OCBC TREASURY RESEARCH

Daily Market Outlook

24 November 2021

FX Themes/Strategy

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- EZ equities remained heavy overnight, while the US/EM equities weathered a tech sell-off to close mostly positive. Overall, shaky market sentiment still persisting for now, with the **FX Sentiment Index (FXSI)** static within the Risk-Off zone.

- The **broad USD** was trading in a consolidative mode on Tue as it held near year-to-date highs. The **EUR** reversed early declines stay effectively unchanged against the USD. Going forward, focus may shift to the **USD-JPY**, which broke the 115.00 resistance. The risk is for the pair to extend higher after the breach of this key technical level.

- In the central bank space, overnight comments from ECB's de Guindos and Schnabel labelled inflation as "structural" and "risks to the upside". These are perhaps the most hawkish from the ECB's upper echelons so far. Nevertheless, this should not be confused with the ECB moving anywhere near the Fed's current level of hawkish bias. No change in our negative EUR view for now.

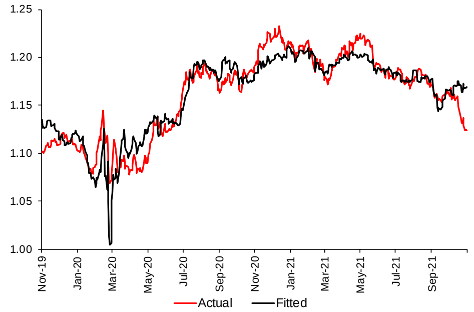
- The **RBNZ** pencilled in a 25 bps rate hike this morning to 0.75%, in line with market expectations. The hawkish scenario of a 50 bps did not materialise. The NZD reacted lower in the immediate aftermath. However, the latest projections for GDP growth, inflation and policy rate through 2024 are firmer than the Aug forecasts. This should shake off any sense that the RBNZ is shifting less hawkish. Relative to the RBA, the RBNZ should remain the more hawkish one. Overall, we expect any NZD-negative bias derived from this decision to be relatively short-lived, and retain a preference for a lower AUD-NZD.

- **USD-Asia**: USD-CNH remains in a tightly contained range. The elevated DXY Index sees better flow-through into USD-THB and USD-MYR for now. For the USD-THB, expect further upside room in the near term, with 33.40/50 the firmer resistance. The USD-MYR breached 4.2000 this morning. Further upside, however, may be relatively limited going forward.

- **USD-SGD:** The SGD NEER stands at +0.72% above the perceived parity (1.3755) this morning. The index appears to have based off at +0.60% above parity, supported in part by the stronger than expected 3Q 2021 GDP print. The positive macro picture was broad-based, with the construction and services sectors also outperforming. Overall, we reiterate that the SGD NEER at current levels may be too low for the the current domestic macro situation, and the underlying MAS optimism. The SGD NEER's downside room may be limited from here. The follow-on impact on the USD-SGD will be an implicit cap near the 1.3650 to 1.3700 levels, barring another outsized up-move by the broad USD.

EUR-USD

Resume downmove. The EUR-USD was somewhat supported at its depressed levels after some rather hawkish ECBspeak overnight and firmer than expected Nov preliminary PMIs. Despite the data, expect the macro picture to be weighed down going forward, especially in the face of renewed lockdowns. Overall, bounces in the pair should be limited in scope, and no shift in our negative bias for the pair so long as it remains below 1.1300. 1.1200 should still attract.

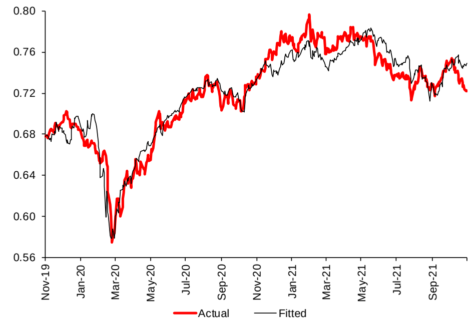


USD-JPY

Range break? The USD-JPY breached the 115.00 resistance on Tue as yield differential arguments offset risk-off tones. It may be too early to call for further extensions higher beyond 115.00, especially with shaky risk sentiments still persisting. Prefer to wait and see for now. Should sentiment improve in the coming session, there might be scope to ride the USD-JPY higher towards 115.80/00.

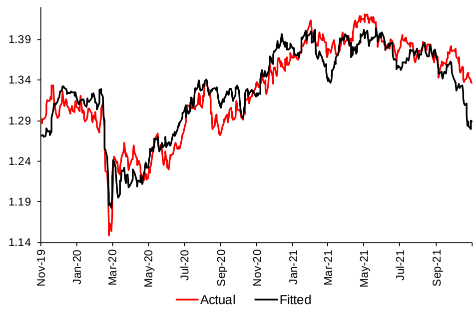
AUD-USD

Heavy. The AUD-USD retains an offerish tone, with the RBNZ not doing any favours by penciling a 25 bps hike this morning. With sentiment still shaky, keep to the 0.7200 target for now.



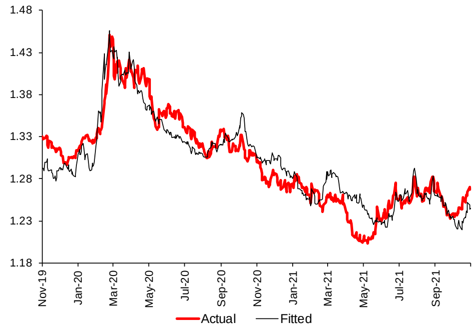
GBP-USD

Dragged lower again. The GBP-USD flexed against the 12 Nov low, but failed at this first attempt. Retain heavy tone for now, with 1.3350 as the immediate target. Short-term implied valuations imply significant downside room. From a technical basis, there may also not be firm supports until the 1.3150 zone.



USD-CAD

Supported. The crude complex is caught between opposing forces, with OPEC trying to push-back against releases from the respective strategic reserves. Inherent choppiness in that front will flow through to the USD-CAD space. Immediate range between 1.2630 and 1.2750.



Rates Themes/Strategy

- Global yields rose as inflation concerns lingered, while Europe PMIs came in better than expected. A couple of relatively hawkish remarks on inflation from the supposedly dovish ECB have added to the bond sell-off. ECB vice president Guindos commented that while supply bottlenecks and higher energy costs are transitory by nature, inflation has not eased as much as the ECB had projected, and "supply factors are becoming more structural, more permanent". Schanbel, meanwhile, also saw inflation risks "skewed to the upside".

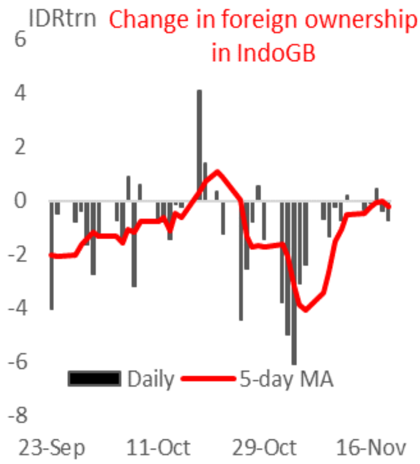
- UST yields rose across the curve in a steepening manner, with the solid 7Y coupon auction lending some support to the belly. The 7Y coupon bond cut off at 1.588%, 1bp lower than WI issue; other auction parameters were decent with direct award rising to 23.3% and bid/cover ratio at 2.42%. That said, the 7Y caution had been expected to benefit from the recent cheapening and smaller sizes, and as such the support the result provided to the market was mild. Range for the 10Y UST yield stays at 1.51%-1.71%. Implied rates from Eurodollar futures edged up; usage at the Fed's o/n reverse repo stayed high at USD1.57trn.

- BoE Bailey said the 895bn purchase program needs to be unwound eventually. While no timeline is provided, given the central bank's stance that they will not shrink the balance sheet until the bank rate rises to 0.5%, the mentioning of unwinding shall be seen as mildly hawkish. Meanwhile, Bailey reiterated it is the tightness in the labour market that concerns him the most.

- The Bank of Korea is widely expected to hike its 7-day repo rate by 25bps on Thursday. Key to watch to gauge the 2022 hiking path are 1/ the number of votes – four to five members voting for a rate hike shall be considered as in line with expectation; more than five members voting for a hike will be seen as mildly hawkish; and 2/ the revised GDP and inflation forecasts.

- IndoGBs traded in tight ranges as USD/IDR was relatively resilient on Tuesday despite the strong dollar. Global yield movement remains as the main swing factor which prevents IndoGB yields from breaking lower, although the domestic conditions are favourable. Foreign holdings of IndoGBs fell to IDR925.2trn as of 19 November, with the domestic market seeing four days of outflows last week.

Source: Bloomberg, OCBC



Source: Bloomberg, OCBC

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