

## Daily Market Outlook

19 September 2023

### Treading Water

- **USD rates.** Short-end UST yields stayed firm, as market prepared for a pause at the FOMC meeting while continuing to price some chance of a final rate hike in this cycle. Apart from the Fed funds rate decision, the FOMC will update its economic projections together with the dot-plot, which may carry important messages to any tilt in the consensus among the Committee. The 2023 median dot is expected to still reflect an additional rate hike to keep the November and December FOMC meetings live. What is more important driving short-end USTs is the pricing for 2024. The 2024 median dot at the June review reflected 125bps of cuts from the 2023 median dot, or 100bps of cuts from the current Fed funds rate target range. Market pricing has recently turned more hawkish, pricing in 75bps of cuts from current level, versus our base-case of 150bps of cuts. There is a high uncertainty as to where the 2024 dots and hence the 2024 median dot will go in either direction. We expect a fair bit of volatility in USD rates around the FOMC decision.
- **DXY. *Slight Selling ahead of FoMC.*** It was a fairly subdued session overnight with USD easing slightly amid position adjustment ahead of the slew of central bank meetings this week. The big focus is on the Fed. It is widely anticipated that Fed will keep rate on hold at the upcoming meeting, but the focus is on the dot plot, given the uncertainties with regards to Fed rate cut trajectory in 2024. Any moves in the dot, especially in 2024 will have a significant impact on markets, FX. We considered 3 potential scenarios with regards to 2024: **1/ a scenario of no-change to dot plot** will come as a relief to risk assets. USD may ease as markets have already unwound their prior dovish bets to be aligned with the Fed's Jun dot plot; **2/ A case of more dovish dot plot** (i.e. if Fed looks for more cuts than what they have pencilled in) would lead to dovish re-pricing and that can weigh on USD; **3/ a more hawkish dot plot** (i.e. Fed looks for lesser cuts, dots shift higher) would lead to hawkish re-pricing. Yields can run higher, and USD can continue to trade higher. This would be a risk-off scenario for risk assets. In this scenario, alongside higher oil prices, there will be upward pressure on inflation and yields. This may result in a deterioration of global growth/inflation mix and can cause headwind to risk appetite and undermine Asian FX, especially those that are net-oil importer, such as THB, PHP. DXY was last at 105.15 levels. Bullish momentum on daily chart shows signs of fading while RSI fell from near overbought conditions. Hanging man candlestick pattern observed last Fri – signalled a potential bearish reversal – as we watch price action in coming sessions for confirmation. In addition, we watch if bearish divergence pattern does play out. Support at 104.40 (76.4% fibo, 21DMA), 103.50 levels (61.8% fibo retracement of 2023 high to low) and 102.70/90 levels (50, 100, 200 DMAs). Resistance here at 105.30, 105.90 levels (2023 high).

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- **EURUSD. 2-Way Trades.** EUR inched higher amid USD pullback and in reaction to Reuters article that ECB is looking to tackle excess liquidity in next stage of inflation fight. The debate is likely to start at next meeting on 26 Oct or at an Autumn retreat. Article went on to say that discussion on how to reduce excess liquidity will focus on three areas: 1/ the amount of reserves banks must keep at the ECB; 2/ the unwinding of its bond-buying programmes and 3/ a new framework for steering short-term interest rates. These imply that raising RR is a possible first move. EUR was last 1.0685 levels. Mild bearish momentum on daily chart shows signs of fading while RSI rose from near oversold conditions. Bullish divergence observed on daily MACD. 2-way trades still likely with FoMC event risk this week. Resistance at 1.0770 (21 DMA), 1.0830 levels (200 DMA). Support at 1.0630 levels.
- **GBP rates.** We expect a 25bp hike at the September MPC meeting. The BoE may not give a strong hint – as the ECB did – on the potential end of the rate hiking cycle, but we are looking for more clue that the BoE intends to have a long pause after this week’s meeting. GBP OIS pricing has eased over the past weeks, to a peak rate of 5.5% from around 6% priced a month ago. The MPC will also vote at this week’s meeting on the QT target for the next 12 months from October. There is room for the BoE to up the QT pace merely from the mildly heavier maturity profile; but anything within GBP90bn shall be seen as mostly neutral. On balance, we do not extend our multi-month view of Gilt underperformance against swaps from here.
- **GBPUSD. Falling Wedge Pattern.** GBP was little changed; last at 1.2380 levels. Bearish momentum on daily chart intact while RSI is near oversold conditions. Risks skewed to the downside but at the same time, we observed a potential falling wedge, which may point to bullish reversal at some point. We watch price action for confirmation. Support at 1.2310 (61.8% fibo retracement of 2023 low to high) and 1.2120 (76.4% fibo). Resistance at 1.2430 (200 DMA), 1.2585 (21DMA), 1.2630/50 levels (38.2% fibo, 100 DMA). This week brings CPI (Wed) before BoE MPC (Thu). We still expect a 25bp hike at upcoming MPC as wage growth remains red hot and core CPI remains elevated. That said, GBP could still trade on the back foot amid BoE nearing end of tightening cycle while stagflation concerns returned.
- **USDJPY. 2-Way Risks.** USDJPY traded a subdued range in absence of key catalyst as markets await key event risks this week – FoMC, BoJ MPCs. For BoJ, we still expect NIRP/ YCC to be removed at some point but for this meeting on Fri, we expect policy status quo. Focus is likely on PM Kishida’s new cabinet (that was formed last week) and economic package that should come next month to help public buffer against rising living cost. And with potential snap election coming up, it is likely the BoJ will be less inclined to tighten policy that could risk hurting consumption, and in turn jeopardise PM Kishida’s plans or

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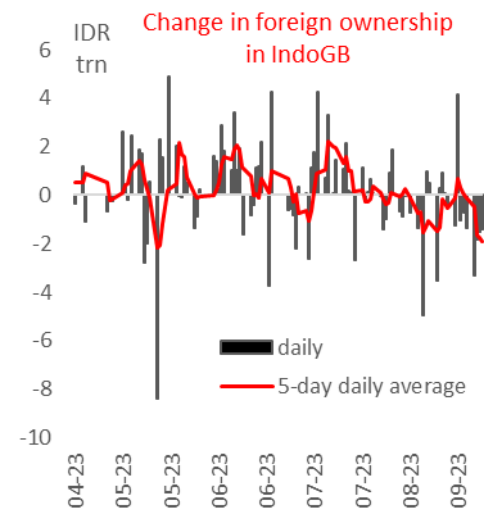
political career. Latest poll from NHK shows 43% of respondents disapproved of Kishida's leadership while 36% approved. With no imminent BoJ shift, markets could revert back to trading yield differentials as the currency pair is still largely a story of yield differentials and with Treasury yields still higher and UST-JGB yield differentials still wide/ widening, the USDJPY may continue to trade higher. This puts focus on potential leaning against the wind activities, should pace of rise becomes one sided and excessive. USDJPY was last at 147.75 levels. Daily momentum not showing a clear bias while rise in RSI moderated. 2-way risks ahead. Resistance at 148.50, 149.10 before 152 levels. Support at 146.70 (21 DMA) and 144 (50 DMA).

- **USDCNH. Upside Risk.** USDCNH continued to inch higher this morning, in line with our caution for slight upside risks. Pair was last at 7.2990 levels. Bearish momentum on daily chart show signs of fading while RSI shows signs of turning. Near term we do not rule out the risk of modest rebound ahead of FoMC event risk. Resistance at 7.32 and 7.3750 (previous high). Support at 7.26 levels, 7.2480 (50 DMA). Focus this week on China 1y, 5y LPR (Wed) and FoMC decision (Thu). Meantime, we should expect China to continue with its strong fix to reinforce a consistent message that it will not tolerate excessive overshoot.
- **SGD rates.** SGD OIS edged higher across the curve on Monday and opened on the firm side this morning. SGD11.8bn of 4-week and SGD17.8bn of 12-week MAS bills are offered today. Implied SGD rates have edged up by around 2bps since the last MAS bills auction on 12 September; but the maturity dates for today's MAS bills do not cover month-end or quarter-end (at the margin the 12-week MAS bills cover year-end if investors would like to prepare in advance ahead of the holiday seasons). On balance, cut-offs are likely to come in around the previous levels. The size of the reopening of 30Y SGS (infra) will be announced on 20 September; we expect it at around SGD2bn which will bring full year gross issuance to SGD23bn. This is the last SGS auction of the year. The 10s15s and 10s20s parts of the SGS curve have re-flattened after the syndication of the 50Y SGS, in line with our expectation. There may be further room of the back end of the curve to flatten (i.e. to become more inverted) when the 30Y supply is digested.
- **USDSGD. Range to Hold.** USDSGD traded a subdued range. Pair was last at 1.3640 levels. Daily momentum and RSI indicators are not showing a clear bias. Expect recent range of 1.36 – 1.3650 to hold. Support at 1.3590 (21 DMA) and 1.3520 (23.6% fibo retracement of Jul low to Aug high). Resistance at 1.3660, 1.37 levels. S\$NEER trades 1.6% above model-implied mid.

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- **IndoGBs** traded on the weak side on Monday, ahead of the conventional bond auction today. Indicative target amount is the usual IDR14trn, but investors may be mindful of a potential upside following the upside at the last sukuk auction. Today's auction comprises bills and the reopening of FR95 (2028 bond), FR100 (2034 bond), FR98 (2038 bond), FR97 (2043 bond) and FR89 (2051 bond). To recap, at the first SRBI auction on 15 September, the weighted average awarded rates were 6.299%, 6.391% and 6.405% for the 6M, 9M and 12M tenors, respectively. These rates were considered appealing compared to the 8M bond yield (FR77 which matures on 15 May 2024 bond) at 6.0%/6.2%. IDR24.456trn of SRBI was awarded, against incoming bid amount of IDR29.872trn. Tomorrow brings another SRBI auction; we do not expect such relatively big magnitude of awarded amount to become the norm. Foreign outflows from IndoGBs continued for a seventh day, with month-to-date (14 September) outflows amounting to IDR8.779trn as IndoGB-UST yield differentials have stayed compressed.



Source: Bloomberg, OCBC Research

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