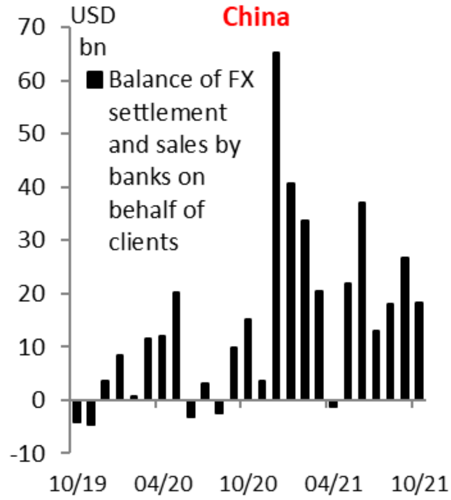


Source: Bloomberg, OCBC



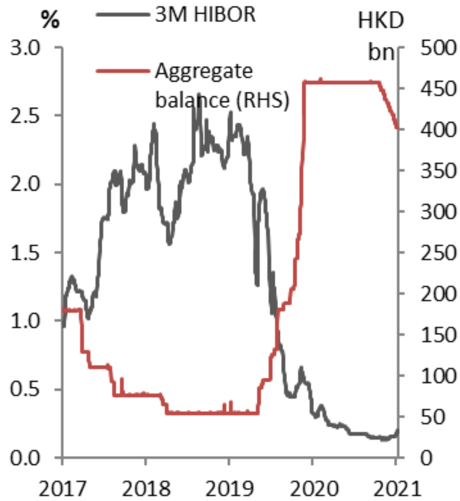
Source: Bloomberg, OCBC

IDR:
IndoGBs were resilient on Friday, with front-end to the belly supported by domestic liquidity while long-end yields edged up by 1-2bp only. With the more subdued risk sentiment today, along with the strong dollar, IndoGBs are likely to trade on the defensive side while the strong current account momentum is a buffer. The 10Y yield (FR91) stayed near the 6% handle; 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 and the risk sentiment the major swing factors.



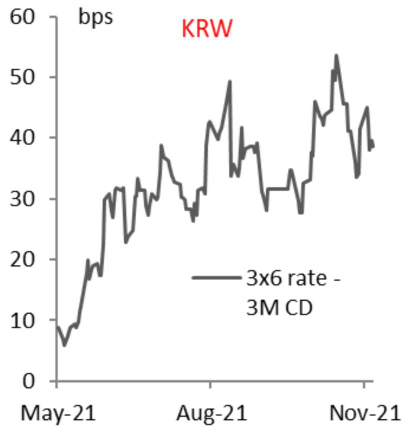
Source: CEIC, OCBC

CNY:
This morning's OMO was supportive. This, together with the subdued risk sentiment, shall render rates trading on the soft side today. Meanwhile, FX settlement data suggest any tightening impact on CNY liquidity from inflows during October should have been mild. Balance of FX settlement and sales by banks on behalf of clients was a positive USD18.3bn in October, mainly supported by the trade in goods account, while there was also inflow via the FDI account. The balance was not particularly big.



Source: Bloomberg, OCBC

HKD:
There will be another additional HKD5bn of EFB supply this week as planned, lowering the aggregate balance (interbank liquidity) to HKD397bn. HKMA started to move liquidity from the interbank bank market to the bills market in September upon bills demand, and also probably as a way to prevent HKD rates from staying too low in the face of rising USD rates. The aggregate balance is to fall to HKD377bn by year-end – at this level, front-end HKD rates shall still be fairly insensitive to the changes in interbank liquidity. We continue to expect HKD rates to outperform USD rates in a rising rates environment, amid flush domestic liquidity and in the absence of direct QE withdrawal/tightening impact. Front-end Hi-Li (HKD basis) are unlikely to break and stay above par sustainably.



Source: Bloomberg, OCBC

KRW:
The BoK looks set to hike its policy rate at its MPC meeting on Thursday, although the decision may not be unanimous. The latest BoK minutes revealed four members saw the need to further hike the policy rate, while a fifth member also said a hike would contribute to the normalization of financial and asset imbalances. There are a total of seven members including the Governor. The KRW rates market has already priced in a near-term rate hike, and between one and two hikes on a 3-month horizon; the pricing looks fair but shall not turn more hawkish. Exports and imports during the first 20 days of November stayed robust.

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Herbert Wong
Hong Kong & Macau
herberthtwong@ocbcwh.com

FX/Rates Strategy

Frances Cheung
Rates Strategist
FrancesCheung@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com