

## Daily Market Outlook

23 September 2021

### FX Themes/Strategy

- Overnight market reaction was dominated by the FOMC decision, while Evergrande developments are likely to take over from Thu morning. US equities closed firmer, while the UST curve flattened in response to the FOMC. Market sentiment calmed slightly, with VIX and G-7 FX vols now lower. Our **FX Sentiment Index (FXSI)** slipped just out of the outright Risk-Off zone.
- Beyond the initial choppiness, the **USD's** reaction the FOMC episode is a positive one, especially with Powell perhaps net-hawkish in his press-con. Expectedly, the reserve currencies like **JPY** and **EUR** are worst hit. **Cyclicals** ended the day stronger against the USD, but that is a function of it being much firmer earlier on positive Evergrande headlines.
- **Overall, we view FOMC developments as net hawkish.** Powell has given the market enough information to have a clear view of the start and pace of the tapering process, effectively making a pre-announcement. The aim is likely to maintain maximum optionality into the Nov FOMC. The dot plot is interpreted as hawkish-leaning. No clear lift-off in 2022 (more a statistical issue), but putting the pieces (mid-2022 end of taper, hawkish voting regional Fed presidents etc) together, a hike by end-2022 could still be the Fed's base case. Dots for 2024 also show a more aggressive rate path than market implied. **There is scope for the market to pull forward the implied rate hike trajectory.** Current expectations for the potential 2022 hike leans towards Dec, but the possibility of it being pulled forward to Sep cannot be ruled out. Potential also for a similar dynamic further out in the curve, with more (and earlier) hikes potentially priced over the 2023 – 2024 period.
- The USD bulls probably didn't get everything they wanted, but there is sufficient to chew on. This FOMC outcome could be seen as an extension of the hawkish Fed / strong USD narrative, and we prefer to stay the course in our long-USD view. The DXY index is just shy of the year-to-date high at 93.70, with the next upside target at the 94.30/50 zone. Short EUR-USD is the cleanest expression of USD strength. Expect it to gravitate towards year-to-date low at 1.1664, before 1.1600. USD-JPY upside is a potential play as well, but it is distracted by global risk cues and the LDP leadership vote next week. Stay negative on the AUD, which we expect to approach 0.7200. The AUD will also be eyeing Evergrande headlines.

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- **USD-China:** Some semblance of stability in China returned last week as onshore returned from the extended weekend with the equities space supported. The USD-CNH is nonetheless taken higher by the USD overnight, but note that the CFETS RMB Index is still elevated, and other CNH-crosses (see EUR-CNH and AUD-CNH) heavy. Note looking for outsized RMB weakness from here, with the USD-CNH likely still toppish near 6.4800/900.
- **USD-SGD:** The SGD NEER was choppy, but stands this morning at +0.80% above the perceived parity (1.3648). The USD-SGD flexed against the 1.3550 resistance, more as a reflection of secular USD strength. The target next week may be at 1.3590, should the pair sustain above 1.3550. Otherwise, 1.3500 still the anchor.

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