OCBC TREASURY RESEARCH

Daily Market Outlook

23 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

- Global equities appear to be in a slight holding pattern after recent moves. Powell's renomination supported US equities and spurred UST yields higher. Overall market sentiment, however, continued to look somewhat shaky. The **FX Sentiment Index (FXSI)** continued to move deeper into the Risk-Off direction.

- The **broad USD** was supported overnight as the DXY Index moved into a new year-to-date high. The **EUR** and **AUD** continued to approach their respective supports at the 1.1200 and 0.7200 as we expect these levels to keep attracting. The **JPY** was the underperformer overnight as yield differential arguments against the USD took precedence over risk-off tones. The **NZD** also underperformed, with the market focused on the upcoming RBNZ meeting. The risk is for the RBNZ to disappoint the market's hawkish expectations.

- The Fed Chair nomination distraction is finally behind us, with Powell being re-nominated to that position, and Brainard as Vice Chair. This is a continuity scenario, and we expect that the balance of risks is for the Fed to be on the front foot in addressing inflation through a potentially faster pace of tapering and/or rate hikes down the road (recent comments by Clarida and Waller are signals of this). The current Fed-led USD positive arguments are reiterated.

- Short EUR-USD remains the main conviction call at this point, with the COVID-19 developments in Europe adding to Fed-led USD positive arguments. The segment of the investment community who had reverted to EUR longs over the past 5-6 weeks would have been badly hurt. Any reversal by this segment back to EUR shorts could see the net short-EUR position pick up quickly over the coming weeks, adding further weight to the EUR.

- **USD-Asia**: USD-China were sideways to heavy despite the broad USD strength within the G10-USD space, and this translates to a further extension higher in the CFETS RMB Index. Continue to see positive flow-through to USD-Asia from outright USD strength and shaky risk sentiment.

- **USD-SGD:** The SGD NEER stands heavy at +0.65% above the perceived parity (1.3738) this morning. NEER-implied USD-SGD thresholds are broadly firmer amid USD strength, leaving the USD-SGD inherently supported. Note however, that the pair is pushing recent peaks near 1.3650/00. The low-ish SGD NEER should limit USD-SGD buying pressure near current levels. Near term, prefer instead to sell rallies.

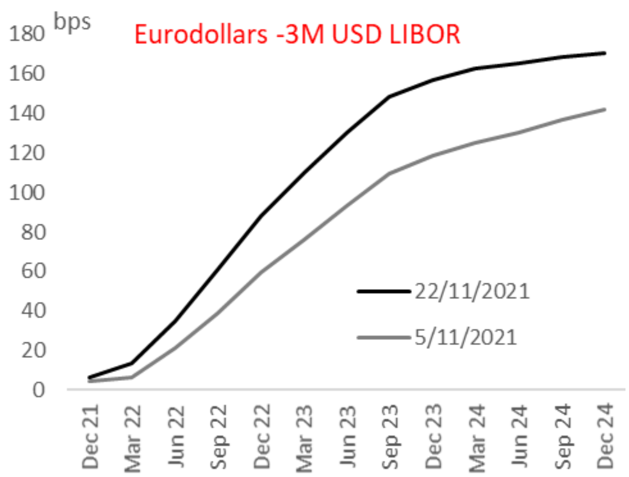
Rates Themes/Strategy

- UST yields jumped across the curve upon the re-nomination of Powell to a second term, while the 2Y and 5Y coupon auctions garnered lukewarm demand. The 2Y and 5Y bonds cut off at 1.1bp and 1.0bp higher than WI levels, despite that was after the selling into the auction; indirect awards fell and bid/cover ratios were lower than before. Supply is heavy this week, with Treasury planning for a total offering of USD237bn. Data prints have been on the strong side so far this week; more releases including November PMIs, initial/continue jobless claims, personal income/spending and PCE core inflation are coming. Near-term range for the 10Y UST yield is likely at 1.51%-1.71%.

- Eurodollar futures have already been fully pricing three rate hikes by end-2022, while Fed Fund futures are now pricing in two and a half hikes. Earlier over the weekend, there came a couple of hawkish Fed comments from Clarida and Waller, on a potential faster pace of taper; Waller's mentioning of pace even touched on the timelines on both taper and rate hike. We remain of the view that monetary pricing in the USD market is not overly aggressive.

- The 10Y real yield jumped by more than 10bp, as TIPS underperformed in the absence of further inflation news/print. We may have to stop reading too much into the daily fluctuations in real yields these days as these appear to be mainly driven by the different short-term momentum in coupon bonds versus TIPS, rather than reflecting a daily change in the growth outlook.

- At the very front-end, usage at the Fed's o/n reverse repo stayed high at USD1.574trn on Monday. There will be a small USD17bn paydown of bills this week.



Source: Bloomberg, OCBC

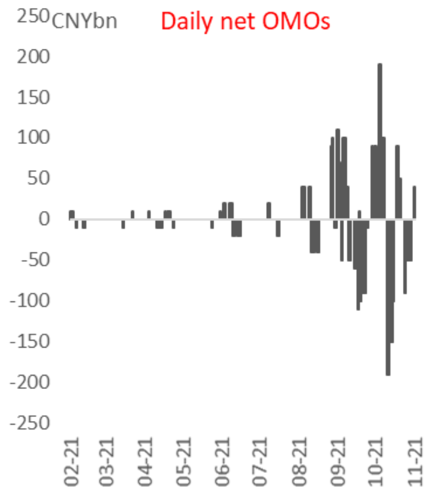
Source: Bloomberg, OCBC

IDR:

IndoGB yields were little changed on Monday, with front-end to the belly continuing to be supported by domestic liquidity. The government expects commodity prices to continue rising over the next 1-1.5 years; this outlook, if pans out, shall help sustain the C/A momentum which helps contain FX and bond market volatility especially at times of dollar strength. Domestic conditions – primarily the lack of supply and supportive liquidity – shall stay favourable for bonds, but the global environment and risk sentiment shall prevent IndoGB yields from breaking decisively lower.

CNY:

PBoC conducted CNY50bn of OMO this morning, matching the maturing amount; this is in line with our view that the lighter maturity profile this week vs last week would allow a smooth transition back to neutral operations as the base case. That said, daily fluctuations aside, the PBoC appears to have increased reliance on short-term tools to manage liquidity conditions. Hence, any upsize going forward will not be a surprise, especially when chance for a near-term RRR cut has become slim. On bond side, the range for the 10Y CGB yield likely stays at 2.90%-3.0% near-term.

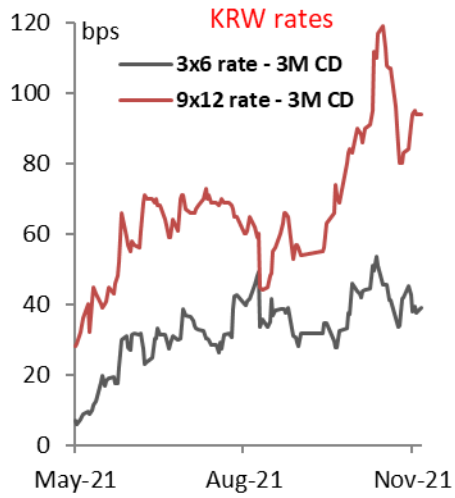


Source: CEIC, OCBC

KRW:

KTBs are resilient despite the higher global yields and market pricing of an imminent BoK hike. Finance Minister said the government is planning to use KRW2.5trn out of KRW19trn in excess tax revenue to reduce bond issuances – the amount is not big compared to monthly gross supply of KRW10trn plus, but nevertheless being supportive of bond market sentiment. Rising Treasury yields provide more scope for KTB outperformance, where the 5Y and 10Y KTB-UST yield spreads are historically wide. The favourable backdrop for asset swap trades into KTBs is likely to stay, with CCS continued to be suppressed not least because of outward FDI.

On the policy outlook, the BoK looks set to hike its policy rate at its MPC meeting on Thursday, although the decision may not be unanimous. 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.



Source: Bloomberg, OCBC

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