OCBC TREASURY RESEARCH

Daily Market Outlook

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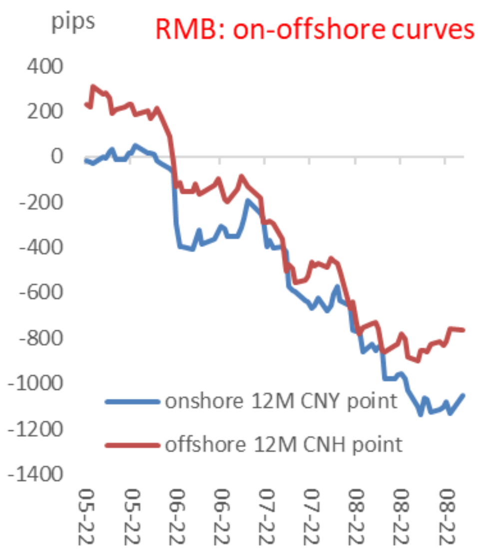
Rates and FX Themes/Strategy

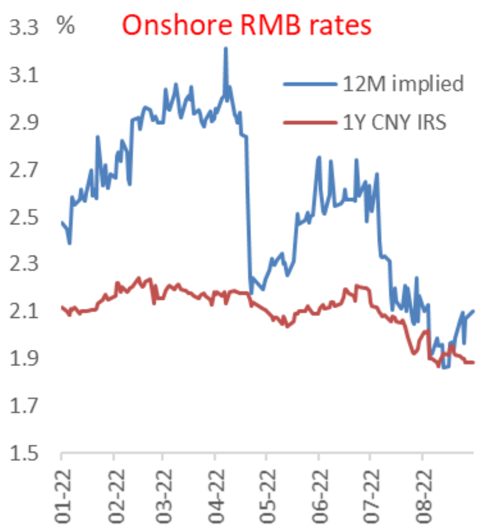
- The **Gilt** yield curve bearish flattened overnight upon some hawkish remarks from BoE's Mann, a well-known hawk though, who opined the central bank should act "forcefully" to contain inflation. GBP OIS now almost fully price a 75bp hike at the September MPC, and 285bp of additional hikes for the rest of the cycle including the September one which would push the Bank Rate to 4.6%. While risk is the BoE under-delivers on rate hikes, rate hike expectation is not the sole factor pushing up Gilt yields. Hence, despite the overly hawkish pricing, investors may still stay defensive. UST yields went higher during Asian hours, and USD OIS now fully price a 75bp hike at the September FOMC.

- **China reserve ratio cut**. In China, the PBoC cut the required reserve ratio on foreign currency deposits by 200bp to 6%, effective 15 September. This will release around USD19bn of liquidity. If there is any impact, the provisions of dollar liquidity could help mitigate the upward pressure on USD/CNH and the downward pressure on CNY and CNH FX swap points. However, reaction in spot and the points has been muted, as the market had been preparing for this policy action while the amount released is not huge. To put things into perspective, monthly gross foreign related receipt (from banks on behalf of clients) amounts to USD200-300bn; although the net amount is much smaller, the liquidity released still covers around/less than one month of net balance only. This is a mild policy action, just that before the announcement some investors adjusted positions being mindful of the signal it would send. As the uncertainty surrounding this policy action is out of the way, back-end CNY and CNH points may well trade alongside yield differentials again, and as such, still face a downward pressure.



Source: Bloomberg, OCBC

- **CNY rates**. The authorities have thus far relied on the RMB fixing, verbal intervention and the latest reserve ratio cut to try to smooth the RMB movement. However, the near-term direction for USD/CNY is a function of the broader dollar and the growth worries in China, which is to the upside. Onshore CNY rates have been trading on the soft side and now implied rates are not as low compared to repo IRS as two weeks ago. Next to watch is the CNY600bn of MLF maturing on 15 September, which presents an opportunity for the PBoC to withdraw some liquidity from the market; we expect a partial rollover but this is unlikely to push CNY rates up meaningfully.



Source: Bloomberg, OCBC

- **USD/SGD.** SGD NEER is trading at 1.1470% above mid-point this morning, similar to yesterday's close. The NEER may stay in the range of 1.0-1.2% above mid-point near-term, with mixed SGD performance against trading pairs. Support for USD/SGD sits at 1.3934, while top side is at 1.4097.

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