OCBC TREASURY RESEARCH

Daily Market Outlook

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FX Themes/Strategy

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- EZ/EM equities showed some stabilization overnight. Counterparts in the US still saw volatile action, before closing in the red as the tech sector underperformed. VIX remains at elevated levels. Front-end UST yields firmed up as the traders factor in a potentially hawkish Fed tomorrow, while the back-end was little-changed. Overall, a sense of uneasiness still pervades, as **FX Sentiment Index (FXSI)** nudged into the outright Risk-Off zone for the first time since early Dec.

- The USD was mixed within the G-10 space, although stronger gains were reversed later in global session to put most pairs back in their established ranges. Cyclicals had a breather. The **AUD** and **CAD** saw support from the strong AU 4Q CPI print and an expectation for BOC to move in the policy meeting later today. The NZD was still heavy below the 0.6700 resistance. The EUR-USD reversed deeper declines to close just above the 1.1300 support.

- Expect the FX space to be in a consolidative mode ahead of the BOC (1500 GMT) and FOMC (1900 GMT) decisions. A 25bps hike at the BOC could be a lead-up to FOMC, where we expect Powell to telegraph a 25bps lift-off hike for March. A 50bps lift-off may will be a step too far. Look also for the hints on the quantitative tightening timeline. Overall, the momentum is positive for the USD, although it is drawing more on risk-off dynamics rather than Fed arguments. Watch the equity reaction to the FOMC as a guide for the USD.

- **USD-Asia:** The risk-driven moves are mostly reflected in the USD-KRW in Asia, with the pair pushing towards the key 1,200.00 resistance before reversing. With the back-end UST yields stalling, the USD's draw on the Asian currencies may start to weaken. Expect Asian currencies to turn more consolidative going forward.

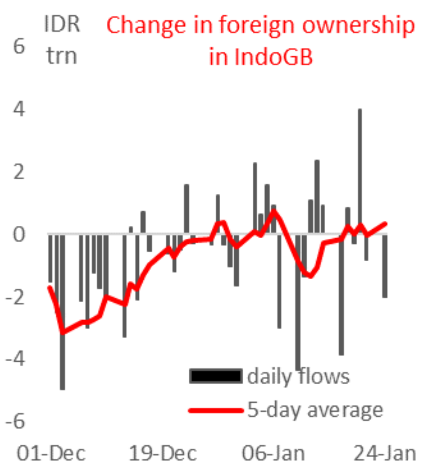
- **USD-SGD:** After the surprise MAS announcement yesterday, the SGD NEER has started to stabilize. The index stands at +1.94% above the perceived parity (1.3704) this morning, after spiking to a high of +2.07%. Similarly, the USD-SGD could not sustain declines towards 1.3425 and is now back above the 1.3440 handle. Overall, immediate downside for the USD-SGD would not be forthcoming so long as the broad USD remain supported.

- Deeper into 2022, the steeper upward slope will free up more room for SGD appreciation. Beyond the 25 Jan move, expect further steepening action in April 2022. Our bias is for a measured and orderly pace of increase in the rate of appreciation, but it will be dependent on inflation outcomes in the coming months. A more aggressive increase in rate of appreciation or a re-centre higher cannot be explicitly ruled out, but it will be the lower-probability scenario.

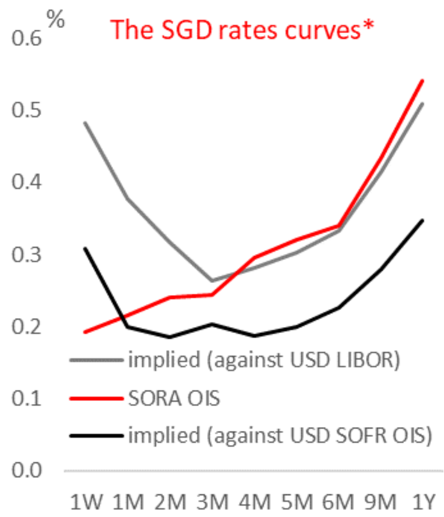
Rates Themes/Strategy

- UST yields ended Tuesday little changed after a few intra-day turns, as investors awaited FOMC outcome. Key focuses: 1/ the rate trajectory; the Fed is expected to telegraph a March rate hike, with the uncertainty being the magnitude; 2/ any further guidance on the timing and pace of QT – especially on the timing as the last episode was not a meaningful reference; while the market has got some guidance on the quantity in that it would likely be faster than last time while we see the maturity amounts as the natural caps assuming no active selling of SOMA holdings.

- Overnight, the 5Y coupon auction was well received, cutting off at 1.533%, 1.4bp below WI level, while indirect bids rose to 68.7%. Recent auctions have mostly gone well, not least because the bonds had already cheapened ahead of these auctions. Nevertheless, the auction results also show that some investors were attracted by the higher yield on some occasions, and that coupled with the risk-off sentiment may lend some support to USTs. On balance, we do not see a reversal in the momentum in the bond market, which shall still be a bearish one; but if there is no further hawkish surprise from the FOMC, USTs may be able to consolidate near-term.



- **IndoGBs** were traded in ranges on Tuesday with short-end bonds underperforming mildly. The sukuk auctions attracted incoming bids of IDR38.3trn while IDR11trn of bonds were awarded as per target. Issuances of short-end papers were small despite the strong incoming bids, while the awards concentrated on the 5Y and 7Y bonds. We had expected the possibility of upsizes during the early part of the year which would allow for the flexibility to support the market if need be later into the year. Given Bank Indonesia itself has started to tighten policy, while Fed rate hike is likely to come sooner rather than later, this window of opportunity for upsizing is becoming irrelevant. Foreign flows have continued to fluctuate daily, but YTD outflows were reduced to IDR1.25trn as of 24 January on the back of some days of inflows.



- In Singapore, front-end **SGD SORA OIS** edged down upon the MAS inter-meeting decision. The prospects for both MAS and the Fed to tighten are likely to sustain SGD rates outperformance over USD rates, as the tightening is affecting the respective rates in opposite direction. Meanwhile, SORA OIS stay elevated compared to USD SOFR OIS, with the 1Y SORA OIS at 20bp above what is implied by the USD SOFR OIS, for example. This opens up room for SORA OIS to shift away from the LIBOR curve towards the SOFR OIS curve, another buffer to rising rates. On bond side, investors appeared done positioning for the 5Y SGS auction, with the 5Y yield ending the day 4bp lower.

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