Daily Market Outlook

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China Stimulus; RBA Decision

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- **USD rates**. USTs did a round trip overnight, with yields ending the day little changed, in the absence of major events while commentaries from Fed officials were in line with market pricings. Goolsbee opined that the current Fed funds rate is "hundreds of basis points" above neutral, pointing to a slew of interest rate cuts down the road. Kashkari said he expected two 25bp cuts at each of the remaining meetings this year, in line with the 2024 median dot and our base-case. On liquidity, this week there will be net bills paydown of USD29bn and net coupon bond settlement of USD28bn, hence somewhat neutral. This week brings coupon bond auctions of USD69bn of 2Y, USD28bn of 2Y FRN, USD70bn of 5Y and USD44bn of 7Y bonds; these will result in net coupon bond settlement of USD118bn on 30 September. On the data front, September PMIs were mixed, and for the rest of the week there are Conference Board survey, new home sales, third readings of Q2 data, August durable goods orders and PCE price index lining up. Near-term range for 2Y UST yield is seen at 3.5-3.6% and that for 10Y UST yield is seen at 3.65-3.75%.

- **DXY. *Slight Bias for Move Higher.*** This week is a busy week of Fedspeaks. About 11 separate occasions where multiple Fed officials will air their views, including Powell's pre-recorded speech on Thursday. But last night, for those who spoke, they largely sounded somewhat dovish. For instance, Goolsbee said rates need to be lowered significantly to protect US labour market and the economy and he looks for many more rate cuts over the next year. He also said that current level of interest rates is hundreds of bps above neutral rate. Bostic said large cut supports labor market but pace is not set. Alongside mixed prelim PMI report out of US overnight, the USD still trade mixed while risk-on sentiments remain intact for now (partly supported by China's stimulus announced this morning). DXY was last at 100.90. Mild bullish momentum on daily chart intact while RSI rose. Interim double-bottom appears to be forming – this suggests an interim base. USD may drift slightly higher intra-day. Resistance at 101.20 (21 DMA), 101.90. Support at 100.20/50 levels (interim double bottom). This week, we will also watch core PCE (Fri). Should core PCE unexpectedly rebound, then worries of second-round inflation may play up and USD short squeeze may have room to run.

- **EURUSD. *Double-Top?*** EUR fell after French services PMI and German manufacturing PMI slumped into contractionary territory. Slump in PMIs maybe a concern but it remains to be seen if this is a one-off summer lull or whether it represents a more material economic downturn. Further growth/activity data would be key as confirmation of deeper economic slowdown will suggest that ECB easing may need to play catch up and that would warrant a softer EUR (which markets may contemplate playing this theme pre-emptively). We continue to keep a close watch on data. EUR was last at 1.1105. Mild bullish momentum on daily chart shows tentative signs of waning while RSI turned lower. Technically, double-top bearish reversal appears to be forming. Risks skewed to the downside. Support at 1.1090 (21 DMA), 1.1060 (23.6% fibo retracement of 2024 low to high) and 1.10 (50 DMA). Resistance at 1.1160, 1.12 (2024 high). Looking at EUR-crosses, we favour tactical short EURGBP on growth and monetary policy divergence between EU/ECB and UK/BOE.

- **AUDUSD. *RBA Today but CPI May Matter More Tomorrow.*** AUD firmed this morning, in response to China's stimulus measures. Pair was last at 0.6844. Bullish momentum on daily chart intact while rise in RSI moderates near overbought conditions. Resistance at 0.6870 (2024 high), 0.69 levels. Support at 0.6750 (21 DMA), 0.6675 (50, 100 DMAs). Possibly, the CPI release tomorrow may matter more for AUD than the RBA MPC later (as markets were largely expecting RBA to hold). Any downside print to data may renew market bets on RBA to cut and AUD may pullback on that. For RBA MPC later today (1230pm SGT), there were some chatters that RBA may bring forward its plans on lowering rates after the larger than expected magnitude of Fed cut last week. We doubt Fed cut has much influence and we still look for RBA to maintain cash rate at 4.35%. RBA Governor Bullock had earlier said that it is premature to be thinking about rate cuts as RBA's priority is to bring inflation down to target band of 2-3%. Housing and market services were still contributing to above-target inflation. She explained that RBA board is seeking to balance reducing inflation in a reasonable timeframe and maintaining as many of Australia's recent labour market gains as possible, with unemployment at a low 4.2%. She also spoke about the drawbacks of prolonged periods of high inflation and how the current episode is disproportionately hurting lower income earners and young Australians.

- **USDSGD. *CPI in Focus.*** USDSGD continued to trade in a subdued range near recent low. Pair was last at 1.2910. Daily momentum is flat while RSI rose. Rebound risks not ruled out in the near term. Support here at 1.29, 1.2870. Resistance at 1.30 (21 DMA), 1.31 levels. S$NEER was last estimated at ~1.88% above our model-implied mid, with model implied spot lower bound at 1.2895. Core

CPI for Aug re-accelerated. For the first 8 months of the year, core CPI is at 3%. This may suggest that it is premature for MAS to ease policy stance at Oct MPC unless MAS switches from inflation fighting mode to supporting growth. As such, SGD strength may continue to stay with us for a little longer, especially if USD softness presses on.

- **CNY rates**. At a briefing held jointly today by PBoC, CSRC and NFRA, officials announced a slew of support measures. Among other measures, the RRR will soon be cut by 50bps, releasing CNY1trn of liquidity; depending on market conditions, official said the RRR may be cut by a further 25-50bps before year end. The rate on the 7-day OMO reverse repo will be cut by 20bps from 1.7% to 1.5%; we expect it will be effective when they next conduct 7-day OMO reverse repo while today PBoC conducted 14-day OMO reverse repo to cover quarter end and the October holidays. Initial reactions saw CGB yields lower across the curve, as market probably focus on the softer growth outlook instead of the stimulus impact at this juncture. While it takes time for the impact on the economy to show up, the recovery in the overall risk sentiment can come earlier. We expect a fair bit of consolidation in the 10Y yield at 1.95-2.00% levels after initial adjustment. At the short-end, our view has been for short-end repo-IRS to partially catch up with CGB yields as they had lagged in the downward move thus far.

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