OCBC TREASURY RESEARCH

Daily Market Outlook

19 September 2022

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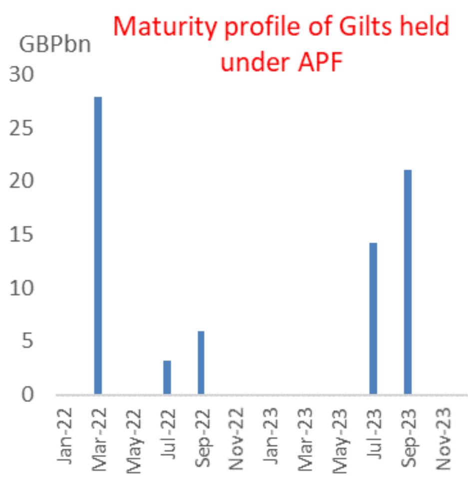
Central Banks in Focus

- **USTs** ended the NY session mixed, with most yields off intra-day highs. USD OIS pared back rate hike expectation slightly, mostly expecting a 75bp hike at this week's FOMC meeting, with a 20% chance seen for a 100bp hike; terminal rate is priced at 4.5% from above 4.6% prior. Market will also eagerly watch the median dot for 2023, which was 3.75% (corresponding to a range of 3.625-3.875%) at the last update; the bar is not high for the peak Fed funds rate to be plotted at 4.00-4.25% - i.e. for the median dot to be pushed to 4.125% with 5 dots at or above such level at the last update already. We have also pushed up our expected Fed funds terminal rate to 4.00-4.25%, from 3.75-4.00% as we originally expected. This terminal rate can be achieved by a 75bp-50bp-25bp-25bp hiking schedule; risk is our expected final 25bp hike would also be delivered within this year if USD core CPI refused to moderate. Short-term fluctuations aside, there is further upside to the 2Y UST yield to better align itself with the expected terminal rate.

- **BoE**. GBP OIS is pricing in an almost even chance of a 50bp versus a 75bp hike at this week's MPC meeting; we are more inclined to see a 50bp hike together with a go-ahead on the active selling plan under QT. Bailey had said the BoE might revise plans to start selling gilts next month if it judges that the market cannot digest the supply needed to fund the energy bill. The size of the planned energy bill has not been confirmed, but the Institute of Fiscal Studies put it at GBP100bn over a 12-month period. This is a significant amount compared to Gilt supply of GBP194.8bn (gross) or GBP115.5bn (net) for fiscal year 2021/22. This is also significant compared to QT – potentially GBP80bn in the next 12-month comprising around GBP40bn of run-off and GBP40bn of active selling. We see the bar as high for the BoE to step away from its plan; QT with run-off only would be slow as the maturity profile under APF is light. Regardless, GBP OIS remains overly hawkish which is subject to adjustment.



Source: BoE, OCBC

- **DXY. Treading Water.** DXY's rebound last week lacks follow-through as DXY is caught in a holding pattern ahead of key event risk - FOMC on Thu (2am SG time). To recap, the hotter than expected core CPI saw a hawkish re-pricing of Fed rate expectations. In particular, markets are now pricing in (1) 20% chance of 100bps hike at the upcoming meeting; (2) Fed fund rate to rise as high as 4.2% by Dec-2022 and (3) for terminal rate to rise to 4.42% by Mar-2023. A 75bps hike at the upcoming FOMC remains our house view. Though core inflation proves stickier than earlier expected, we do not expect a shift to 100bps hike as the "totality" of the inflation picture may perhaps be more encouraging than the core CPI print. Other measures of price pressures (headline CPI, wage growth, ISM prices, etc.) have been slowing, albeit still at elevated levels while inflation expectations (both

NY Fed and Uni of Michigan 1y ahead inflation) are heading lower. Even NFIB report showed that companies looking to raise prices in the next 3 months have fallen to 32% in Aug, down from 51% in May. While a hawkish Fed is now the base line scenario, we caution that a Fed that is perceived as less hawkish could see DXY ease lower post-decision. Meantime, in the lead-up to FOMC, expect caution to keep USD broadly supported on dips. DXY was last at 109.68 levels. Mild bearish momentum on daily chart intact while RSI is flat. Consolidative trades likely intra-day. Support at 109.3 (21 DMA), 108.45 (38.2% fibo retracement of Aug low to Sep high) and 107.70 levels (50 DMA, 50% fibo). Resistance at 110.3 before 110.78 (previous high).

- **EURUSD. Sideways.** EUR was a touch firmer amid hawkish ECB speaks but moves remain caught in subdued range. Looking on, we expect EUR to be driven by (1) ECB speaks; (2) natural gas prices and how recent EU's 5-point plan to tackle energy crisis pans out; (3) Russian-Ukraine conflict, given Putin’s warning that war can get more serious and; (4) USD direction and FOMC policy decision. To a smaller extent, we also keep in view Italy general election (next Sunday). Opinion polls suggest that a right-wing coalition led by leader Meloni is expected to win. A negative surprise outcome would undermine EUR but it appears political uncertainty in Italy is relatively contained for now. EUR was last seen at 1.0010 levels. Mild bullish momentum on daily chart intact while RSI was flat. Consolidative trades likely. Support at 0.9960, 0.9910 levels. Resistance at 1.0060 (38.2% fibo). On energy situation, we continue to monitor the outcome on the 5-point plan. 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. This week, there are more ECB speaks lined up, including Guindos, De Cos, Villeroy on Mon; Muller on Tue; Lagarde, Guindos on Wed; Schnabel on Thu and Kazaks, Nagel on Fri.

- **GBPUSD. Cautious.** BoE MPC decision is eyed on Thu while emergency mini budget will be closely scrutinised on Fri. On BoE MPC, market expects a 50bps hike to bring policy rate to 2.25% and for terminal rate to peak at 4.5% in Jun-2023. This implies nearly 275bps hike (from current levels) and may perhaps be overly hawkish in our opinion. Nonetheless a jumbo 75bps hike at upcoming MPC is not ruled out, given BoE's desire to target inflation though it is not our base case scenario. Markets will also eye BoE’s QT plans. Any delay in prior decision could undermine GBP. Elsewhere Chancellor Kwarteng will deliver emergency mini budget on Fri, which could include GBP30bn of tax cuts while Truss’s plan to cap energy cost at GBP2,500 per year for 2 years could cost between GBP100bn to GBP200bn. Public borrowing is projected to be at least GBP100bn. More details will come on Fri. We are cautious of how sovereign risk rating may be affected. GBP was last at 1.1420 levels. Daily momentum is not showing a clear bias while RSI fell. Risks are skewed to the downside.

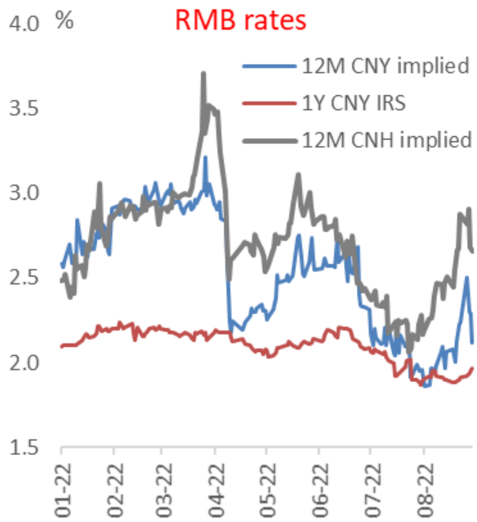
Immediate key support at 1.14 (double-bottom) before 1.1351 (recent low). Break below this puts next support at 1.10, 1.0545 (1985 low). Resistance at 1.18 levels. Sell rallies preferred.

- **USDJPY. Bias to Lean against Strength.** USDJPY has somewhat stabilised with 1m vols back down towards low-13 handle and USDJPY trading around 143-figure. While markets may not be convinced of a BoJ intervention, we cautioned against complacency as warnings from Japan officials are growing louder. Any sharp, excessive move beyond 145 – 146 levels could possibly spark off actual intervention again though question remains how sustainable it can be if there is no follow through in BoJ policy and that USD and UST yield momentum continues. USDJPY was last at 143.10 levels. Bullish momentum on daily chart is fading while RSI eased. Risks are modestly skewed to the downside. Support at 142.50, 141.5 levels (23.6% fibo retracement of Jul low to Sep high). Resistance at 143.70, 145 levels. Local markets are closed today.

- **USDCNH. Supported.** USDCNH broke the 7-figure and traded as high as 7.0425 at one-point last Fri before easing lower. PBoC has continued to rely on daily fix to manage/guide RMB moves with the spot-fix divergence growing to record high +647pips. We reiterate that a stronger fix would continue to be featured but could only serve as an attempt to slow the pace of RMB depreciation and not reverse trend as weak China macro-fundamentals and USD trend overwhelm. Pair was last at 7.0140 levels. Daily momentum is mild bullish while RSI is near overbought conditions. Shooting star candlestick pattern last Fri could hint at bearish reversal – we watch price development for confirmation. Resistance at 7.0350, 7.05. Support at 7.00, 6.9870 levels.

- **The 12M CNH points** slid by 140pips on Friday, probably upon some outright selling when the upticks in US yields were mild. Front-end points were relatively stable, sustaining the flattening bias of the curve. The 12M CNH rate fell by 25bp over the past two sessions to 2.66%, and the 12M CNY rate fell by 38bp from the recent high to 2.12%; these compared to the 1Y CNY IRS at 1.97%. While the wide off-onshore gap means the offshore DF curve still provides a viable avenue for dollar funding, onshore implied CNY rates may be supported for now, while may also slow the downward momentum at back-end CNH points near-term.

- **CNY rates**. The PBoC net injected CNY12bn of liquidity to the market via OMOs this morning, with CNY2bn of 7-day and CNY10bn of 14-day reverse repos. The 14-day reverse repo aims to cover quarter-end liquidity requirement; some more 14-day reverse repos may be granted in the coming days to cover the holidays. The OMO amounts are small, which shall not have an impact on repo IRS. The 10bp cut in

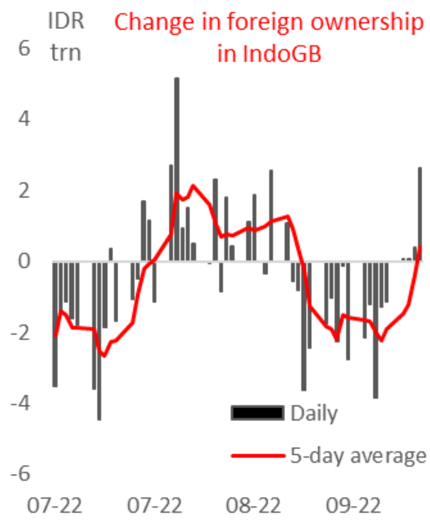


Source: Bloomberg, OCBC

the 14-day reverse repo rate matched the 10bp cut in the 7-day reverse repo rate that was delivered in August, which represents a catch-up as there was no 14-day reverse repo conducted in between. CNY rates and CGBs shall continue to trade in ranges.

- **IndoGBs** were trading on the soft side on Friday amid upward pressure on USD/IDR. Long-end bonds got some selling pressure since the well-received auction last Tuesday, but the curve stayed flat. Bank Indonesia is widely expected to hike its policy rate by another 25bp this week; this, together with BI's operation twist shall keep the curve flat. The sukuk bond auction tomorrow has an indicative target of IDR9trn. There have been some inflows into IndoGBs amounting to IDR3.12trn over the past four sessions, with foreign holdings of IndoGBs standing at IDR750.2trn as of 15 September.

- **USD/SGD. Consolidate.** Rise in USDSGD stalled near its double/triple-top resistance. Pair was last at 1.4075 levels. Mild bullish momentum on daily chart intact while RSI rose. Risks skewed to the upside especially if USDCNH continued to push higher. A rapid CNH depreciation could drag more on AxJs including MYR, SGD THB, KRW. Resistance here at 1.4090, 1.4110 levels (double, triple-top resistance). Support at 1.4010 (21 DMA), 1.3920 (50DMA). S$NEER is trading ~1.50% above mid-point.



Source: Bloomberg, OCBC

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