

Daily Market Outlook

15 September 2022

Relative calm

- **UST** yields retraced from highs attained during early session, as market digested the US CPI data. The curve pivotal flattened. Fed Funds future price in a 28% chance of a 100bp hike at the September FOMC meeting, easing from as high as 40% priced at one point a day ago. The 10Y UST yield was little changed on the day with opposite move in the breakeven and real yield. We expect the 10Y real yield to be capped at 1.00% near-term, while the 10Y inflation expectation shall be anchored at the 2.40-2.50% range for now. The 119-day CMB (cash management bill) yielded 3.55%; bid/cover lower at 3.14x and indirect awards lower at 47.4%.
- **DXY. Gains Slowed.** Markets appeared to have somewhat stabilised overnight with US equities retracing some of its Tue losses while the run-up in DXY paused. Nonetheless, the hotter than expected CPI report saw a hawkish re-pricing of rate expectations and renewed USD strength. A 75bps is fully priced but Fed fund futures are now pricing in a 1/4 chance of a 100bps hike at the upcoming FOMC meeting next Wed and for terminal rate to shift up to about 4.4% by Mar-2023 (much higher than the 4% seen prior to CPI release). Apart from yield differentials thematic driving FX, the risk of tighter financial conditions and growth worries could continue to weigh on trade-dependent and high-beta FX such as KRW, TWD and THB in the region. With no Fed speaks in the lead-up to FOMC, the USD could still stay bid on dips and take cues from upcoming US data - retail sales, industrial production today, Uni of Michigan sentiment on Fri, alongside the roll out of regional Fed manufacturing surveys for September. 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 109.72 levels. Mild bearish momentum on daily chart faded while rise in RSI moderated. Resistance at 110.3 before 110.78 (previous high). Support at 109.1 (21 DMA), 108.45 (38.2% fibo retracement of Aug low to Sep high) and 107.70 levels (50 DMA, 50% fibo).
- **EURUSD. Risks Skewed to Downside.** EUR consolidated near recent lows overnight. ECB speaks were hawkish with Kazaks saying that the ECB may have to continue to hike rates beyond Feb to bring inflation back to 2% target. He added that risks of second round effects remain and could still pose upward risks to inflation as monetary policy is still accommodative. Separately, Holzman said inflation is likely to accelerate even more and that the last 2 rate decisions is a testament that ECB is willing to do more. EUR was last seen at 0.9975 levels. Mild bullish momentum on daily chart shows tentative signs of fading but RSI was flat. Consolidative trades likely. Support at 0.9960, 0.9910 levels. Resistance at 1.0060 (38.2% fibo). In European Commission President Ursula's state of the union speech, she said that the EU will launch a "deep and comprehensive" reform of the electricity market

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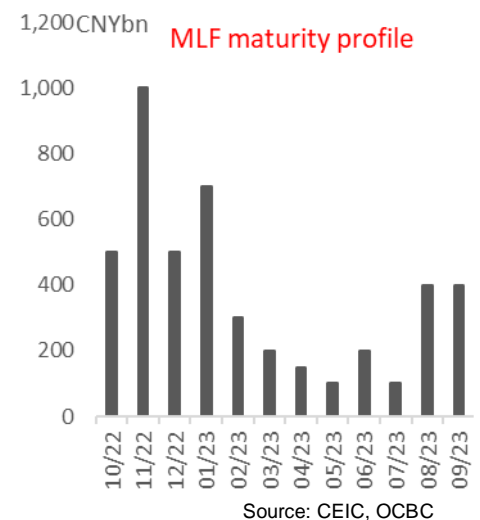
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and that includes working on a more representative benchmark for trading (for instance there is already a shift from pipeline gas to LNG but TTF benchmark is still used in the gas market). To recap, EU energy ministers are supposed to decide on the 5-point plan that includes (1) price cap on Russian gas; (2) windfall tax on fossil fuel companies' profits; (3) limit on revenues of renewables and nuclear companies; (4) mandatory target for reducing peak hour energy usage by 5% and (5) emergency provision of liquidity to power producers facing high collateral demand. 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. Intervention Risk Keep JPY Shorts at Bay.** USDJPY drifted lower after verbal intervention re-surfaced. This time, the language and tone from Japan officials seems more urgent as Finance Minister warned that authorities will not announce intervention plans and will act swiftly without interruption if it were to act. We opined that the actual intervention may be conducted if there is another sharp move higher to test 145. Intervention can impact the JPY and the impact could be most felt within the first 48 hours based on past observation. But intervention alone is not likely to alter the trend unless USD, UST yields turn lower or BoJ changes/tweaks policy. Pair was last at 143 levels. Bullish momentum on daily chart shows signs of fading while RSI is near overbought conditions. Support at 142.50, 141.5 levels (23.6% fibo retracement of Jul low to Sep high, lower bound of bullish trend channel). Resistance at 145.
- USDCNH. Consolidate.** PBoC continues to rely on daily fix to manage/guide RMB moves. For 16th consecutive trading days, the fix was set stronger than estimates and the fix yesterday was nearly 600pips wide from market median estimate. 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 6.9730 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.
- CNY rates.** The PBoC partially rolled over the RMB600bn of MLF that matured today, granting RMB400bn and hence net withdrew RMB200bn of liquidity, at an unchanged rate of 2.75%. Both the amount and the rate are in line with expectations. Market liquidity is ample (market rates stay below policy/administered rates, t/n below par) and some withdrawal had been expected. As such, CNY IRS reaction shall be muted. Market may even be relieved that the drainage was not bigger. Still, the CNY IRS market tends not to price in future policy rate action, given the PBoC approach has always been targeted with various possible combinations of policies, and hence the unpredictable nature of the policy/administered rates. We expect CNY

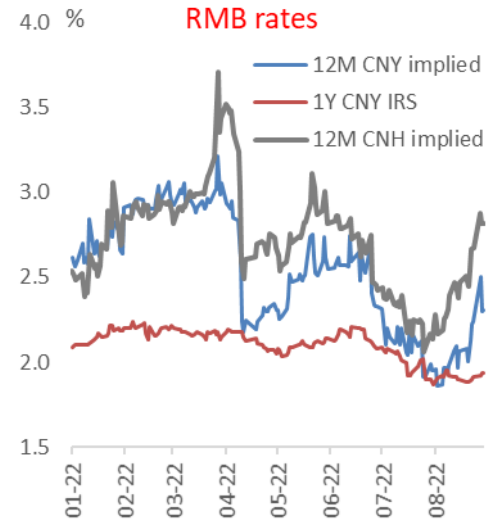


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IRS to trade in narrow ranges until the next policy action. On bond side, supply risk appears to be lower than initially feared, as the amount of additional special LGBs, to be issued by the end of October, has been said at CNY500bn odd, lower than the CNY1.5trn leftover quota. On balance, the 10Y CGB yield is likely to stay in a range of 2.60-2.70%.

- **Back-end CNH points** fell on the higher US yields and bias stays to the downside. Offshore CNH implied rates are relatively high, with the 12M CNH rate at 2.82%, compared to 12M CNY rate at 2.31% and the 1Y CNY IRS at 1.94%. The wide off-onshore gap means the offshore DF curve still provides a viable avenue for dollar funding. Meanwhile, despite the absence of a policy rate cut in China, it is still more likely for CNY-USD rates spread to narrow (become more negative) than to widen driven mainly by USD rates move.
- **USD/SGD. Sideways.** USDSGD consolidated near recent highs as USD strength lingers. S\$NEER is trading ~1.32% above mid-point. Pair was last at 1.4055 levels. Mild bullish momentum on daily chart intact but rise in RSI moderated. Resistance at 1.4060, 1.4090 levels. Support at 1.3990 (21 DMA), 1.3915 (50DMA).



Source: Bloomberg, OCBC

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