Daily Market Outlook

18 May 2022

Rates and FX Themes/Strategy

Frances Cheung, CFA
Rates Strategist
+65 6530 5949
FrancesCheung@ocbc.com

Treasury Research
Tel: 6530-8384

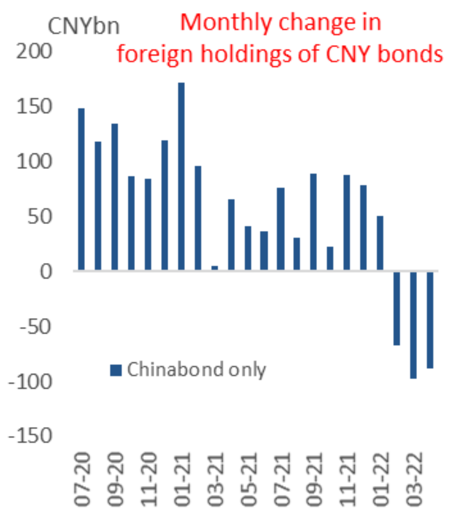
- The main market driver over the past day was the central bank expectations. **UST** yields rose by more than 10bps across the 2Y to 10Y segment with front-end bond underperforming, as Powell reiterated the commitment to hike rate. Treasury futures are extending losses at Asia open. Powell said the Fed "won't hesitate" to hike rate beyond neutral, and the central bank will do so until it sees inflation "coming down in a clear and convincing way". USD OIS is pricing in a 50bps hike at the June meeting, and 85% chance of a 50bps hike each at the July and September meetings.

- Front-end Gilt underperformed USTs, upon a strong set of labour market data. Payroll rose by 121k in April, the jobless rate edged down by 0.1ppt, and weekly earnings growth picked up. This backdrop is seen as providing the BoE with more leeway to continue hiking rates. **GBP/USD** rose to an intraday high of 1.2499 and is trading around this level at the time of writing. It is a tug of war for the sterling between the prospects of higher rates and growth concerns coupled with unhelpful Brexit headlines. Having firmly rebounding from the low of 1.2156, the 21DMA at 1.2515 is the immediate resistance, followed by 1.2650.

- **AUD/USD** garnered support from monetary policy prospect as well. RBA minutes show that MPC members had considered three options for the May rate hike – 15bps, 25bps and 40bps. A 15bps hike was seen as not enough, while a 40bps rate hike was considered because it would bring the level of the Cash Rate back to the normal multiple of 25bps. The reason for not opting for a 40bps hike yet was that the central bank would have the opportunity to do so later. As such, the chance appears high for a 40bps hike at any one of the remaining meetings for the year. Still, cash rate futures pricing of additional hikes of 245bps between now and year-end looks overly hawkish.

- **EUR OIS** pricing of rate hikes this year has reached our target of 100bps; any further increase in the pricing may look overly hawkish at this stage.

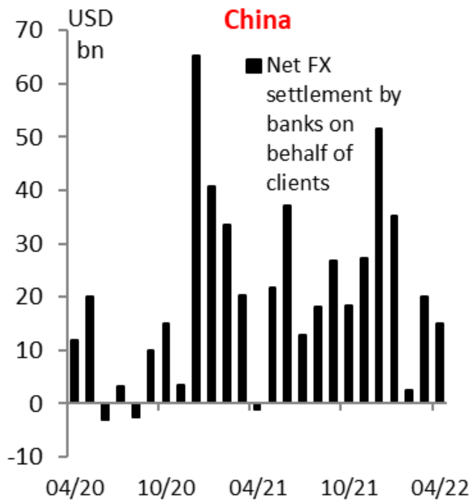
- **USD/SGD**. SGD NEER is trading at 1.33% above mid-point this morning, mildly lower than Tuesday's close. The broad dollar retraced further but the SGD underperformed the CNY. Having broken the support at 1.3850, the next level to watch for USD/SGD is 1.3765 which corresponds to the upper end of the SGD NEER band at current market levels.



Source: Chinabond, CEIC, OCBC

- The onshore **CNY bond** market saw another month of relatively big outflow at RMB88bn in April, following the outflow of RMB98bn in March (Chinabond data only). Yield differentials being compressed on the one hand, the RMB was relatively volatile during the month when FX hedging costs were not particularly low. Implied RMB rates have fallen more than CGB yields since then, which helps improve the risk-reward if partial FX hedge is needed.

- **USD/CNH.** China registered a net foreign-related foreign currency receipt (by banks on behalf of clients) of USD11.0bn in April, representing continued supply of foreign currencies to onshore. Overall net FX settlement by banks on behalf of clients was USD15bn in the month, mainly from the goods trade account. The trend of external balance being supported by the trade account remains intact, which shall prevent a disorderly depreciation in the RMB, while the fluctuations in the portfolio account are driving short-term volatility. The tendency to convert foreign currency receipts into the RMB rose for a second month, probably as entities took advantage of the stronger dollar. The earlier high of 6.8380 has become the resistance for USD/CNH, while downside is at 6.7124.



Source: CEIC, OCBC

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Howie Lee
Commodities
HowieLee@ocbc.com

Ong Shu Yi
Environmental, Social & Governance (ESG)
ShuyiOng1@ocbc.com

Herbert Wong
Hong Kong & Macau
herberthtwong@ocbcwh.com

FX/Rates Strategy

Frances Cheung
Rates Strategist
FrancesCheung@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Toh Su N
Credit Research Analyst
TohSN@ocbc.com

Co.Reg.no.:193200032W