Daily Market Outlook

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Focus on Jobs Data

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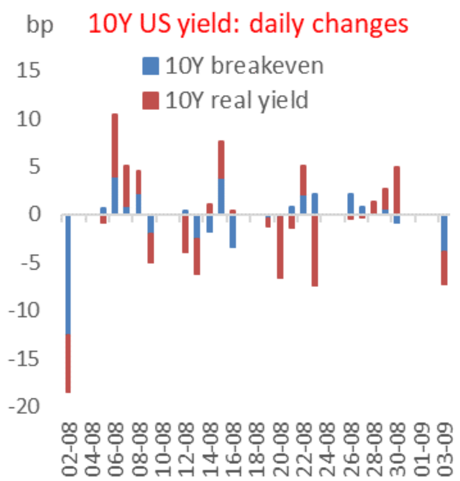
- **USD rates**. USTs rallied as August ISM manufacturing printed softer than expected and stayed below the 50-point threshold, albeit having improved from the previous month. The ISM outcome was mixed, with a small miss versus expectation in the headline, upticks in the prices paid and employment components but lower new orders component compared to the July readings. Market nevertheless chose to view it from a dovish lens and added to expectation for a 50bp cut at September FOMC meeting to 42% from 32% priced last Friday; a total of 103bps of cuts are priced before year end. For the rest of the week, JOLTs jobs opening, jobless claims, ISM services, and the all-important August payroll and labour market statistics will drive market volatility and may dictate as to whether market holds onto aggressive rate cuts expectations. The Fed is also scheduled to release Beige Book tonight. The overnight falls in 10Y UST yield was driven by both lower breakeven and lower real yield. Whether 10Y real yield will break decisively below the 1.70% level is also data dependent. Range for the 10Y UST yield is seen at 3.70-3.95% near-term. On the liquidity front, usage at the Fed's o/n reverse repo fell by USD83bn to USD350bn on Tuesday, while there was a net USD100bn of coupon bond settlement; net bills settlement is virtually zero this week.



Source: Bloomberg, OCBC Research

- **DXY. *JOLTS, Beige Book in Focus.*** USD short squeeze was well underway, with AUD, NZD and THB under pressure overnight. ISM manufacturing slumped (47.2 vs. 47.5 expected), alongside new orders while employment subindex remains in contractionary territory. Focus shifts to JOLTS job openings and Fed's Beige book report (District contacts' view on the labour market). July's Beige Book showed most Districts reported employment was flat or up slightly, while a few Districts reported modest employment growth. We reiterate that USD should remain sensitive to job data this week given that Fed's focus has shifted towards supporting labour market. Good and bad data may continue to point to USD rebound while data in line with estimate may see a more muted response to USD. DXY was last at 101.65. Daily momentum is mild bullish but rise in RSI moderated. We still see some risks of further short squeeze. Resistance at 101.90 (21 DMA), 102.20 (23.6% fibo retracement of 2023 high to 2024 low). Support at 100.50 levels.

Week remaining brings JOLTs job openings (Wed), ADP employment, ISM services employment (Thu), and US payrolls report on Fri.

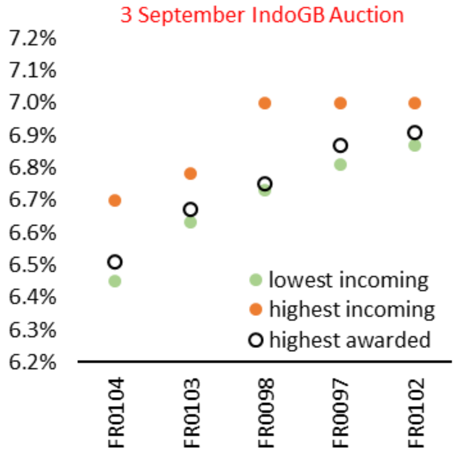
- **USDJPY. *Sideways.*** USDJPY turned lower after BoJ Governor submitted a document to government panel, which reiterated that the BoJ would continue to raise interest rates if the economy and prices perform as expected by the BoJ. Fed-BoJ policy shifts will bring about a narrowing of UST-JGB yield differentials and this should continue to underpin the broader direction of travel for USDJPY to the downside Elsewhere, the sell-off in equities (pullback in risk appetite) was also another factor weighing on USDJPY. Pair was last seen at 145.45. Bullish momentum on daily chart intact while decline in RSI moderated. Sideways trading likely. Resistance at 146.10 (21 DMA), 147.20 (recent high). Support at 144.40, 143.45 (recent low).

- **EURUSD. *Consolidation.*** EUR traded a touch softer, but range remains subdued. Pair was last seen at 1.1055 levels. Daily momentum is mild bearish while RSI was flat. Support at 1.1026 (recent low), 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 25bp cut at this meeting and about 36bp cut for remainder of the year (another 1.5 cut). This week, focus is on services PMI, PPI (Wed), retail sales (Thu) and GDP (Fri). Another series of underwhelming data print could move the needle for markets to price in a more dovish ECB and for the EUR to trade lower.

- **AUDUSD. *Corrective Pullback Found Interim Support.*** AUD's double-top bearish reversal gets underway. Pair was last at 0.6705 levels. Bullish momentum on daily chart faded while RSI fell. Recent pullback may have found an interim support at 0.67 (21 DMA). Decisive break may open room for further downside towards 0.6640. Resistance at 0.6730, 0.6790. 2Q GDP released this morning was largely in line with estimates while services PMI held up. With domestic data out of the way. AUD should revert to taking cues from equity sentiments and USD moves in the coming sessions.

- **USDSGD. *Rebound Over?*** USDSGD rebounded to near 1.31 overnight before partially erasing the move. Pair was last at 1.3070 levels. Daily momentum turned is bullish while RSI is flat. Rebound may have stalled for now. Resistance at 1.3110 (21 DMA), 1.3160 levels (23.6% fibo retracement of 2024 high to low). Support at 1.3050, 1.30 (recent low). S$NEER was last estimated at ~1.87% above our model-implied mid.

- **IndoGBs** traded in ranges on Tuesday and a tad weaker after auction. The conventional bond auction attracted incoming bids of IDR45.5trn, with IDR22trn of bonds awarded as per indicative target. While demand was not as overwhelming as that at the last auction on 20 August, last auction itself benefited from a new benchmark. Most of the incoming bids went to FR104 (2030 bond) and FR103 (2035 bond) in line with the usual pattern as these tenors are relatively more favoured. Cut-offs came in near the lowest incoming bids levels for all the bonds. Overall, demand shall still be considered as decent. In the week to 2 September, foreign inflows into IndoGBs amounted to IDR3.6trn, while domestic banks increased holdings by IDR12.5trn and non-bank domestic investors increased holdings by IDR6.6trn. Investors may become cautious in the near-term awaiting US data.



Source: DJPPR, OCBC Research

- **CNY rates**. Repo-IRS traded on the soft side as expectations remain for monetary easing. CNY591bn of MLF matures on 18 September and the maturing profile is getting heavier over the coming months with CNY789bn in October, CNY1450bn in November and another CNY1450bn in December. These would provide a window of opportunities to retire some of the MLF and replace them with other forms of liquidity, including those released from RRR cut(s) or from bond buying under monetary operations. We continue to look for another interest rate cut, which shall point to some further downside to 1Y and 2Y repo-IRS if they are to catch up with bond yields. On the day, PBoC net withdrew CNY276.6bn of liquidity via OMOs upon reverse repos maturity, in line with expectations.

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