Daily Market Outlook

5 September 2024

Cooling Labour Market

- **USD rates**. USTs rallied for a second day as US data continued to print soft. The yield curve bullish steepened with short-end yields being more responsive to the data and market doubled down on rate cut bets. Fed funds futures price a total of 112bps of cuts by year end and 127bps of cuts in 2025. The 10Y real yield broke below the key 1.7% level, while 10Y breakeven is now near the 2% mark, together pushing the 10Y UST yield towards the near-term floor of 3.70% that we see. JOLTs job openings fell to 7673K in July, while the previous month's number was revised downward to 7910K; for July, most of the falls in jobs openings came from the transport and utilities sector, and education and health services sector. Meanwhile, according to the Fed's September Beige Book, the labour market has cooled further. The overall assessment remained that "employment levels were generally flat to up slightly", but "a few Districts reported that firms reduced shifts and hours, left advertised positions unfilled, or reduced headcounts through attrition - though accounts of layoffs remained rare". Employers were more selective with their hires and less likely to expand their workforces; and firms felt less pressure to increase wages and salaries. Market awaits August payroll and labour market statistics to gauge how rapidly the labour market has been cooling. Friday's outcome will drive market volatility and may dictate as to whether market holds onto aggressive rate cuts expectations.

- **DXY.** ***ADP Employment, ISM Services.*** USD fell after job openings disappointed while Fed's Beige Book showed that economic activity was flat to slightly down in most districts. On employment, levels held steady overall, though some firms are becoming more selective in hiring and less likely to expand their workforces, citing concerns about demand and uncertain economic outlook. It was also reported that candidates faced increasing difficulties and longer times to secure a job while firms felt less pressure to increase wage and salaries as competition for works eased and staff turnover has fallen. On net, wage growth was reportedly modest, in line with the slowing trend described in recent reports. Focus shifts to ISM services and ADP employment tonight. We reiterate that USD should remain sensitive to job data this week given that Fed's focus has shifted towards supporting labour market. DXY was last at 101.30. Daily momentum is mild bullish but RSI fell. Consolidative price action. Resistance at 101.82 (21

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Source: Bloomberg, OCBC Research

DMA), 102.20 (23.6% fibo retracement of 2023 high to 2024 low). Support at 100.50 levels.

- **EURUSD. *Taking Cues From Dollar.*** EUR was a touch firmer amid broad USD softness overnight. Pair was last seen at 1.1077. Daily momentum is mild bearish while RSI was flat. Sideways trade likely with USD the main driver of direction. 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). This week, focus is on retail sales (Thu) and GDP (Fri). Underwhelming data print could move the needle for markets to price in a more dovish ECB and for the EUR to trade lower.

- **USDJPY. *Sideways Near The Lows.*** USDJPY continued to trade lower, following the broad decline in USD, UST yields. Earlier in the week, 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. Pair was last seen at 143.85. Bullish momentum on daily chart is fading while RSI fell. Sideways trading likely. Support at 143.45 (recent low), 142 levels. Resistance at 145.90 (21 DMA), 147.20 (recent high).

- **AUDUSD. *Sideways.*** AUD saw a mild rebound amid broad USD softness after jobs data disappointed while AU GDP data held up. This morning, RBA Governor Bullock reiterated "that it is premature to be thinking about rate cuts". 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. Pair was last at 0.6725 levels. Bullish momentum on daily chart faded while decline in RSI moderated. Recent pullback have found an interim support at 0.6690/0.6700 (21 DMA, recent low). Decisive break may open room for further downside towards 0.6640. Resistance at 0.6730, 0.6790.

- **USDSGD. *To Consolidate Near Lows.*** USDSGD fell. Pair was last at 1.3030 levels. Daily momentum is mild bullish while RSI fell. Consolidation likely as markets await US jobs data. Softer print may lead to markets further pricing in 50bp cut for the Fed at upcoming FOMC. That may translate into USD softness. Support at 1.30 (recent low). Resistance at 1.31 (21 DMA), 1.3160 levels (23.6% fibo retracement of 2024 high to low). S$NEER was last estimated at ~1.89% above our model-implied mid.

- **CNY rates**. PBoC continued to withdraw part of the short-term liquidity that had been injected to cover month-end. Separately, unverified media articles reported that authorities were considering cutting interest rates for existing mortgages – if this policy came through, this would be expected to be done through renegotiating existing contracts and allowing refinancing which would then effectively encourage renegotiation. At the margin, this policy may reduce hope for a near term interest rate cut. Over the coming months, we continue look for monetary easing both in the form of liquidity injections and outright interest rate cut(s). Heavy MLF maturity profile in the coming months provide a window of opportunities for the PBoC to retire some of MLF and replace them with other forms of liquidity, including those released from RRR cut(s) or from bond buying under monetary operations. These potential operations shall point to some further downside to 1Y and 2Y repo-IRS if they are to catch up with bond yields, with 1Y bond/swap (IRS - yield) last at 24bps and 2Y bond/swap at 21bps.

  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 CNY1450 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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