

## Daily Market Outlook

22 September 2021

### FX Themes/Strategy

- Morning headlines were again dominated by Evergrande. EZ/EM equities were positive earlier in the global day, although US equities were flat. Red in the crypto space, with both bitcoin and ether finding another leg lower. Overall, slight retreat in the **FX Sentiment Index (FXSI)**, but it stays within the outright Risk-Off zone.
- Risk-off mode saw the **USD** softer against the traditional havens, **JPY** and **CHF**, while the **antipodeans** led losses. The **EUR** was little-changed above 1.1700. The **USD-JPY** is testing downside support at 109.10/20 levels early Wed. Downside may be more forthcoming in the JPY-crosses than in the USD-JPY itself, especially the EUR-JPY (testing support at 128.00). Global risk cues aside, look for domestic positives should the LDP leadership vote lead to a more stable hand in managing the pandemic. Potential for equity inflows may be the reward.
- Some crystal ball gazing into the Fed rate hike path in 2024 implied by the Eurodollar futures shows less than 2 hikes being priced in, flatter than pre-Jun FOMC. At risk of overinterpreting the Eurodollar price movements, this may reflect some complacency over that period. Note that the new dot plot will cover 2024, and a USD-positive reaction cannot be ruled out if it shows more than 2 hikes over 2024. Overall, we remain more focused on the dot plot, rather than the tapering announcement in terms of the overall USD directionality.
- **USD-China:** The USD-CNY open at levels around 130-150 pips lower than the USD-CNH. This range is larger than the norm, suggesting some preference to lead the USD-CNH lower. Evergrande concerns still in the air, but early headlines that interest payments will be made eased immediate concerns. Liquidity injections by the PBOC also supports. Overall, expect the USD-CNH to be toppish near 6.4800/900.
- **USD-IDR:** The USD-IDR traded within a tight range despite the host of risk events. The BI's decision to hold is expected, and the commitment to keep the IDR in line with fundamentals capping volatility. Risk is to the upside for the USD-IDR, but the 14,200 to 14,300 range may yet persist through the upheaval.
- **USD-SGD:** The SGD NEER slipped further, now at +0.72% above the perceived parity (1.3626) this morning. On the MAS policy front, a return to an upward slope is not our base case, but there may be a non-negligible chance of a 0.50% recentre higher to reverse the Apr 2020 move. In any case, the USD-SGD is likely toppish near 1.3530, unless there is a renewed USD uptrend.

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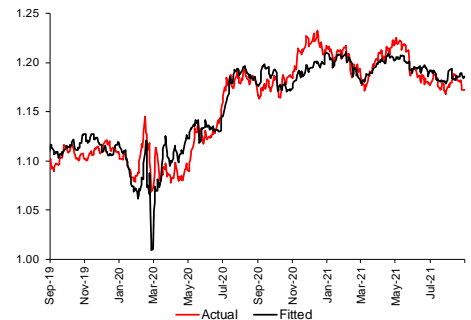
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### EUR-USD

**Sell on rallies.** The EUR-USD failed to react to Evergrande headlines early Wed, leaving it in consolidative mood above 1.1700 ahead of the FOMC. 1.1750 the resistance on the topside. Need cues from the FOMC for next directional move.



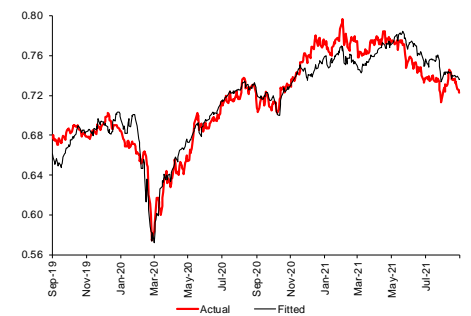
### USD-JPY

**Back into range.** The 109.00/20 resistance was tested early Wed, before the positive Evergrande headlines saw the pair taken back towards 109.50. Slight negative bias on the pair, especially with domestic positives overlaying the global risk-off cues, and implied valuations extending lower.



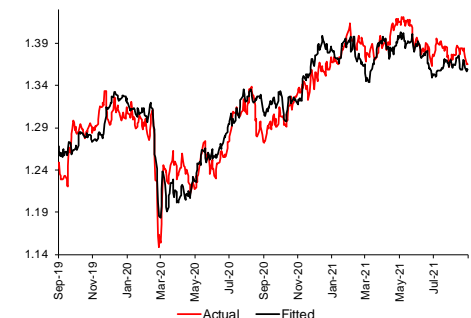
### AUD-USD

**Negative.** Positive Evergrande headlines and market supportive moves by the PBOC eased immediate concerns, and gave the AUD-USD a knee-jerk reaction higher. So long as 0.7300/20 remains intact, our bias is not for a sustained reversal in the pair.



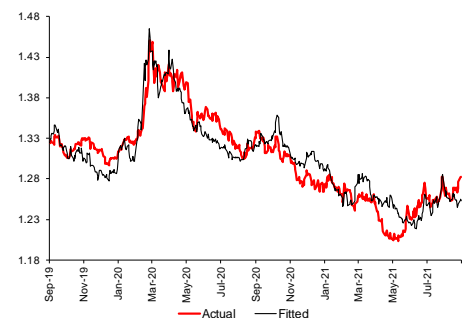
### GBP-USD

**Heavy.** The GBP-USD is consolidative between 1.3650 and 1.3700 with the double risk event of FOMC and BOE decisions upcoming. BOE not expected to move on the policy rates soon, but the market will be eyeing the any shifts in the evenly balanced hawk/dove ratio, especially with the addition of the new chief economist.



### USD-CAD

**Buoyant.** The Trudeau victory could signal some continuity in terms of economic policies in Canada, and allow the USD-CAD to avert additional volatility. Expect some consolidation for the pair on either side of 1.2800, with some potential for CAD outperformance on the crosses going forward. Note spot is overvalued compared to short term implied valuations.

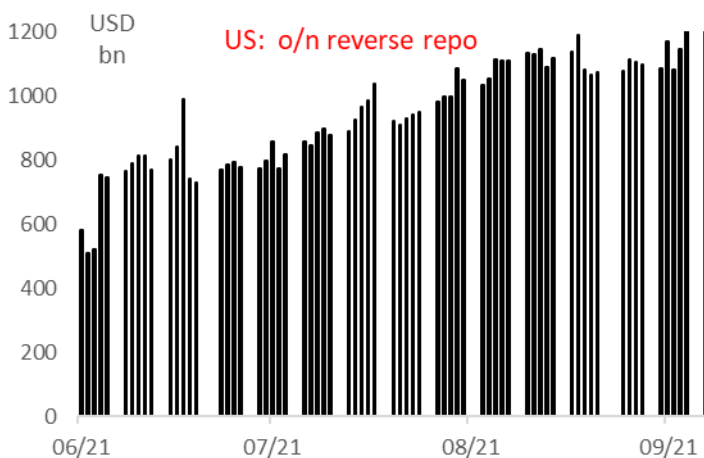


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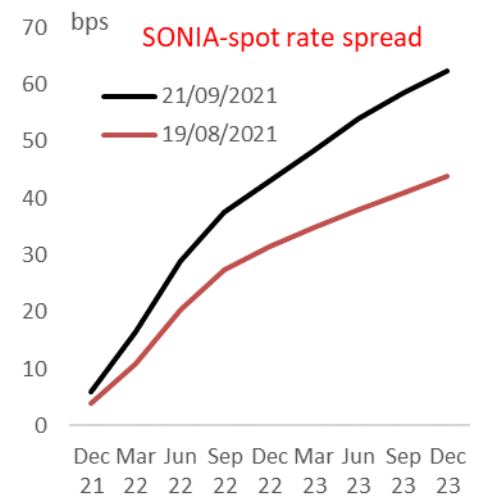
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### Rates Themes/Strategy

- UST yields were little changed despite a well-received 20Y auction as investors awaited decision from the September FOMC, where taper and dot-plot are the focuses. 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; the dot-plot will also be extended to 2024.
- As Treasury's borrowing committee warned of debt ceiling risks, Senate Republican Mitch McConnell said the debt ceiling would be raised as "it always should be", but just that it would be raised by the Democrats. The 4W and 8W bill auctions on Thursday may tell whether these comments help soothe the market. Meanwhile, usage at the Fed's o/n reverse repo reached a fresh record high of USD1.24trn on Tuesday.
- Gilts again underperformed as market geared up to an expectedly hawkish BoE outcome. SONIA pricing retraced slightly but stayed hawkish pricing in more than two rate hikes (one 15bps and another 25bps) in 2022. At current pricing, the bar appears high for the BoE decision to push the market further to the hawkish side.
- The size of the inaugural 30Y SGS (Infrastructure) has been announced at SGD2.6bn with no MAS participation, in line with our expectation. We believe demand at the upcoming 30Y SGS (Infrastructure) is likely to be decent, including interest from real money accounts.



Source: Bloomberg, OCBC



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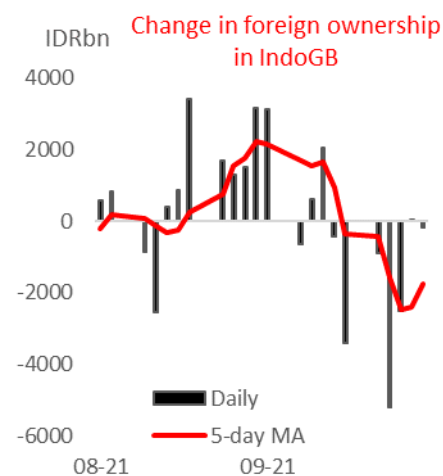
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### IDR:

The sukuk auctions attracted incoming bids of IDR45.4trn, which was still a decent amount albeit lower than the previous amount; only IDR6.1trn worth of bonds were awarded versus an indicative target of IDR10trn. Hence overall the supply-demand matrix stays favourable. The morning DNDF roll auction absorbed USD92mn while the afternoon auction absorbed USD286mn, reflecting hedging needs upon DNDF maturity. Ahead of FOMC, while Bank Indonesia also sounded optimistic towards the growth outlook, long-end IndoGBs suffered.

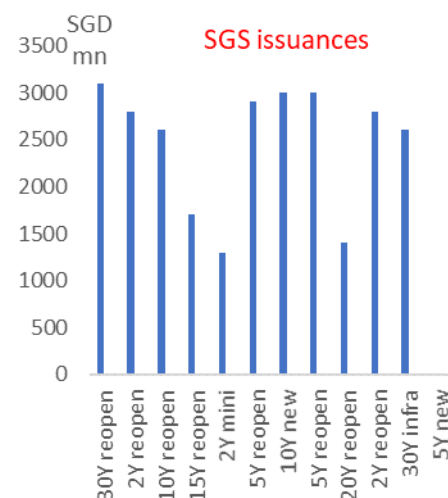
Bank Indonesia left its 7-day reverse repo rate unchanged at 3.5% as widely expected. During the press conference, Warjiyo mentioned below-target inflation provides the central bank with the cover to keep policy rates accommodative, and added that the central bank keeps urging banks to lower loan rates further and to push for more transparent lending rates.



Source: Bloomberg, OCBC

### SGD:

The size of the inaugural 30Y SGS (Infrastructure) has been announced at SGD2.6bn with no MAS participation, in the middle of our expected range. The 2Y reopening is of size 2.8bn with MAS taking SGD300bn. YTD gross issuance by the end of this month will amount to SGD27.2bn, leaving enough room for the last issuance of a new 5Y bond. Strong demand for long-tenor bonds prompted the MAS to carry out two mini-auction of 30Y SGS totaling SGD1.8bn last year, adding to the original supply of SGD2.3bn (with MAS allotment at SGD200mn) of the 30Y bond. We believe demand at the upcoming 30Y SGS (Infrastructure) is likely to be decent as well, including interest from real money accounts. The supply is unlikely to widen the 20s30s spread by more than a few bp. There is also SGD9.1bn worth of SGS of original maturity of 5Y maturing on 1 October 2021, providing liquidity to the market.



Source: MAS, OCBC

### CNY:

As the onshore market reopens, PBoC conducted CNY120bn of OMOs this morning, net injecting CNY90bn to the market via a combination of 7-day and 14-day repos, likely aiming to cover the liquidity needs ahead and over the golden week holidays. There are still a total of CNY110bn of reverse repos and 70bn of MoF deposits maturing during the rest of this week (including Sunday). Further out, there is a total of CNY2.45trn of MLF maturing, while monthly LGB issuances are expected at CNY447bn (if they spread through to December) to CNY595bn (if they finish in November). Liquidity provision is needed to smooth market volatility.

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