Daily Market Outlook

2 October 2024

Safe Haven Flows

- **USD rates**. USTs rallied on safe haven flows overnight amid heightened geopolitical tensions. Yields rebounded mildly as JOLT jobs openings printed higher than expected although data outcome was actually a mixed bag. ISM indices mostly printed softer than expected; in particular, ISM employment fell to 43.9points versus 46.0points prior and ISM prices paid fell to 48.3points from 54.0points prior. Yields ended NY sessions a few bps lower. Fed funds future pricings were little changed, seeing 72bps of cuts before year end. Sentiment appears to have stabilised somewhat during Asian hours, but regardless, the underlying support to USTs does not change. Data releases continue with ADP employment change and PMIs, before Friday's non-farm payroll. On liquidity, usage at the Fed's o/n reverse repo fell to USD375bn on Tuesday, while SOFR jumped by 12bps to 4.96% crossing quarter end.

- **DXY. *Healthy Retracement.*** USD rebound gets underway, boosted by re-escalation in geopolitical tensions in the middle east. Israel has threatened to retaliate but Iran has also warned Israel not to retaliate or risk 'crushing attacks'. US' assessment is that Iran's strike overnight was twice the scope of April's assault. Tit-for-tat military responses may risk undermining broader market sentiments. Gold, bonds and oil have reacted more while the equity, FX responses appear milder. It is probably prudent to monitor further if there is excessive complacency in markets. We caution that a wide-spread conflict involving more parties may see risk aversion flows benefitting the likes of USD, JPY, CHF and gold. High-beta FX proxy including MYR, KRW may come under pressure. Going back to US, the data is a mixed bag. JOLTS job openings rose but quit rate fell; ISM manufacturing was a touch softer, ISM employment slumped, ISM price index fell by most since May 2023, but new orders rose. We continue to watch jobs data this week. Today brings ADP employment (Wed), followed by initial jobless claims (Thu) and payrolls report (Fri). Markets may unwind some of its dovish bets if labour-related data comes in hotter, and this may add to USD rebound momentum in the near term. Elsewhere there is concerns that the port strike may have wider implication on inflation, growth and jobs. It may be key to watch 1/ how long the strikes last - if the strikes last longer than a month.. then the risk on inflation may eventually catch up; 2/ if

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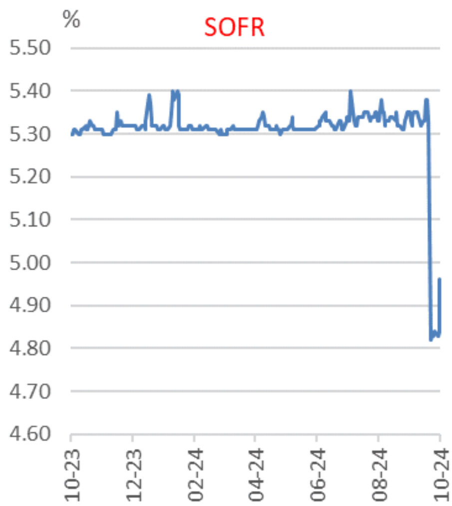


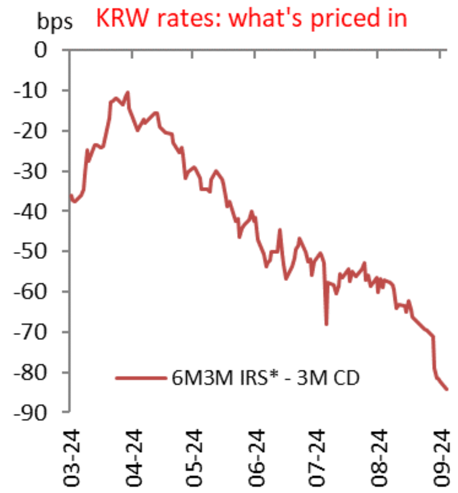
Source: Bloomberg, OCBC Research

strikes last more than 2 weeks past their paycheck date which is around 12 Oct - then the Oct jobs report in Nov data release will have impact; but 3/ if strikes last only days - then potential impact on markets may be minimal. So the repercussion is that the strikes (depending on how long it lasts) may have knock-on effects on Oct's payrolls number, due on 1 Nov, ahead of US elections on 5 Nov and FOMC on 7 Nov. DXY was last at 101.21. Daily momentum is mild bullish while RSI rose. Risks remain skewed to the upside. Resistance at 101.90 (50 DMA). Near term support at 101 (21 DMA), 100.20 (recent low). We remain cautious of rebound risks in the near term.

- **EURUSD. *Double-Top Bearish Reversal.*** EUR continued to drift lower as double-top bearish reversal gets underway. Pair was last at 1.1067. Daily momentum turned mild bearish while RSI turned lower. Risks remain skewed towards the downside. Support at 1.1040 (50 DMA), 1.0970 (38.2%fibo retracement of 2024 low to high). Resistance at 1.11 (21 DMA), 1.12 (double-top). CPI estimate for euro-area came in softer, "undershooting" ECB's 2% target. Earlier, German, French and Spanish CPIs underwhelmed expectations as well. Core CPI was largely steady at 2.7%. Markets have also priced in 93% probability of an Oct cut, taking into account CPI prints and what Lagarde spoke about on Monday at the parliamentary hearing - *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.* We continue to watch the tone of ECB officials this week – if there is a dovish shift. Already overnight, Kazaks indicated that risks to the economy have become more pronounced and he has shown his bias for rate cut in Oct.

- **USDSGD. *Rebound Underway.*** USDSGD extended its move higher, tracking the broad move higher in USD and cautious sentiments. Pair was last at 1.2870. Daily momentum turned mild bullish while RSI rose. Near rebound risks remain. Resistance at 1.2940 (21 DMA), 1.2980 (23.6% fibo retracement of Jul high to Sep low). 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.

- **KRW rates**. September CPI inflation eased more than expected, to 1.6%YoY versus 2.0% prior and expectation of 1.9%. The softening in headline inflation came mainly from transport, while housing & utilities, restaurants & hotels, food & beverage also saw some disinflation. KRW IRS were offered down 1-4bps at open this morning, likely in reaction to geopolitics instead of the domestic CPI report. Over the past month, the KRW rates market has added to rate cut expectation, to around 84bps priced for the next six months. The Bank of Korea was quoted as saying that the foundation of price stabilisation is being laid and it expects inflation to stay below 2% for a while. Recent BoK rhetoric and September inflation outcome underlines our base-case for the BoK to start cutting rates as soon as this month; we look for a 25bp cut in the policy Base Rate at the 11 October MPC meeting. Given that KTB-UST yield differentials have improved over the past months, the start of the domestic rate cutting cycle at this juncture would benefit short-end KTBs. Another focus is the looming bond index inclusion decision, where hope is high although there were a couple of false dawns before. Finance Minister Choi opined that Korea has met all the conditions for inclusion in the WGBI.



Source: Bloomberg, OCBC Research

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