Daily Market Outlook

4 October 2024

BOE Flip; NFP Eyed

Frances Cheung, CFA
FX and Rates Strategy
FrancesCheung@ocbc.com

Christopher Wong
FX and Rates Strategy
ChristopherWong@ocbc.com

Global Markets Research and Strategy

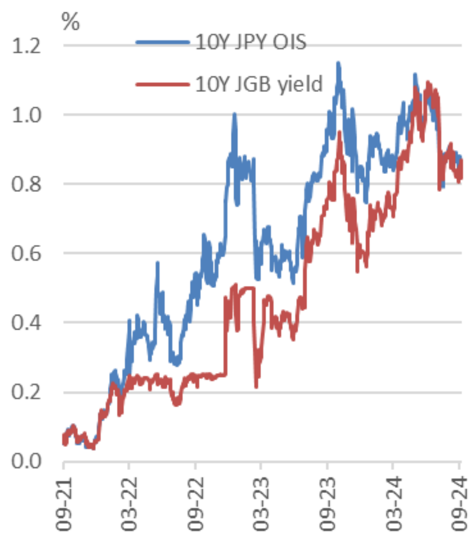
- **USD rates**. UST yields continued to correct higher as US ISM indices printed strong while there might be some renewed focus on inflation amid geopolitics. Fed funds futures further pared back rate cut expectations, mildly, to 67bps before year end; chance of a 50bp cut at the November FOMC meeting was last priced at 35% versus more than 50% priced in late September. Overnight uptick in 10Y UST yield was driven by higher real yield, in response to the ISM outcome. ISM indices surprised to the upside across most categories except employment; the headline ISM services index rose to 54.9points, prices paid rose to 59.0points and new orders rose to 59.4points. Given the recent correction in USTs ahead of payroll, the bar may be higher for any upside surprises in payroll to lead to a material market reaction. Next week, there are net bills settlement of USD31bn and net coupon bond settlement of USD22bn.

- **GBP rates**. Gilt yields fell upon Bailey's dovish remarks on Thursday, before rebounding from intra-day lows to close the day a few bps lower at the short end. Bailey was quoted as saying the BoE can become "a bit more aggressive" and "a bit more activist" in cutting rates if inflation continues to cool. This contrasted the "gradual" approach that the central bank had been emphasising. Our base-case has been for another 25bp cut in the Bank Rate before year-end, likely at the November MPC meeting. Thereafter, we expect one 25bp Bank Rate cut in every quarter in 2025. Our rate cut expectation is based on our lower inflation forecasts than BoE's. At the last quarterly monetary policy report in August, BoE expected inflation to rise this year up to around 2.75% before coming back down next year. And at the September MPC meeting, the statement said "there has generally been limited news in UK economic indicators", and "in the absence of material developments, a gradual approach to removing policy restraint remains appropriate". Bailey's latest comments have to reflect a change in the assessment of inflation and/or growth outlook. We would review the inflation outlook, pending September CPI outcome. Tonight, we will hear more from BoE Chief Economist Huw Pill.

- **DXY. *Payrolls Data Eyed (830pm SGT).*** USD is up for the 4th consecutive session overnight as US data surprised to the upside while geopolitical tensions in the middle east remains elevated. ISM services, prices paid and new orders were stronger though employment slipped into contractionary territory. Focus today turns to US payrolls. Consensus is looking for +150kprint for NFP (vs. +142k prior), unemployment rate and hourly earnings to hold steady at 4.2% and 3.8% y/y, respectively. Markets may unwind some of its dovish bets if labor-related data comes in hotter, and this may continue to add to USD rebound momentum in the near term. But given that the USD has corrected somewhat this week, the risks for the USD can be symmetric. A downside print in NFP (i.e. cooler job market) may see recent USD gains fade. DXY was last at 101.89. Daily momentum is bullish while rise in RSI moderated. Some consolidation is likely intra-day. 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).

- **GBPUSD. *BOE-Led Weakness.*** GBP fell after BoE Governor Bailey unexpectedly spoke about adopting a more aggressive easing stance. In an interview with the Guardian, he said that the BoE *could become a "bit more aggressive" and "a bit more activist" in its approach to cutting rates if the news on inflation continued to be good.* This is a flip from the last MPC in Sep where policymakers emphasized the need for policy to stay restrictive for "sufficiently long" and that most members saw the need for gradual approach to removing restraint. A catch-up in dovish re-pricing should continue to dampen GBP bulls until the next MPC. Pair was last at 1.3130 levels. Daily momentum turned bearish while RSI fell. Tactical bias switches to sell on rallies for now. Resistance at 1.3230 (21 DMA), 1.3430 levels. Support at 1.3080 (50 DMA), 1.30 levels.

- **JPY rates**. Reaction in rates have been relatively muted compared to FX, upon Ichiba's commentaries on monetary policy. Headlines continued to hit the wires; Kato was quoted as saying that the government and BoJ will continue work closely, and Akazawa commented they need to be on the same page and to stick to 2% inflation target firmly. Both Kato and Akazawa added that the specifics/method of monetary policy should be left to the BoJ. One thing that may be clear is that it is mostly about the "timing of normalization", not the direction. Additional interest rate hikes are on the table based on domestic fundamentals, in our view – namely, the virtuous cycle between wages and prices. The latest Q3 Tankan survey came in firmer on various aspects. If there is any obstacle, it should be external in nature. Deputy Governor Uchida in a recent speech said explicitly that "strengthening of the yen would affect the BOJ's policy decision-making because it reduces upward pressure on import prices, and therefore overall inflation". We continue to look for a 10bp rate hike before year-end; the risk is it would be delayed to December. JPY OIS priced



Source: Bloomberg, OCBC Research

5bps of cut before year-end. The gap between 10Y JGB yield and 10Y JPY OIS has been closed a while back and now the two track each other more in tandem with the spread hovering around multi-year median level. There appears to be a lack of trigger for the 10Y yield to break out of range near-term.

- **USDJPY. *Dollar Short Squeeze That Was Most Felt In.*** USDJPY recent rally can be attributed to comments from new PM Ishiba and Governor Ueda. Both sent a coherent message that policymakers are in no hurry to normalise policy. PM Ishiba has also just ordered his cabinet to draw up a comprehensive economic measure. This continues to be aligned with chatters that the PM may be attempting to shore up confidence ahead of snap elections (27 Oct) by drawing up comprehensive economic measures, including a submission of a supplementary budget to parliament after snap elections, talking down prospects of rate hikes and boosting equity markets. On monetary policy, PM Ishiba had earlier said that the economy is not ready yet for another interest rate hike (rare move but later clarified that it was intended to show alignment with Governor Ueda) while Governor Ueda had earlier said 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.* Former BoJ member Masai told Bloomberg TV that BoJ will keep seeking the best timing to raise interest rates again as economic conditions continue to improve. He also spoke about range of 140 – 150 for USDJPY is comfortable. Pair was last at 146.40. Bullish momentum on daily chart intact but rise in RSI slowed. Immediate resistance at 147.00/20 levels, 148 (38.2% fibo retracement of Jul double-top to Sep low) and 150 levels. Support at 145.20 (50 DMA), 144.80 (23.6% fibo) and 143.35 (21 DMA).

- **USDSGD. *Consolidation.*** USDSGD has corrected higher for 4 consecutive days this week, tracking the uptick in USD. Focus today on US NFP. Risks are likely to be symmetric for USDSGD. If print comes in hotter, then the corrective rebound can continue but if NFP prints lower, then the pair should consolidate with a downside bias. Pair was last at 1.2970. Daily momentum is mild bullish while rise in RSI moderated. Consolidation likely ahead of NFP data. Resistance at 1.2980 (23.6% fibo retracement of Jul high to Sep low), 1.3070 (50 DMA). Support at 1.2940 (21 DMA), 1.2890, 1.28 levels. S$NEER was last estimated at ~1.85% above our model-implied mid.

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
mengteechin@ocbc.com

This publication is solely for information purposes and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics ad is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. There may be conflicts of interest between OCBC Bank, Bank of Singapore Limited, OCBC Investment Research Private Limited, OCBC Securities Private Limited or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OCBC Bank and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.: 193200032W