OCBC TREASURY RESEARCH

Daily Market Outlook

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Rates and FX Themes/Strategy

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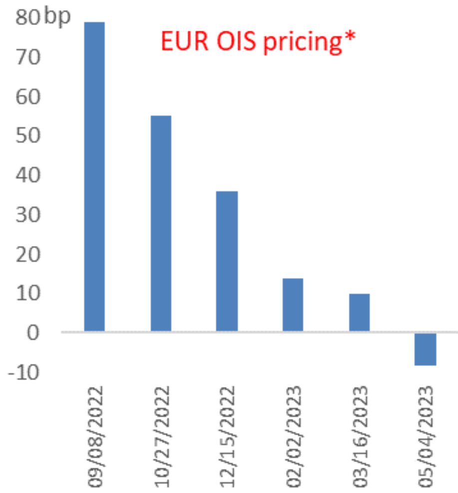
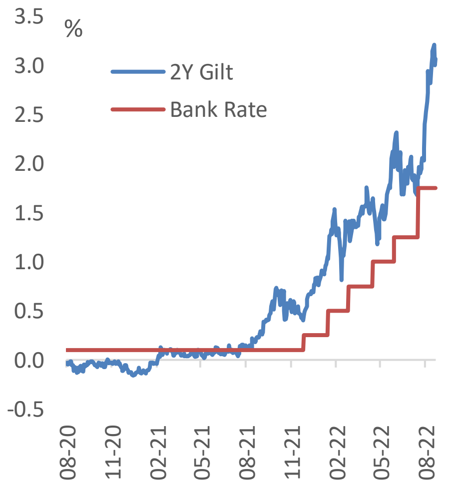
- **Bunds** underperformed with the 2Y yield surging by 22bp as the ECB delivered a 75bp hike and signalled the potential for another jumbo move. Lagarde in the press conference sounded hawkish, saying inflation remains "far too high" and is likely to stay above target for an extended period. EUR OIS now fully price in another 75bp hike at the October MPC. The hawkishness has spread to other markets, and with Fed comments also staying hawkish, USD OIS now almost fully price a 75bp hike at the September FOMC.

- **Gilt**. The size of the UK 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 GBP40bn of run-off and GBP40bn of active selling. 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. We watch for the final decision at the September MPC but would see the bar as high for the BoE to step back from its plan. Meanwhile, the energy bill will "weigh on" inflation as Pill put it, when the 2Y Gilt yield is already running well ahead of the Bank Rate. The Gilt curve shall be biased to steepening. GBP OIS pricing stays overly hawkish and front-end bond/swap spreads fairly negative; any adjustment to the less hawkish side shall be better expressed via OIS instead of Gilt.



Source: Bloomberg, OCBC
*expected changes at the respective meetings

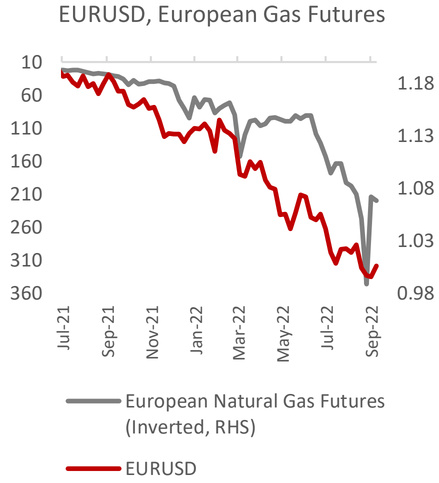
- **DXY. Looking for Downside.** USD went bid after Fed Chair Powell stuck to his hawkish script - *that the Fed will act stronger on inflation until the job is done* – but USD gains were erased into NY close. Nonetheless markets are now getting closer to fully pricing a 75bps hike at the FOMC meeting in about 2 weeks' time. But how many more clips of 75bps hike can the Fed manage after this FOMC? The Fed emphasised rate hike decision depends on the "totality" of incoming data. And this underscores Fed policy being more data-dependent than just a pre-set tightening course. And to take stock this week, Fed's Beige book released on Wed reported that US economic expansion prospects were weak and price growth showed signs of decelerating. This is consistent with our earlier observation that price pressures (such as wage growth, core PCE, ISM prices, etc.) have been showing tentative signs of slowing. CPI data next Tue will provide another clue. We agree that it may be too soon to declare victory on the fight against inflation but it is worth keeping a look-out on how slowing US data may influence Fed signalling in coming months and potentially, that can translate into USD easing especially if EUR can find relative stability. DXY extended its move lower below 110-handle. Last at 109.15 levels. Bullish momentum on daily chart is fading while RSI is falling. Bearish



Source: Bloomberg, OCBC

divergence on daily MACD is playing out. Rising wedge pattern is also in play – bearish reversal. Risks are to the downside. Support at 108.50 (21 DMA), 107.7 levels. Resistance at 110.30, 111 levels.

- **EURUSD. Focus Shifts to Energy Meeting.** EUR continue to trade higher this morning. ECB's 75bps hike overnight received unanimous backing and the door remains open for another jumbo hike. Focus now shift to EU energy ministers meeting today. The ministers will consider options including: (1) a price cap on imported gas, (2) a price cap on gas used to produce electricity, or (3) temporarily removing gas power plants from the current EU system of setting electricity prices. Ministers will also consider offering urgent "pan-European credit line support" for energy market participants facing very high margin calls. A favourable outcome may help to ease price pressures overall and mitigate recession fears in Euro-area, to some extent. EUR was last at 1.0050 levels. Daily momentum turned bullish while RSI rose. Bias for upside play. Next resistance at 1.0060 (38.2% fibo retracement of Aug high to Sep low) needs to be broken for bulls to gather further traction, possibly towards 1.0120 (50% fibo, 50 DMA) before 1.0175 (61.8% fibo). Absent a decisive break higher could see EUR revert back to its recent lower range of 0.9850 – 1.0050. Support at 0.9980 (23.6% fibo), 0.9910 levels.



Source: Bloomberg, OCBC

- **GBP. Technical Bounce.** GBP firmed amid broad USD pullback and as further details on PM Truss's energy plan came to light. The annual energy cap is confirmed at GBP2,500 for each of the next 2 years and will be in place from 1 Oct. Chancellor Kwarteng will detail the full cost of the package later this month but PM Truss said she will curb inflation by up to 5%. GBP was last at 1.1550 levels. Bearish momentum on daily chart is waning while RSI rose from oversold conditions. Risks are tilted to the upside in the near term. Resistance at 1.1620, 1.17 levels. Support at 1.15, 1.1420 levels.

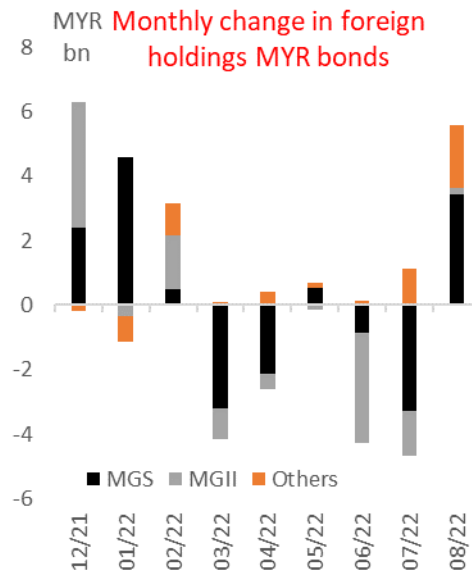
- **AUDUSD. Technical Rebound.** The broad bias for AUD remains neutral to mild bearish due to slowdown in China economic activities, softer commodity prices (i.e. iron ore), and possibly a slower pace of RBA rate hike going forward. Recent RBA Governor Lowe's speech (8 Sep) leans dovish as he highlighted (1) the case for slower pace of hike becomes stronger as cash rate rises and (2) that RBA is conscious of monetary policy lags after rapid rate increases this year. For the remainder 3 meetings, markets are pricing in just slightly under 90bps hike (vs. 215bps hike in 5 meetings). AUD was last at 0.6790 levels. Bearish momentum on daily chart shows sign of waning while RSI is rising. A technical bounce in the near term is not ruled out. Resistance here at 0.6790, 0.6860 levels. Support at 0.6730, 0.6680 levels.

- **USDJPY. Bias to Sell Rallies.** BoJ, MOF and FSA met yesterday but the comments came as no surprise - *that sharp FX fluctuation is not* *desirable, watching FX moves with high sense of urgency*, etc. - though there was mention that all options, including FX intervention are on the table. The risk of intervention and USD turn lower should prevent markets from testing authorities. Any unwinding of weak USD long (vs. JPY) may see abrupt price action play out. Bias remains to sell USDJPY rallies. Pair was last at 143.65 levels. Bullish momentum on daily chart intact but RSI shows signs of turning from overbought conditions. Support at 142.85, 141.5 levels. Resistance at 144.5, 145 levels.

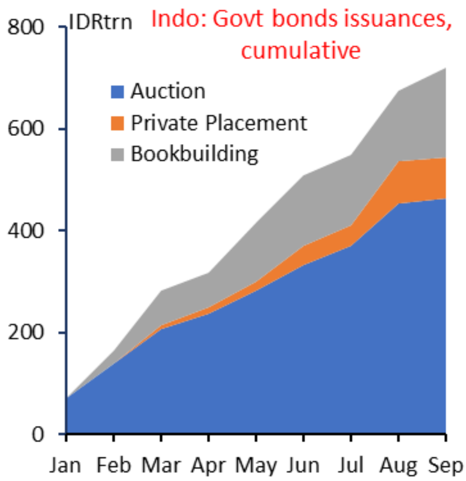
- **MGS** fared well on Thursday taking cue from the global market and as BNM did not sound more hawkish. The central bank reiterated their measured and gradual approach, and said their tightening is "not on any pre-set course"; these are all in line with expectations. The 3Y yield, after the recent retracement, is still well ahead of OPR. We remain of the view that the 3Y MGS is to stay resilient in the face of higher US yields on monetary policy gap; yield is expected in the range of 3.3-3.5%. Swaps are pricing in around 25-30bp of hike on a 3-month horizon, which looks fair. MGS saw a return of inflows, at MYR3.451bn, in August, the biggest since January 2022. Inflows to bills were also relatively strong, probably as investors took advantage of the low basis.

- **IndoGBs** traded firm as well on Thursday, supported by domestic demand. Front-end yields, however, may be subject to some upward pressure today amid the global surges in yields. The latest international bond (USD) added around IDR38trn to proceeds mostly via the 10Y, with the MoF well on track with its funding requirement. This shall put no pressure on next Tuesday's local currency bond auction. The IndoGB curve shall stay flat, with the 10Y yield being capped at 7.2% for now.

- **USD/SGD. Double-Top Bearish Reversal Playing Out.** USDSGD slipped amid broad USD pullback. S$NEER is trading ~1.4% above the midpoint for consecutive few days this week. Pair was last at 1.4020 levels. Bullish momentum shows signs of waning while RSI eased from overbought conditions. Support at 1.40, 1.3935 (23.6% fibo retracement of 2022 low to high). Resistance at 1.4060, 1.41 levels.



Source: CEIC, OCBC



Source: DJPPR, OCBC

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