# OCBC TREASURY RESEARCH

## Daily Market Outlook

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## Rates and FX Themes/Strategy

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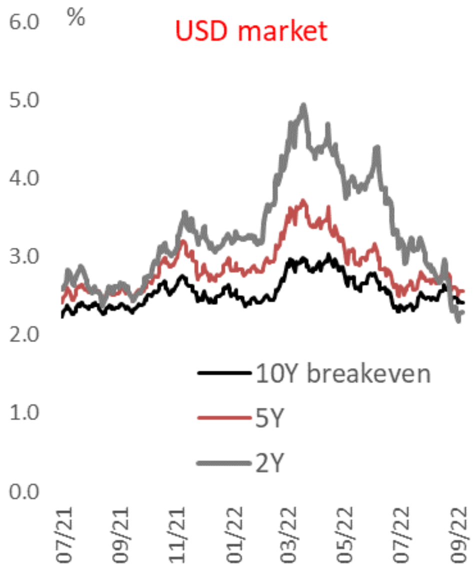
- The **UST** curve bearish steepened overnight, with yields rebounding from intra-day lows upon lukewarm response to the 3Y and 10Y coupon auction. The 10Y bond cut off at 3.33%, which was 2.7bp above WI level with indirect bidder award down to 62.3%; the 3Y auction also tailed by 1.4bp with indirect accepted down to 54.5%. The auctions suffered from mild richening during the day and the uncertainty surrounding the upcoming US CPI release. The 10Y real yield rose further to 0.92%, only 24bp away from the pre-Covid peak, while the 10Y inflation expectation remained well anchored at around 2.40%. The recent steepening in the UST curve has been partly driven by the steepening in the breakeven curve, where short-end breakeven has eased rapidly with the 2Y breakeven having fallen below the 10Y breakeven a few days back. We see more upside to the 2Y yield than to the 10Y yield as real yield shall face resistance to the upside with economic data coming in mixed.




Source: Bloomberg, OCBC

- **Gilts** outperformed mildly as the monthly GDP printed weaker than expected mainly supported by the services sector while the production and construction contracted. GBP OIS price a 64% chance of a 75bp hike at the September MPC meeting, versus 75% a day ago. 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. Even if the BoE delayed active selling of bonds which has been planned at GBP40bn over the next 12 months, it would only make way for part of the energy bill. How the energy bill is going to be financed is still unclear; at this juncture, investors may choose to stay cautious and long-end Gilts are likely to underperform.

- **DXY. All Eyes on CPI Today.** DXY consolidated after trading lower for 4 consecutive sessions. Market awaits US CPI release this evening (830pm SG time). Bloomberg consensus looks for headline to slow for a second consecutive month to 8% y/y 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. Other high frequency data such as gasoline, airfares in US fell in Aug, prices of used cars and hotels also moderated 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. Though it may be too soon to declare victory on the fight against inflation, 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, a 75bps hike at 22 Sep FOMC is highly likely but watch if the vote is unanimous. This week there is also plenty of US data to digest, including PPI tomorrow, retail sales, industrial production on Thu, Uni of Michigan sentiment on Fri, alongside the roll out of regional Fed manufacturing surveys for September. DXY was last at 108.20 levels. Bearish momentum on daily chart intact while RSI is falling. Bearish divergence on daily MACD is playing out. Bias still for downside play but ahead of CPI, consolidative trades are likely. Support at 107.50/70 levels (50 DMA, 50% fibo retracement of Aug low to Sep high), 107 levels (61.8% fibo). Resistance at 108.45 (38.2% fibo), 109.30 (23.6% fibo).

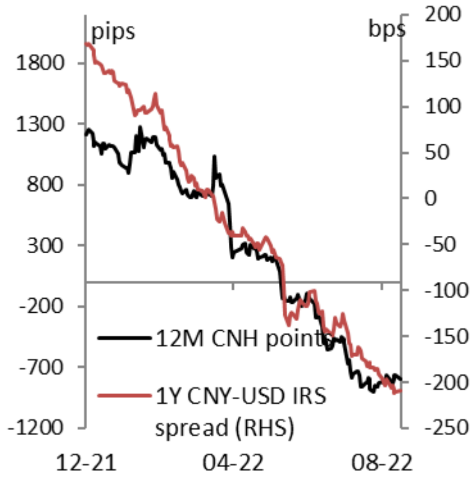
- **EURUSD. Consolidation.** EUR eased from highs of near 1.02 levels overnight but remains supported overall. Continued decline in natural gas prices (fell 8% overnight and 20% MTD), hawkish remarks from ECB and positive Ukraine development are some drivers keeping EUR supported. The EU's draft plan to ease energy crisis was a good start but has yet to gain final approval from all member states. For instance, ministers agreed on 4 main areas: (1) reduction in peak electricity demand; (2) windfall levies on non-gas power production; (3) broader gas price cap; (4) provision of liquidity to power producers facing high collateral demand. But Italy, Austria and Greece opposed to a cap only on Russian imports as they are fearful of Russia cutting off remaining supplies. A swift move to firm up on the proposals on price cap for gas imports and windfall levy could help to ease price pressures and provide further support for EUR. We keep in view European Commission President Ursula's state of the union address to European parliament tomorrow – if she takes the platform to emphasise on EU unity in response to energy crisis. Pair was last at 1.0130 levels. Daily momentum is bullish while the rise in RSI moderated. Consolidative play ahead of US CPI likely. Next resistance at 1.0175 (61.8% fibo retracement of Aug high to Sep low) before 1.0250 (76.4% fibo). Support at 1.0120 (50MA, 50% fibo), 1.0060 (38.2% fibo).

- **GBP. Labor Market Report Today.** GBP continued to trade higher despite downside surprise to UK data yesterday as broad USD pullback provided a breather. GBP was last at 1.1680 levels. Daily momentum showed signs of turning bullish while rise in RSI moderated. Consolidation trades likely in the near term. Resistance at 1.1710 levels (21 DMA). Support at 1.1620, 1.15 levels.

- **USDJPY. Retain Bias to Sell Rallies.** USDJPY continued to trade near recent low, aided by broad pullback in USD and UST yields while verbal intervention risks linger. Pair was last at 142.55 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, lower bound of bullish trend channel). A decisive break below that support could trigger more stopsell orders. Next support at 139.20 levels (21 DMA). Resistance at 143.30, 144.5 levels. US CPI release later this evening may be the trigger.

- The **IndoGB** curve flattened further as the 15Y (FR93) continued to outperform with the 10s15s turning more inverted. The 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. Today's conventional bond auction has an indicative target of IDR19trn and maximum target of IDR28.5trn. Expect demand will mostly go to longer tenors. Finance Minister said the recent fuel price hikes are adequate for 2022 budget, suggesting there will be no more fuel price hikes within this year.

- 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. **Back-end CNH points** edged down this morning. After the recent upward adjustment, the strategy may be going back to a sell-on-rally one. First, implied CNY rates are not as low compared to repo rates as a few weeks back and the offshore DF curve is higher; for example, 12M implied CNH rate was at 2.61%, implied CNY rate at 2.19% and 1Y repo-IRS at 1.92%, at the time of writing; the lower onshore curve shall remain as a pull factor for the offshore DF curve. Second, the RMB sentiment appears to have stabilized somewhat. Third, it is still more likely for CNY-USD rates spread to narrow than to widen.



Source: Bloomberg, OCBC

- **USDCNH. Breather.** USDCNH slipped as PBoC set daily RMB mid at stronger than expected level, for the 14th consecutive session while broad USD strength eased. Pair was last at 6.9270 levels. Daily momentum shows signs of turning bearish while fall in RSI moderated. Consolidative play likely intra-day ahead of US CPI release. Support at 6.91, 6.8940 (21 DMA). Resistance at 6.9310, 6.9560 levels.

- **USD/SGD. To Take Cues from US CPI.** USDSGD continued to trade near recent low amid broad USD pullback. S$NEER is testing the upper bound. Last seen ~1.45% above mid-point for around 5 trading sessions. Pair was last at 1.3965 levels. Bullish momentum on daily chart waned while RSI fell. Support here at 1.3960, 1.3915 (50DMA). Resistance at 1.4020, 1.4060 levels.

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