Daily Market Outlook

1 October 2024

"not in a hurry"

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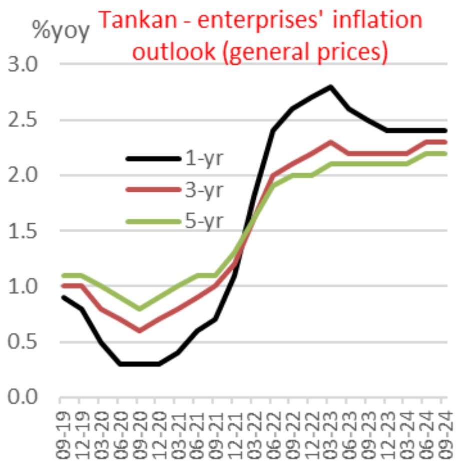
- **USD rates**. UST yields rose as Powell said to cut rates "over time" and there is no pre-set path. He commented that "this is not a committee that feels like its' in a hurry to cut rates quickly, but he also added "if the economy slows more than we expect, then we can cut faster. If it slows less than we expect, we can cut slower". Hence, it was nothing more than saying it is data dependent. But his comments were enough to push yields a few bps higher given how dovish the market was. He also said the FOMC remain squarely focusing on the dual mandate, which was a reminder that inflation is not out of the picture. Fed funds futures mildly pared back near-term rate cuts expectations, to 70bps before year end. Both the 2Y yield and 10Y yield traded a few bps above our year-end expectation; we do not see material dislocation there; but there may be a fair bit of volatility this week as the data calendar is heavy with focus on Friday's non-farm payroll, before which there are JOLTS job openings, ISM indices, ADP employment change and PMIs, among others.

- **DXY. *Short Squeeze.*** USD gets a bump up as market took cues from NABE speech from Fed Chair Powell to take profit on USD shorts. MYR and THB led declines today. The main message exudes no sense of panic about the US economy and conveys a sense of no rush to loosen monetary policy quickly. He also referred to the dot plot to indicate 2 more 25bp cut if "economy is as expected". This somewhat dampened markets' enthusiasm in pricing over 75bp cut for the year remaining. This week's JOLTS job openings (Tue), ADP employment (Wed), initial jobless claims (Thu) and payrolls report (Fri) will be of interest. Dovish bets will further be reduced if labour-related data comes in hotter, and this may add to USD rebound momentum in the near term. DXY was last at 100.78. Daily momentum turned mild bullish while RSI rose. Risks are somewhat skewed to the upside. Resistance at 101.10 (21 DMA), 101.90 levels. Near term support at 100.20 (recent low). Break-out puts next support at 99.60, 99.20 levels. In the interim, some profit-taking on Asian FX is likely ahead of data-event risks.

- **EURUSD. *Double-Top Bearish Reversal.*** EUR slipped amid broad USD rebound. Focus shifts to Euro-area CPI estimate today. Softer-than-expected prints should see markets price in 25bp cut at 17

Oct meeting with greater conviction, and this should weigh on EUR. Markets have already increased bets on ECB to cut in Oct after German, French, Spanish CPIs disappointed recently. OIS shows 92% probability for 25bp cut priced (vs. 46% probability 2 weeks ago). ECBspeaks are also of interest. Lagarde told a parliamentary hearing yesterday that *the suppressed level of some survey indicators suggests that the recovery is facing headwinds..* She added *the latest developments strengthen our confidence that inflation will return to target in a timely manner.. we will take that into account in our next monetary policy meeting in October.* EUR was last at 1.1140 levels. Daily momentum is not showing a clear bias while RSI turned lower. Risks remain skewed towards the downside. Double-top pattern observed – typically associated with bearish reversal. Support at 1.11 (21 DMA), 1.1030,60 levels (50 DMA, 23.6% fibo retracement of 2024 low to high). Resistance at 1.12 (double-top).

- **JPY rates**. The Q3 Tankan survey came in firmer than Q2 across indices. Business conditions were mostly one point higher; all enterprises fixed investment forecasts improved to 8.9% from 8.4% prior; inflation expectation mostly remained the same, firmly above 2% across various time horizons; diffusion index for employment conditions stayed negative/more negative while forecasts are more negative (meaning relatively more “insufficient employment”). Additional interest rate hikes are on the table based on domestic fundamentals – mainly, the virtuous cycle between wages and prices. Obstacles to any delay in the timing of rate hikes are probably external in nature. On balance, we maintain our expectation for another 10bp hike before year-end; and given real rates are still very low in Japan, we expect three 10bp hikes in 2025, likely to be delivered in a gradual manner



Source: Bloomberg, OCBC Research

- **USDSGD. *Rebound Underway.*** USDSGD rebounded. Pair was last at 1.2860. Mild bearish momentum on daily chart faded while RSI rose from near oversold conditions. Near rebound risks likely to play out but broader trend remains skewed to the downside. Resistance at 1.29, 1.30 levels. Support at 1.28, 1.2740 levels (76.4% fibo retracement of 2012 low to 2020 high). S$NEER was last estimated at ~1.96% above our model-implied mid.

- **CNY rates and HKD rates**. Onshore China is closed for the weeklong holidays. Whether the improvement in risk sentiment can be sustained remains to be seen. Yesterday’s CGB performance plainly illustrates it is all about asset allocations. We believe the 2% floor is being established for the 10Y CGB yield and maintain a steepening bias on the CGB curve across the 5s30s and 2s10s segments. Optimism after the slew of support measures appears to have led to inflows into HKD assets; these, combined with quarter end and holidays, led to tighter HKD liquidity with t/t swap curve higher and spot t/t lower. This extent of HKD liquidity tightness shall be temporary, but if the risk sentiment towards China stays upbeat, and if HKD loan demand recovers, then our medium-term view for HKD rates to underperform USD rates on a downtrend shall materialise earlier. August HKD loan-to-deposit ratio edged further lower to 79.3%, the lowest since September 2017; HKD loans for use outside HK edged lower to 6.26%.

- **SGD rates**. Today brings the auctions of SGD16bn of 4W MAS bills and SGD23bn of 12W MAS bills. 1M and 3M implied SGD rates traded a few bps higher than the levels at the time of last week's MAS bills auction; this combine with the relatively tight liquidity cross quarter-end and month-end may see mildly higher MAS bills cut-offs today compared to last week. There is also the auction of SGD700bn of 6M FRN; spread is expected at 25-28bps with reference to 6M SGD OIS.

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