OCBC TREASURY RESEARCH

Daily Market Outlook

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Rates and FX Themes/Strategy

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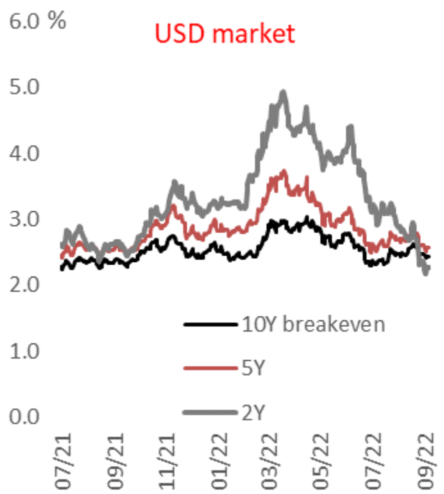
- Global bonds stabilized on Friday with some small rallies although markets held onto hawkish rate hike expectations. **Gilts** outperformed mildly probably as market continued to gauge the impact of the energy bill on inflation. The postponement of BoE's September MPC meeting does not provide the market with much additional information on the data front, with the important CPI data being released before the original MPC schedule. GBP OIS price a 75% chance of a 75bp rate hike at the September MPC. Investors also wait for the BoE's final decision on active bond sales, given Bailey had said the central bank might revise its plan in view of supply risk from the energy bill; we see the bar as high for the BoE to step back from the plan though.

- **UST**. Fed's George commented that the case for continuing to remove policy accommodation is "clear cut", and that peak policy rate is just speculation at this point – meaning there might be further upside given her usual stance. USD OIS almost fully price in a 75bp hike at the September MPC, and a terminal rate of 4.1%. Unless US CPI surprised a lot to the downside, signs of inflation peaking would unlikely be enough to alter market's hawkish expectation. At the long end, the 10Y inflation expectation appears well anchored at around the 2.40-2.45% area, while we remain of the view that it would be difficult for the 10Y real yield to break higher near-term, leaving limited upside to the 10Y nominal UST before the September FOMC meeting.



Source: Bloomberg, OCBC

- **DXY. Bears Await CPI Tomorrow.** DXY's turn lower found interim support at 21DMA as focus shifts to US CPI release tomorrow. Bloomberg consensus looks for headline to slow to 8% YoY for Aug, down from 8.5% but core CPI to pick up to 6.1%, from 5.9%. A softer print for both core and headline should see another extension of USD's decline. We had earlier shared that price pressures (such as wage growth, core PCE, ISM prices, etc.) are already showing signs of slowing. Fed's Beige Book also pointed to *price growth showed signs of deceleration.* WSJ reported that private firms that track high frequency data also saw gasoline prices falling sharply in Aug, airfares fell, prices used cars and hotels slowed while rent increases saw hints of slowing, albeit still at elevated levels. Retailers are also ramping up discount programs to clear inventory of clothing that were overstocked during the pandemic. That said, prices of food, household items and healthcare products remain on the rise. We agree that it may be too soon to declare victory on the fight against inflation but it is worth keeping a look-out on how slowing US data may influence Fed signalling in coming months and potentially, that can translate into USD easing especially if EUR can find relative stability. For now, the baseline for markets leans towards 75bps hike at 22 Sep FOMC. DXY extended its move lower below 109-handle. Last at 108.76 levels. Daily momentum turned bearish while RSI is falling. Bearish divergence on daily MACD is playing out. Break-out of rising wedge pattern is also in play – bearish reversal. Risks remain skewed to the downside. Support at 108.40/50 (21 DMA, 38.2% fibo retracement of Aug low to Sep high), 107.7 levels (50% fibo). Resistance at 109.30 (23.6% fibo), 110.30 levels.

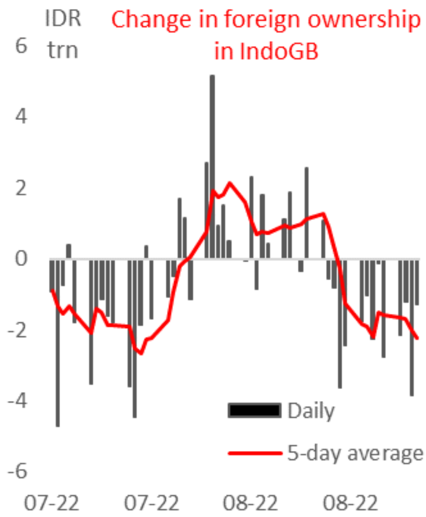
- **EURUSD. Boosted by Ukraine News.** EUR continued to inch higher, riding on Ukraine news, easing natural gas prices (fell 6% on Fri and down nearly 14% MTD) and hawkish remarks from Bundesbank's Chief Nagel. He said that ECB will be required to continue raising rates if current trend in CPI continues. War situation in Ukraine appears to see positive progress over the weekend as Ukraine forces continued their counter-offensive in the Kharkiv region. Various reports said that Ukraine forces have captured Izyum, a key launching point for the Russian offensive in the Eastern Donbas region and the Russians have made a surprise retreat. It may be too early to call an end to war but if Ukraine forces can consolidate its regained territories and continue to pressure Russians, then optimism can grow and this can lend further boost to EUR. Pair was last at 1.0080 levels. Daily momentum is bullish while RSI rose. Bias for upside play. Next resistance at 1.0120 (50% fibo retracement of Aug high to Sep low, 50 DMA) before 1.0175 (61.8% fibo). Support at 1.0060 (38.2% fibo), 0.9980 (23.6% fibo).

- **GBP. Data Dump Today.** GBP drifted higher, riding on EUR's ascend and broad USD pullback. BoE MPC has been pushed back by a week to 22 Sep, from 15 Sep following Queen's departure. Today brings a slew of data ranging from monthly Jul GDP, IP, construction output, trade. GBP was last at 1.1620 levels. Bearish momentum on daily chart waned while RSI rose from oversold conditions. Risks are tilted to the upside in the near term. Resistance here at 1.1620, 1.1720 levels (21 DMA). Support at 1.15, 1.1420 levels.

- **AUDUSD. Technical Rebound Underway.** AUD rebounded, in line with our caution for technical rebound play. Move higher came amid gains in equity markets. Nikkei, ASX were up 1% this morning. Positive development on Ukraine front was also another driver supporting risk sentiments this morning. Pair was last at 0.6845 levels. Bearish momentum on daily chart is waning while RSI is rising. A technical bounce in the near term is still on the cards. Resistance here at 0.6860, 0.6910 levels (50% fibo retracement of Jul low to Aug high). Support at 0.6790 (76.4% fibo), 0.6760 levels.

- **USDJPY. Bias to Sell Rallies.** USDJPY fell sharply last week in line with our bias to sell rallies. Following the joint meeting of BoJ, MOF and FSA, BoJ Governor Kuroda weighed in last Fri to warn against rapid weakening of JPY. While intervention risks may be small, we warned against complacency. Pair was last at 146.65 levels. Bullish momentum on daily chart shows signs of fading while RSI fell from overbought conditions. Support at 141.5 levels (23.6% fibo retracement of Jul low to Sep high). Resistance at 143.30, 144.5 levels.

- **IndoGBs** continued to trade on the firm side, with the current 15Y benchmark (FR93) outperforming, as MoF announced a new issuance of a 15Y bond (FR98) at the upcoming auction which might have led to some short covering of the current benchmark bond. The mildly inverted 10-15Y segment will likely cap the 10Y yield as well, underlining our view for the 10Y IndoGB yield to trade in a range of 7.0-7.20% on a multi-week horizon. Tuesday's conventional bond auction has an indicative target of IDR19trn and maximum target of IDR28.5trn; we see no pressure to upsize the issuances unless the yields at the auction are seen favourable by MoF. Bond outflows continued, with foreign holdings of IndoGBs edging down further to IDR748.2trn as of 8 September, or 14.94% of outstanding.



Source: Bloomberg, OCBC

- **MGS** stayed resilient on Friday despite the higher US yields the night before, while IRS pricing edged lower to less than a 25bp rate hike on a 3-month horizon, which is not hawkish at all. Further downside to front-end IRS may be limited from here. On bond side, we continue to expect the 3Y MGS yield to stay in a 3.3-3.5% range, on monetary policy gap. July Industrial production printed 12.5% YoY, which was similar to June's 12.1% but below market expectation. This week's data calendar is light/almost empty.

- In onshore **China**, CNY600bn of MLF matures this week, where the PBoC is likely to take the chance to withdraw some liquidity from the market by partially rolling over the MLF; we look for a CNY400bn rollover. Liquidity is ample in the market, with market repo rates trading low while T/N has stayed below par. The August credit data also reflected weak credit demand rather than supply. Some liquidity withdrawal is unlikely to impact the CNY rates market. The weak yuan may add to the chance that the MLF rate will be kept unchanged, which is already the base case.

- **USD/SGD. Downward Pressure.** USDSGD continued to trade with a heavy bias amid broad USD pullback. Double-top bearish reversal is also playing out. S$NEER is trading above 1.4% above the midpoint for consecutive few days this week. Pair was last at 1.3980 levels. Bullish momentum is waning while RSI fell. Support at 1.3960, 1.3915 (50DMA). Resistance at 1.4020, 1.4060 levels.

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