OCBC TREASURY RESEARCH

Daily Market Outlook

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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

- On a cross-asset basis, overall market sentiment still looked somewhat shaky overnight, with the global core yield curves softer. The **FX Sentiment Index (FXSI)** continued to edge towards Risk-Off at the start of this week, despite equities and crude complex being firmer.

- The **USD** was initially firmer in the Asian session before giving back gains later in the global day. The **EUR** and **JPY** were effectively flat against the greenback. Commodity currencies, led by the **CAD**, were supported by the firmer crude complex, and outperformed across the G-10 space.

- Relative central bank dynamics still the predominant medium term driver, the focus will shift to the Fed with FOMC next week. Expect that to be supportive of the USD on net, leaving the USD posture likely flat to firmer. Most of the US data releases ahead of the FOMC will come this week – watch the shifts in Fed expectations around these releases.

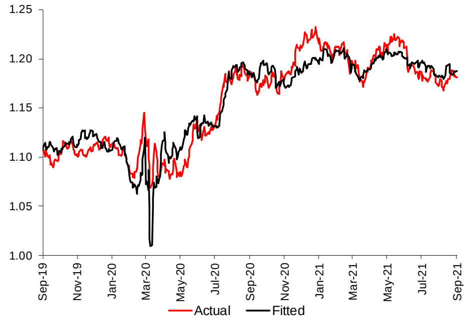
- With the lady not for tapering at the ECB, prefer to stay negative on the EUR, with a bias for it to ease back towards the 1.1700 levels. Also continue to dislike the cyclicals. Growth momentum as seen from our Macro Surprises Indices are softer across all the major economic blocs. The AUD is still our most disliked cyclical, with the NZD supported by the RBNZ and the CAD by crude. Prefer to sell the AUD on rallies against the USD and NZD.

- **USD-Asia**: The RMB remains resilient against the broadly softer data coming out of China, supported by still firm export numbers and healthy Northbound equity inflow momentum. Retain view that the RMB on a slow grind higher at this juncture.

- **USD-SGD:** The SGD NEER hovered mostly above the +1.00% above the perceived parity (1.3570) on Mon, standing at +1.09% this morning. Some chatter that the MAS may move to tighten in the Oct meeting, mainly on inflation-based arguments. For now, we are not in that camp, meaning that we are not convinced that the SGD NEER should be climbing towards levels like +1.50%. The range between +0.70% to +1.10% is perhaps comfortable. With the SGD NEER deemed to be elevated, expect the USD-SGD downside bias to be limited from here, with 1.3400 still the key support.

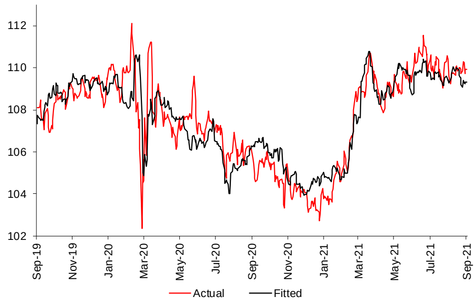
EUR-USD

Turning south. The inability to breach the 1.1900 resistance last week saw the EUR-USD turn tail and retest the 1.1800 support. Lagarde's "taper-but-not-taper" rhetoric makes for dovish ECB messaging, reversing the less-dovish tilt seen in end-Aug/early-Sep. The pro-EUR bets are now likely to reverse, weighing further on the EUR. Technicals have turned south as well, after the breach of the 55-day MA (1.1806). Re-focus attention at 1.1700.



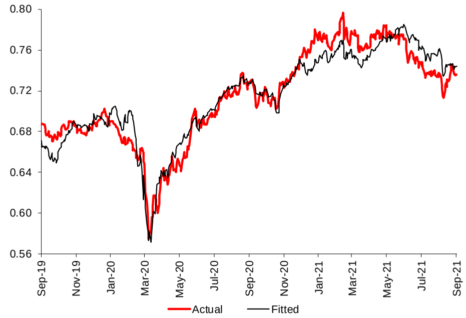
USD-JPY

Looking for direction. The USD-JPY has been stuck within a 109.50 to 110.50 range, with little signs of a catalyst. Traditional correlation between the Japanese equities and the JPY could point to a softer JPY, but this relationship may be less significant as the current equity rally is on a purely domestically-driven, political developments, and not on global risk dynamics.



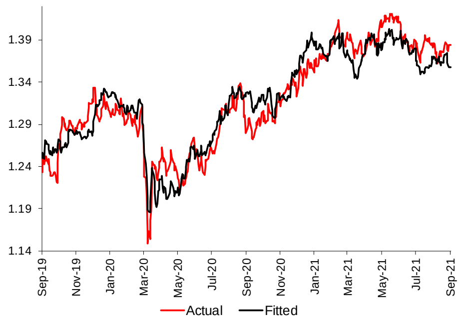
AUD-USD

Soft. The AUD-USD tested the 0.7350 on multiple occasions, including a brief breach on Mon. Growth momentum has been soft, and a risk-off tinge seemed to be trying to reassert. These should combine to keep the pair under pressure. Focus will be on employment data (Thu) this week, and the market will watch for any reason to further pull back RBA expectations. Watch 0.7330/50 levels on the downside.



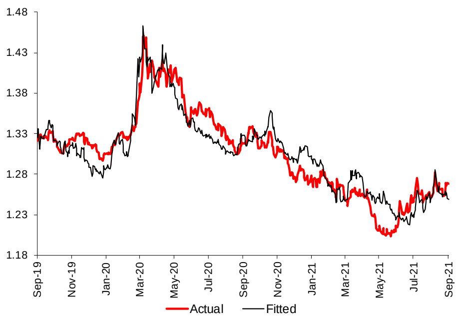
GBP-USD

Toppish. BOE rhetoric leans less-dovish, but it jars against UK data showing some plateauing in the reopening-driven recovery. A double failure at the 1.3900 top signals some renewed bias towards the lower base around 1.3720/30 on a multi-session horizon.



USD-CAD

Supported. The exhaustion of risk-on tendencies sees the USD-CAD turn supported, with the pair likely attempting to consolidate around the 1.2600 and 1.2750 range.

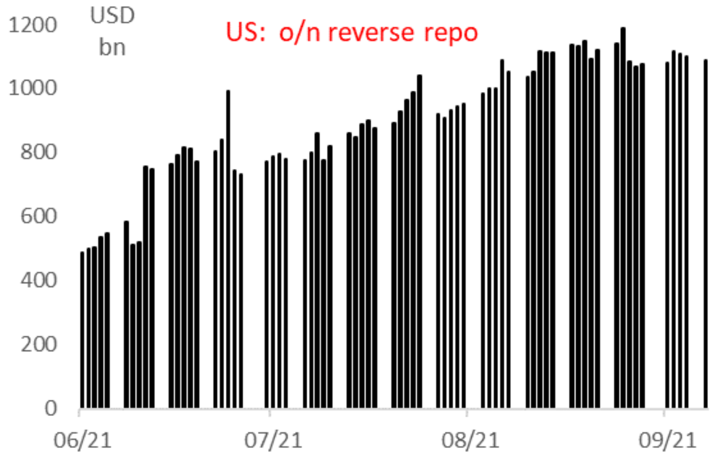


Rates Themes/Strategy

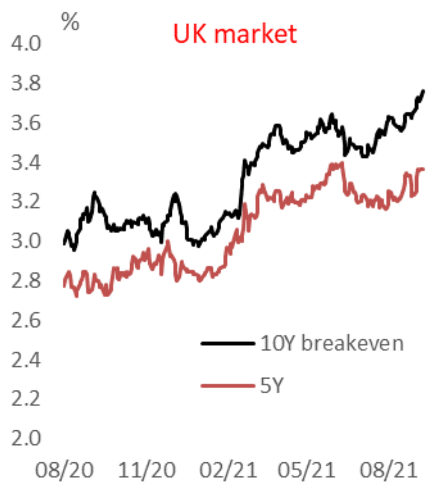
- UST yields rebounded from intraday low in late session to close a tad softer, while the risk sentiment was supported. Given the FOMC sees the inflation goal as being satisfied, tonight's CPI release is probably less relevant for the taper plan; still, a surprise to either side may affect market's perception of where the next dot-plot will be; the CPI outcome will also affect TIPS carry. Overall, USTs may continue with range-trading amid a lack of directional impetus in the coming sessions, with the 10Y nominal yield in a range of 1.25%/1.40%.

- BoE's Hauser said central banks need to develop QE exit plans. Nevertheless, he added that the BoE will need to "replace long-duration QE assets with shorter term repos or other open market operations to maintain the size of the balance sheet". In other words, any tapering will still leave policy accommodative. Earlier last week, Governor Bailey revealed that the MPC was split at 4-4 as to whether there was evidence that the economy has eliminated spare capacity and achieved the inflation target. Market watch if the incoming Chief Economist will tilt this split to the hawkish side. While Gilt yields edged down overnight, inflation expectation has continued to move higher.

- Onshore China liquidity appears tight, while market awaits any policy action upon the maturity of the CNY600bn of MLF. If the MLF is not mostly rolled over/covered by other liquidity injection, bond and rates market sentiment is likely to be further hurt.



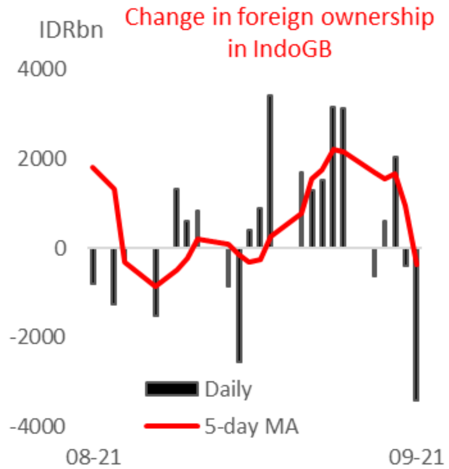
Source: Bloomberg, OCBC



Source: Bloomberg, OCBC

IDR:

IndoGBs were stable on Monday with some mild concession ahead of the domestic bond supply. Meanwhile, Indonesia is marketing a new 40Y international bond and also tapping an existing 10Y international bond, with at least part of the proceeds used to repurchase certain bonds maturing between 2022 and 2026. The strategy may be to secure longer-term funds before yields rise in view of expected withdrawal of excessive stimulus by some major global central banks. If the government manages to raise more than the intended repurchase amount, then the extra proceeds will further alleviate the already lightened pressure of local currency bond supply. Today's supply of IDR21trn represents a reduced amount since the announcement of a cut in the annual target, and is likely to be readily absorbed. The IndoGB market registered foreign outflows of IDR3.4trn on 10 September, with foreign holdings standing at IDR986trn.



Source: Bloomberg, OCBC

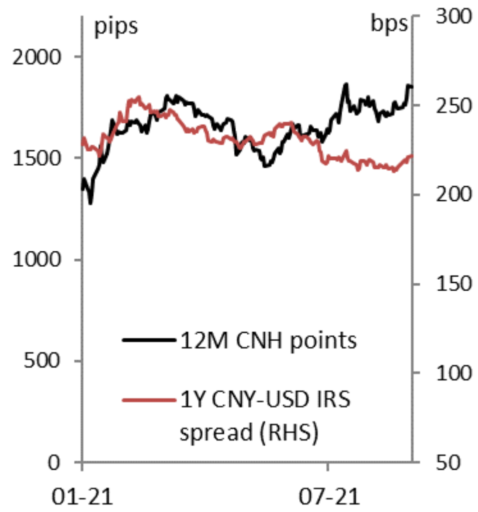
MYR:

MGS sentiment stayed soft on Monday on dollar strengthen and global yield movement. Domestically, ahead of the auction 10Y MGS underperformed. Scatter of dollar demand was seen pressuring FX swap mildly lower. While bond supply has proved manageable so far, investors may still stay cautious towards duration with the prospect of a higher debt ceiling. Also, the 3s10s segment of the MGS curve looks mildly flat compared with the UST curve. We remain of the view that the MGS curve may either stay stable or steepen mildly.

CNY / CNH:

CGB yields rose across the curve on Monday with the 5Y and 10Y bonds underperforming, led by bond futures. Both the onshore CNY and offshore CNH swap curves were paid up across the curve. The liquidity situation appears to be tightening ahead of the golden week holidays (but we cautious against this reasoning with the steepening in the curve), while market awaits any policy action upon the maturity of the CNY600bn of MLF. If the MLF is not mostly rolled over/covered by other liquidity injection, market sentiment is likely to be further hurt.

In the offshore market, while back-end CNH points are elevated compared with interest rate differentials, there is still limited addition to the CNH pool. Investors probably have to be patient in anticipating any retracement lower in the swap curve.



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