Daily Market Outlook

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USD Short Squeeze

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- **DM rates**. Bund and Gilt yields edged higher overnight continuing with the theme of consolidation and mild correction from the earlier bond rallies. EUR OIS last priced a total of 60bps of cuts by year end, which looks roughly fair compared with our base-case of 50bps; GBP OIS last priced 41bps of cuts by year-end, which is a tad more dovish than our base-case of 25bps. In the US, it is a data-heavy week; ISM manufacturing, JOLTs jobs opening, jobless claims, ISM services, and the all-important August payroll and labour market statistics on Friday, while the Fed is also scheduled to release the latest issue of its Beige Book. Fed funds futures still price 31% chance of a 50bp cut at this month's meeting and a total of 99bps of cuts by year end. August payroll and labour market statistics may dictate as to whether market holds onto such rate cuts expectations. On the liquidity front, there is a net USD100bn of coupon bond settlement tonight but after this, net bills settlement is virtually zero.

- **DXY. *ISM Mfg, Employment Data on Tap.*** Markets were largely quiet overnight as US markets were closed for labour day holiday. Market activity could pick up pace as data releases intensify with payrolls to end the week on Fri. Greater emphasis will be placed on labour market-related data, given that Fed's focus has shifted towards supporting labour market. Today we have ISM mfg, new orders, employment. Good and bad data may point to USD strength while data in line with estimate may see a more muted response to USD. DXY was last at 101.67. Daily momentum turned mild bullish but rise in RSI moderated. We still see some risks of further short squeeze. Resistance at 102 (21 DMA), 102.20 (23.6% fibo retracement of 2023 high to 2024 low). Support at 100.50 levels. Week's focus on JOLTs job openings (Wed), ADP employment, ISM services employment (Thu), and US payrolls report on Fri.

- **EURUSD. *21DMA to Give Way?*** EUR traded little changed overnight. Last seen at 1.1060 levels. Daily momentum is mild bearish while RSI fell. Support at 1.1040 (21 DMA), 1.10, 1.0930 (61.8% fibo retracement of 2024 high to low). Resistance at 1.12 (recent high) and 1.1280 (2023 high). Slippage in CPIs out of Euro-area, Germany and Spain and softer mfg PMI print added to expectation that ECB may lower rate again at its upcoming meeting on 12 Sep. Markets have priced in nearly 25bp cut at this meeting and about 37bp cut for remainder of the year (another 1.5 cut). Another series of underwhelming data print could move the needle for markets to price in a more dovish ECB and for the EURO to trade lower. This week, focus is on services PMI, PPI (Wed), retail sales (Thu) and GDP (Fri).

- **AUDUSD. *Double-Top Bearish Reversal Gets Going.*** AUD was a touch softer this morning after net exports came in softer, current account deficit widened. This added to suspicion that 2Q GDP print tomorrow (930am SGT release) may be skewed to the downside. Meanwhile further decline in iron ore futures to 20-month low further undermined AUD. Pair was last at 0.6755 levels. Bullish momentum on daily chart is fading while RSI fell. Corrective pullback is underway. Support at 0.6730, 0.6660. Resistance at 0.6830, 0.6870. Focus this week on 2Q GDP (Wed). A softer print should see AUD come under pressure.

- **USDSGD. *Rebound.*** USDSGD rebounded, in line with our caution. Move higher tracked broad USD rebound. Pair was last at 1.3085 levels. Daily momentum turned mild bullish while RSI rose. Rebound is underway. Resistance at 1.3130/60 levels (21 DMA, 23.6% fibo retracement of 2024 high to low). Support at 1.30 (recent low). Further rebound not ruled out as markets adjust/ reduce shorts ahead of key data risks – US labour market. S$NEER was last estimated at ~1.87% above our model-implied mid.

- **CNY rates**. PBoC net withdrew CNY471.3bn of liquidity from the market via OMOs this morning upon heavy maturity; for the rest of the week, there is a total of CNY462.7bn of reverse repos maturing, and some further withdrawals shall not be surprising. Again, 7-day money aims to meet short-term liquidity demand such as month end or quarter end, which shall not be seen as representing a monetary stance. We continue to look for monetary easing, in the form of injections of longer-term liquidity and outright interest rate cuts over the coming months. CNY591bn of MLF matures on 18 September and it is unlikely to be fully rolled over. While recent PBoC monetary operations are unlikely to alter the overall trading direction, these may be able to set an interim floor to long-end yields. We hold onto our steepening bias on the CGB curve.

- **SGD rates**. Today brings the auction of SGD15.8bn of 4W MAS bills and SGD22.3bn of 12W MAS bills. Front-end implied SGD rates have edged further lower over the past week, more so at the 1M reflecting flush liquidity. Cut-offs are seen at 3.40-3.50% for both the 4W and 12W bills. 6M and 1Y MAS FRNs are also auctioned today. While SGD OIS have gone higher alongside USD rates over the past two days, SGS outperformed swaps resulting in wider bond/swap spreads (OIS – yields) as SGS stayed supportive amid a lack of primary supply. Meanwhile, asset swap pick-up remained decent, at around SOFR+80bps (before bid/offer spread) at 15Y SGS and around SOFR+100bps at 20Y SGS.

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