

Daily Market Outlook

3 October 2024

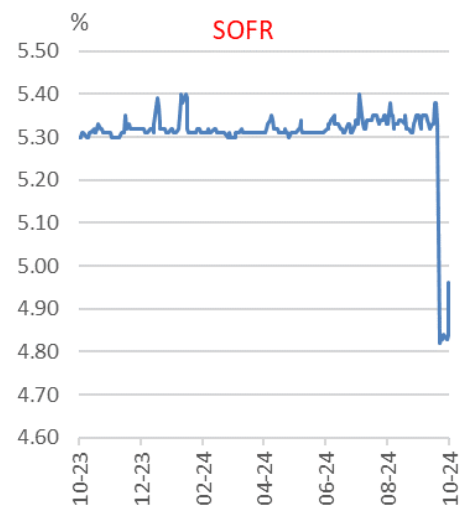
JPY Squeeze; HKD Liquidity

- USD rates.** UST yields rose upon the ADP employment print; relative performances suggest that market interpretation focused on the higher likelihood of a soft-landing scenario, rather than lesser room for the Fed to cut in the cycle. First, the UST curve steepened, with 2Y yield ending the day 4bps higher. While long end yield are 6bps higher. Second, Fed funds futures mildly pared back rate cuts expectation to 70bps this year, but pricings for 2025 was little changed still hovering around 120bps. The same reaction may happen to payroll this Friday. Consensus for NFP is 150K but with a wide range of estimates from 70K to 220K. Six-month average (up to August) of change in payroll was 165K. A print that is around 140-165K will probably be seen as neutral by market. If payroll surprises to the upside, market may pare back near-term rate cut expectations but any impact on USTs may not last as 1/ market pricings represent front-loading of rate cuts while the trajectory of rate cuts priced between now and end-2025 is not particularly aggressive, meaning there is not much room for hawkish adjustment; 2/underlying demand for USTs remains, which is also illustrated by recent coupon bond auctions with relatively heavy net settlement earlier this week. If payroll surprises to the downside, it may add to market pricing of another 50bp cut. 10Y breakeven was up to 2.22% while 10Y real yield was up to 1.57%; near-term range for 10Y nominal yield is seen at 3.65%-3.85%.
- DXY. Initial Jobless Claims, ISM Services Data on Tap.** USD rebound continues for another session, in line with our caution for USD short squeeze. ADP employment came in hotter at +143k (vs. 125k expected), reinforcing our caution that hotter labour data can add to USD rebound momentum in the near term. Today brings initial jobless claims, ISM services and payrolls report on 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. DXY was last at 101.75. Daily momentum is bullish while RSI rose. Risks remain skewed to the upside. Resistance at 101.90 (50 DMA, 23.6% fibo retracement of 2023 high to 2024 low), 102.50 levels. Near term support at 101 (21 DMA), 100.20 (recent low). We remain cautious of rebound risks in the near term. With regards to US port strikes, we can consider implication on 3 fronts: 1/ inflation; 2/ growth and 3/ jobs. It may be key to

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Global Markets Research and Strategy



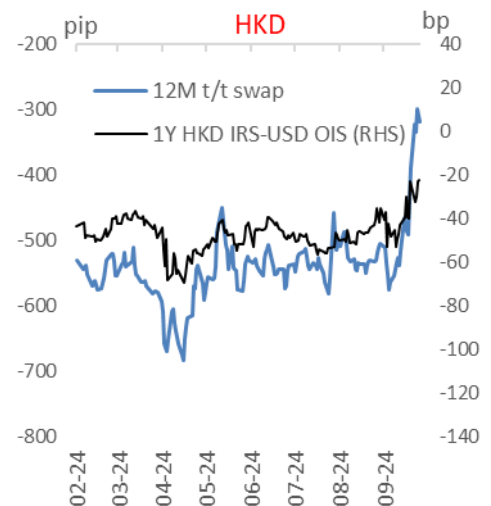
Source: Bloomberg, OCBC Research

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 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 (potentially a lower print and how it can lead to chatters of 50bp cut again); 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.

- **EURUSD. Downside Pressure Persists.** EUR inched lower amid broad USD rebound while markets continue to price in 25bp ECB cut in Oct with more conviction after CPI undershoot ECB's 2% target. Recent ECBspeak has also turned more dovish. Schnabel (typically a hawk) said that ECB cannot ignore headwinds to economic growth. She added "with signs of softening labor demand and further progress in disinflation, a sustainable fall of inflation back to our 2% target in a timely manner is becoming more likely, despite still elevated services inflation and strong wage growth". Centeno said that "a monetary policy that remains tight for too long risks causing inflation to undershoot its target, ... speed is of the essence. The current state of the euro-area economy, along with the prevailing price and labor market conditions, necessitates a response from the ECB: a reduction in interest rates." Pair was last at 1.1037. Daily momentum is mild bearish while RSI turned lower. Double-top bearish reversal gets underway. Risks remain skewed towards the downside. Support here 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). Week remaining brings services PMI, PPI data (today). Softer print should continue to increase market confidence for an imminent cut.
- **USDJPY. Dollar Short Squeeze That Was Most Felt In.** USDJPY continued to trade higher as net JPY long (typically rare) unwinds after comments from new PM Ishiba and Governor Ueda seems to reiterate no hurry to normalise policy. Yesterday PM Ishiba said that the economy is not ready yet for another interest rate hike. Such strong words from a PM is rare and without a doubt, JPY longs are running for cover. That said, PM's comments may also be echoing Governor Ueda's earlier comments that *upside risk to prices does appear to be easing given the recent yen strength... there's some time to confirm certain points when making policy decisions, referring to the importance of checking moves in financial markets and the state of overseas economies.* We continue to caution that a more gradual pace of policy normalisation may see pace of USDJPY decline slow in the short term. Elsewhere there were also chatters that the PM may be

attempting to shore up confidence ahead of snap elections (27 Oct) by talking down rate hikes and boosting equity markets. Nevertheless, cabinet secretary Hayashi conveyed this morning that PM Ishiba said that specifics of monetary policy are up to BoJ. USDJPY was last at 146.80. Bullish momentum on daily chart intact while RSI rose. Immediate resistance at 147.00/20 levels, 148 (38.2% fibo retracement of Jul double-top to Sep low) and 150 levels. Support at 145.40 (50 DMA), 144.80 (23.6% fibo) and 143.20 (21 DMA).

- USDSGD. Rebound Meets 21 DMA.** USDSGD continued to trade higher, tracking the broad move higher in USD while markets adjust position ahead of NFP risk. Pair was last at 1.2940. Daily momentum is mild bullish while RSI rose. Near rebound risks remain intact as we continue to look for USD short squeeze. Resistance here at 1.2940 (21 DMA), 1.2980 (23.6% fibo retracement of Jul high to Sep low). Support at 1.2890, 1.28, 1.2740 levels (76.4% fibo retracement of 2012 low to 2020 high). S\$NEER was last estimated at ~1.92% above our model-implied mid.
- HKD rates.** HKD liquidity has stayed tight with t/t swap points mostly higher on Wednesday. The fall in o/n HIBOR fixing yesterday was just because quarter-end and holiday had passed. We see two major factors which may dictate HKD rates performance relative to USD rates performance. First, inflows. Optimism after the slew of support measures from China has led to recent inflows into HKD assets. The risk sentiment is upbeat - transaction volume in HSI was heavy at HKD225bn yesterday even in the absence of Southbound flows; probably precisely as onshore was close funds flocked the HK market. If inflows into HKD assets riding on China stimulus is sustained, then that would add to HKD liquidity tightness. Second, domestic loan demand. To recap, 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%. But these are much lagging data. Looking ahead, if HKD loan demand recovers, e.g. alongside potentially higher mortgages volume, then this factor of subdued loan demand leading to easy HKD liquidity will subside. If these two criteria – sustained inflows and recovering loan demand – are met, then our medium-term view for HKD rates to lag in a downtrend would materialise. For now, the 1M tenor and below may bear most of the upward pressure



Source: Bloomberg, OCBC Research

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