Daily Market Outlook

5 October 2021

FX Themes/Strategy

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

Terence Wu
FX Strategist
+65 6530 4367
TerenceWu@ocbc.com

Treasury Research
Tel: 6530-8384

- The week started on a slightly risk-heavy tone, with the UST curve supported and global equities weaker. Headlines of another Chinese developer missing coupon payments also weigh on sentiment. The **FX Sentiment Index (FXSI)** reversed last Friday's decline to return back into the outright Risk-Off zone. Note that the FXSI remains on a 3-month uptrend towards Risk-Off.

- The FX space did not quite react to the risk-off tilt, with the broad **USD** a tad weaker overnight, and the cyclicals firmer. The **EUR-USD** squeezed above 1.1600, while the **USD-JPY** remains anchored around the 111.00 level. For these pairs, expect them to be reactive to key US data this week, including the ADP employment (Wed) and NFP (Fri). The **AUD** bounced higher, but found no traction beyond the familiar 0.7300/20 level. Markets will be eyeing the RBA decision later today (0330 GMT). Not much fireworks expected, but watch out for any hints of a push-back on market-implied rate hike expectations, which currently stands at 1 hike in 2022 and 2 in 2023.

- We had set out our underlying USD-positive bias yesterday, and therefore, we remain on a buy-on-dips preference for the recent USD softening. Barring a huge miss in the NFP this Fri, expect the market to continue buying into the hawkish Fed storyline, and further impute in tapering effects and rate hike trajectory. Expect this to be USD positive.

- **USD-Asia**: Headline developments in US-China trade relations are not all rosy, but the underlying message remains sufficiently positive for the market to be relaxed about it. This should leave the USD-CNH contained within recent ranges. Without guidance from onshore, most USD-Asia pairs, save the USD-THB and USD-TWD, tracked the broad USD lower.

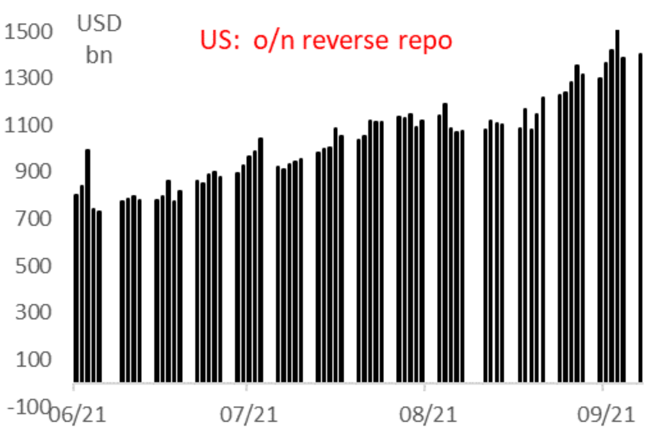
- **USD-SGD:** The USD-SGD support at 1.3550 held despite the the USD's weakening overnight. This took the SGD NEER lower to +0.60% above the perceived parity (1.3665). Around 1-2 weeks away from the MAS meeting, the time-path of the SGD NEER does not immediately suggest that the market is expecting an imminent move towards positive slope. Our baseline view is for slope-steepening to be an Apr 2022 event. However, the faster-than-expected domestic recovery and core inflation path imply that we cannot rule out a middle-of-the-road action – which is to re-centre the midpoint slightly higher to partially reverse the easing moves instituted in Apr 2020. Subsequently, we expect the SGD NEER to gradually ease higher to levels around +1.50% above the perceived parity in the inter-meeting period.

Rates Themes/Strategy

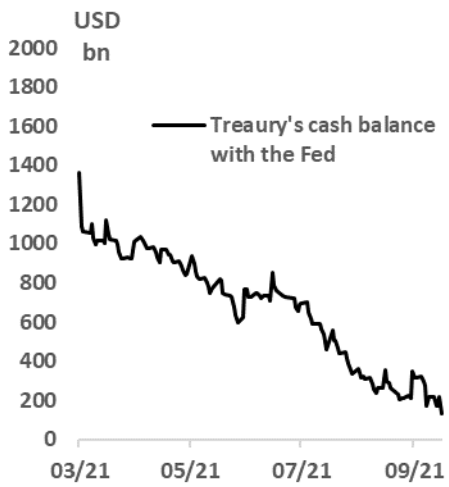
- UST yields edged up across the curve along with inflation expectations on Monday. There is no major catalyst for a decisive directional move until payroll on Friday – the market has priced in the start of taper, but probably not the full impact of it depending on the pace. The pace of taper is important on two fronts. Frist, the full impact will be felt after taper is complete. Second, while the Fed emphasizes the separate decisions on taper and rate hike, taper being completed nevertheless gives more flexibility for the Fed to hike rates if needed. Eurodollar futures, albeit having retraced from the most hawkish point post FOMC, is still pricing the first rate hike between the September 2022 and December 2022 contracts. The 10Y UST yield is likely to hover around the 1.474 retracement level before Friday.

- US Treasury's cash balance with the Fed hit a low of USD132bn as of 1 October, and the department is planning to sell an 8-day cash-management bill to cover the period between 7 and 15 October. The pressure point on T bills with respect to the debt ceiling is on bills that mature in late October, i.e. "a few days" after 18 October as mentioned by Yellen. In particular, the 10/26/21 bill yield was as high as 12bp. Thereafter, bill yields are around more "normal" levels, suggesting market is only pricing in some short-term disruptions. Meanwhile, usage at the Fed's o/n reverse repo facility stood at USD1.399trn on Monday.

- In IndoGBs, today's sukuk supply is likely to be readily absorbed with no upsize expected given the small Q4 target. The size of the 2028 MGS reopening is in line with expectations but nevertheless seems to have triggered some market re-positioning.



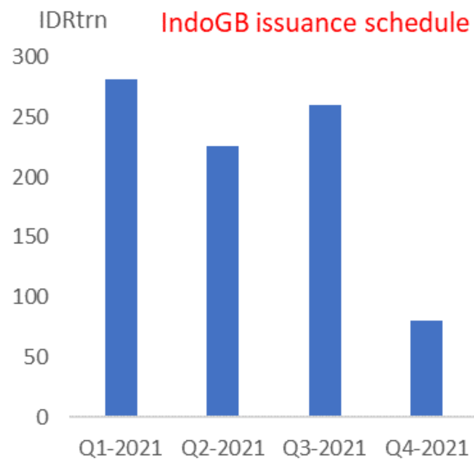
Source: Bloomberg, OCBC



Source: Bloomberg, OCBC

IDR:

IndoGB yields were a tad lower on Monday as USD/IDR was capped by equity flows after having faced some profit-taking flows initially. Recent DNDF auction levels were not particularly attractive, probably as support was not seen as much needed. Today's sukuk auction has a reduced indicative target of IDR5trn, in line with the Q4 issuance schedule, which shall be readily absorbed. There is unlikely to be an upsize, and the market may see below-target awards in one/some of the remaining auctions in the year - there are six sukuk auctions and five conventional bond auctions in Q4, with their indicative targets adding up to IDR90trn, versus the total target of IDR80.75trn for the quarter. Indonesia will reopen international flights to Bali for foreign visitors from a number of countries, starting 14 October.



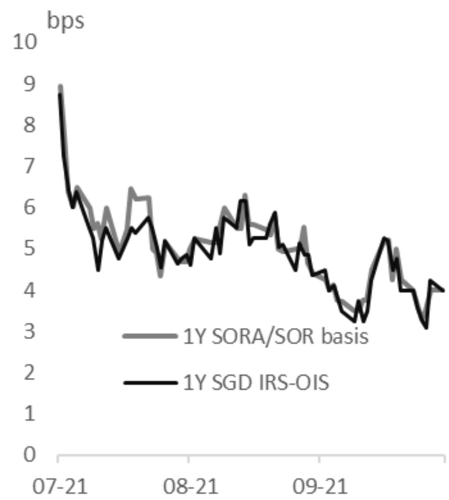
Source: MoF, OCBC

MYR:

MGS market stayed quiet with yields ended the day little changed on Monday. The size of the 2028 MGS reopening is in line with expectations but nevertheless seems to have triggered some market re-positioning. Relatively high oil prices and the prospect of reopening of the economy have supported the MYR in recent sessions, and if sustained, will be conducive to bond inflows, while the passive outflows implied by FTSE re-weighting is small. Malaysia is planning to roll out its booster shots this month.

SGD:

SGD rates were a tad softer on Monday following their USD counterparts. Front-end SORA/SOR basis and SGD IRS-OIS spreads have stayed at fairly low levels; we see limited downside from here. The only trigger is probably an MAS tightening, which arguably impacts SOR more directly than SORA. That said, our base case scenario is for the MAS to keep its SGD policy unchanged at this month's meeting; there is an outside chance for a re-centering if deemed necessary – in this case the impact on the forward points and hence front-end rates has usually been limited as compared to a change in the slope.



Source: Bloomberg, 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
Thailand, Korea & Commodities
HowieLee@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Herbert Wong
Hong Kong & Macau
herberthtwong@ocbcwh.com

FX/Rates Strategy

Frances Cheung
Rates Strategist
FrancesCheung@ocbc.com

Terence Wu
FX Strategist
TerenceWu@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

Co.Reg.no.:193200032W