OCBC TREASURY RESEARCH

Daily Market Outlook

14 September 2022

Repricing Expectations

- Front-end **UST** yields jumped on the US CPI print, with the curve bearish steepening on the day. Headline CPI decelerated less than expected, and more importantly core CPI rebounded more strongly to 6.3% YoY. Services less energy inflation continued to pick up, while goods ex food ex energy inflation also turned higher breaking the 5-month moderating trend. Higher core CPI means inflation is sticky downward, underlining the Fed's view that rates will stay higher for some time. USD OIS pushed the expected terminal rate (upper end) higher to 4.5%, while keeping expectation for a 75bp hike at the September FOMC meeting. Fed funds futures price in a 40% chance of a 100bp hike. The 2Y UST yield broke above our near-term target of 3.7%, with bias staying to the upside especially if the bond market chooses to price the terminal rate right away. Otherwise, the 30Y coupon auction was well received, cutting off at 3.511%, 1.9bp lower than WI level. Indirect award edged higher to 72.1%, and bid/cover higher at 2.42x.

- **DXY. Bulls Re-invigorated.** Hotter than expected CPI report saw a re-pricing of rate expectations and renewed USD strength while risk assets tumbled. NASDAQ was down >5% overnight. 2y UST yield rose sharply to 3.78% this morning, a fresh 15-year high. On rates, markets are now pricing in a 40% chance of a 100bps hike (vs. 0% prior to CPI release) at the upcoming FOMC meeting (21 Sep) and for terminal rate to shift up to 4.36% by Mar-2023 (vs. 4% prior to CPI release). USD went bid on the back of stronger US data, higher rate expectation and risk-off sentiment. JPY (wider UST-JGB yield differentials) and KRW (high-beta) were the main underperformers in the region. With no Fed speaks in the lead-up to FOMC, the USD could stay bid unless upcoming US data - PPI (today), retail sales, industrial production on Thu, Uni of Michigan sentiment on Fri, alongside the roll out of regional Fed manufacturing surveys for September - see any big surprise to the downside. To recap CPI report, headline CPI saw a sequential uptick by 0.1% MoM but it was the core CPI that doubled its pace of rise (+0.6% MoM vs. 0.3% prior month and expectations). In particular, food prices rose sharply while prices for electricity, natural gas, housing costs, medical care and education also rose. The persistent uptick in price pressures underscored the view that it may be too soon to declare victory on the fight against inflation. We continue to keep a look-out on how slowing US data may influence Fed signalling in coming months. But in the interim, the debate between a 75bps and 100bps hike is likely to retain a bid tone on the USD overall. DXY was last at 109.9 levels. Mild bearish momentum on daily chart faded while RSI rose. A bullish outside reversal was formed. Resistance at 110.3 before 110.78 (previous high). Support at 108.95 (21 DMA), 108.45 (38.2% fibo retracement of Aug low to Sep high) and 107.70 levels (50 DMA, 50% fibo).

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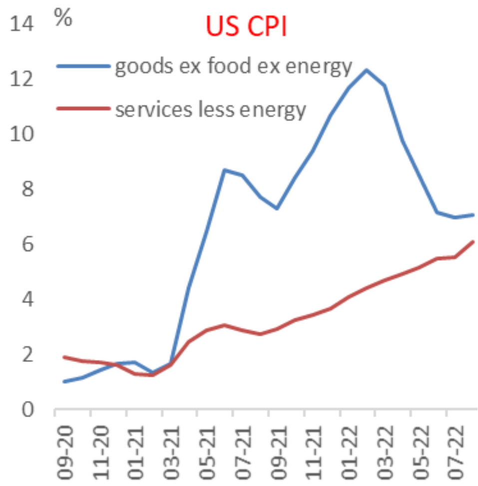


Source: CEIC, OCBC

- **EURUSD. Risks Skewed to Downside.** EUR fell amid a resurgence in USD strength as US CPI report came in hotter than expected. Markets repriced US rate hike expectations, bracing themselves for a potential 100bps hike. EU-UST 2y yields differentials widened to -239bps (vs. -216bps a week ago). EUR was last seen at 0.9975 levels. Mild bullish momentum on daily chart shows tentative signs of fading while RSI fell. Risk remains skewed to the downside. Support at 0.9960, 0.9910 levels. Resistance at 1.0060 (38.2% fibo). Today we watch IP data as well as 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. The EU's draft plan to ease energy crisis was a good start but requires 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.

- **USDJPY. Supported but Cautious of Intervention Risk.** USDJPY surged, tracking UST yields and USD higher. Hotter than expected US CPI report spurred market bets (40% probability now) for 100bps hike at upcoming FOMC meeting. 2y UST-JGB yield differentials widened to +383bps, up from 366bps on Mon. USDJPY came close to 145 levels again this morning before easing slightly lower as Japan's currency chief, Kanda said they are concerned that FX moves are very sudden and will monitor the situation with a sense of urgency and respond appropriately without ruling out any options. Verbal jawboning may help to slow the pace of JPY depreciation but is not likely to alter the trend unless USD, UST yields decisively turn lower or BoJ changes/tweaks policy. Both scenarios appear unlikely for now. Nonetheless, we still caution against complacency with regards to the risk of Japan intervening in FX markets. Further sharp move beyond 145-146 would likely raise intervention risks. But for now, we should expect to see more verbal jawboning. Pair was last at 144.52 levels. Bullish momentum on daily chart shows signs of fading while RSI is near overbought conditions. Resistance at 145. Support at 143.20, 141.5 levels (23.6% fibo retracement of Jul low to Sep high, lower bound of bullish trend channel).

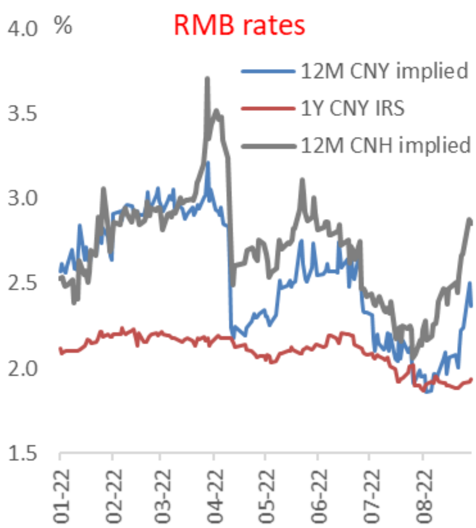
- **IndoGBs** remained supported. Tuesday's conventional bond auction attracted incoming bids of IDR52.056trn while IDR19trn of bonds were awarded with no upsize. Most of the bids went to the 10Y bond (FR96) and the new 15Y bond (FR98) as expected. Cut-off for the 10Y bond awarded was at 7.14%, versus the range of incoming yields of 7.06%-

7.30%. We remain of the view that the 10Y IndoGB yield is likely to trade in a range of 7.0-7.20% in the coming weeks, and the curve shall stay flat. There was a small (negligible) inflow of IDR70bn into IndoGBs on Monday, with foreign holdings standing at IDR747.15trn as of 12 September, or 14.92% of outstanding.

- **Bank of Korea** minutes for the August MPC meeting sounded less hawkish than the post-meeting press conference itself. The minutes suggested that it was more likely that the central bank would go for an extended hiking cycle rather than front-loading rate hikes. The rhetoric may however change after last night's US CPI outcome. KRW rates market pricing in 45bp of hike on a 3-month horizon is on the dovish side and risk is for an upward adjustment.

- **USDCNH. Consolidate at Higher Grounds.** USDCNH rose sharply, tracking the move higher in broad USD strength. PBoC set the daily RMB mid at stronger than expected level, for the 15th consecutive session. The RMB fix today was also nearly 600pips stronger than median estimates to counter the strong USD momentum post red-hot US CPI. Stronger fix could continue to be featured but could only serve as an attempt to slow the pace of RMB depreciation. Pair was last at 6.9684 levels. Daily momentum is flat while RSI eased. Consolidative play likely intra-day. Resistance at 6.9970 levels (previous high), 7.00. Support at 6.95, 6.93 levels.

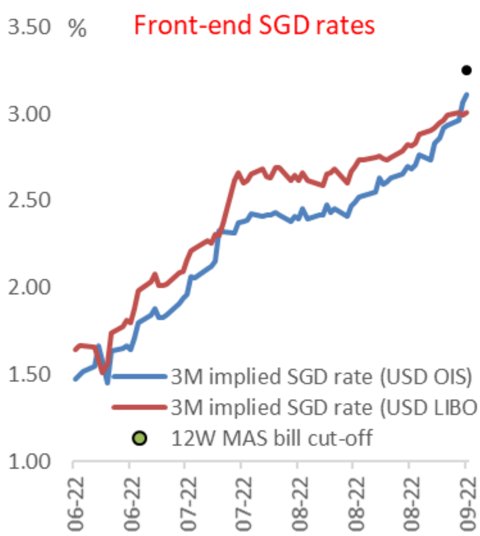
- **Back-end CNH points** edged down this morning. Bias on the point shall be to the downside. First, implied CNY rates are not as low compared to repo rates as a few weeks back and the offshore DF curve is yet higher; for example, 12M implied CNH rate was at 2.85%, implied CNY rate at 2.36% and 1Y repo-IRS at 1.94%, at the time of writing; the lower onshore curve shall remain as a pull factor for the offshore DF curve. Second, it is still more likely for CNY-USD rates spread to narrow than to widen. On liquidity, there have been relatively huge amounts of Northbound Stock Connect flows of late, amounting to RMB26bn over the past three sessions; nevertheless, these flows do not tighten CNH liquidity one-for-one and cross-border flow is a less important factor than rates differentials driving the market at the moment. Meanwhile, PBoC is to issue RMB5bn of 6-month offshore PBoC bill through the CMU in Hong Kong on 20 September; this represents a rollover which shall not affect CNH liquidity.



Source: Bloomberg, OCBC

- **USD/SGD. Nearing Double-Top Again.** USDSGD rebounded amid USD resurgence post-hotter than expected US CPI. S$NEER is trading ~1.5% above mid-point. Pair was last at 1.4050 levels. Mild bullish momentum on daily chart intact but rise in RSI moderated. Resistance at 1.4060, 1.41 levels. Support here at 1.3980 (21 DMA), 1.3915 (50DMA).

- **SGD rates**. The 4-week MAS bills cut off at 3.05% and the 12-week MAS bills at 3.25%, both higher than implied SGD rates. Next to watch is the upcoming 6M T-bill auction on Thursday. The 6M bill last cut off at 2.99% on 1 September but since then rates and implied have gone higher. The recent MAS FRN on 6 September had a cut-off spread of 45bp pointing to 3.40% using the then 6M SGD OIS level. Currently, implied 6M SGD rates from USD OIS and USD LIBOR are at 3.34-3.36%. These provide a reference range at 3.30-3.40% but all depends on the prevailing market levels on Thursday.



Source: Bloomberg, OCBC

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