Daily Market Outlook

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Payrolls Dictate

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- **USD rates**. UST yields oscillated alongside data releases; yields fell upon the weaker-than-expected ADP number; the initial reaction was brief with yields back up only to fall again. On the day, yields ended NY session 1-3bps lower compared to previous close, probably as investors refrained from adding too much directional bets ahead of payrolls and other labour market statistics tonight. ADP employment change printed 99K in August which was well below expectation of 145K while July's number was revised mildly lower to 111K from 122K. Continuing jobless claims edged lower; ISM services indices were mixed with headline a tad firmer, but the employment component weakened. In Asia morning, Goolsbee was quoted as commenting "the path is not just rate cuts soon, but multiple cuts over the next 12 months, as the Fed has projected in its most recent dot plot". His comments are subject in interpretation, as the expected rate cut trajectory on his mind might not deviate too much from the 2025 dots suggested as of now, but then there will be an updated dot-plot at the 18 September meeting. Fed funds futures were little changed overnight, pricing a 39% chance of a 50bp cut for this month, and 109bps of cuts by year end. Given current market dovishness, an in-line payrolls outcome may be good enough for market to pare back some near-term rate cuts expectation; on the other hand, if payrolls print nearer the 100K mark, then we believe some FOMC members may consider a bigger cut to start with.

- **DXY. *Bears Jumping the Gun Ahead of NFP.*** FX markets were somewhat choppy overnight amid mixed US data. ADP employment missing estimates (99k vs. 145k expected) had brought about USD softness but subsequent release of jobless claims (227k vs. 230k) saw a bounce in response. But the USD still turned lower after ISM services data came in largely in line with estimates. This morning, Fed's Goolsbee said it is pretty clear that the path is not just rate cuts soon but multiple cuts over the next 12 months as Fed has projected in its most recent dot plot. He also cautioned that he saw "more" warning signs about cooling labour market and how persistent weakness raises the possibility that labour market cooling "may turn into something worse". That said, he also said he would not put a lot of weight on one month's job number. Markets were getting excited over the term "multiple cuts" and that saw USD pushed a touch lower this morning.

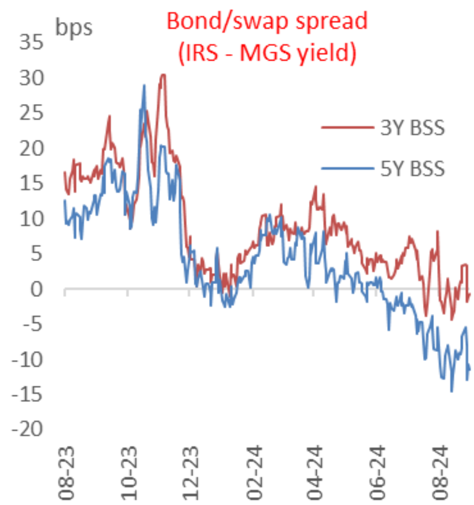
USDSGD broke below 1.30-handle briefly, USDPHP broke below 56-handle to trade fresh 18-month low while USDTHB is closer to fresh 20-month low of below 33.60. But some of these overshoots may revert intra-day as markets lighten up position ahead of key US data risk tonight. Focus is on payrolls report (830pm SGT), in particular, NFP and unemployment rate. USD should remain sensitive to job data this week given that Fed's focus has shifted towards supporting labour market. An NFP print that is much hotter than expected and unemployment rate much lower than expect should see dovish bets unwind and is supportive of the USD. A much weaker report (i.e. NFP below 100/110k or surge in unemployment rate to 4.5%) may further raise concerns about its cooling labour market. This may undermine sentiments (recall the 5 Aug equity market sell-off that came on the back of NFP shock). Risk-off trades may pressure high-beta FX, including AUD, NZD, KRW while JPY, CHF and to some extent, USD can benefit. A data that comes in largely in line with estimates (small misses may be fine) would be a case of not good, not bad. This supports soft landing story. US equities can find relief rally while USD can revert back to trading near its lows. This scenario will likely be the least disruptive to markets. DXY was last at 101. Daily momentum is mild bullish but RSI fell. Consolidative price action ahead of data risk. Support at 100.50 levels. Decisive break puts next support at 99.60. Resistance at 101.70 (21 DMA), 102.20 (23.6% fibo retracement of 2023 high to 2024 low).

- **EURUSD. *2Q GDP but US Payrolls May Matter More.*** EUR continued to inch higher amid broad USD softness. Pair was last seen at 1.1110. Bearish momentum on daily chart shows signs of fading while RSI rose slightly. US data risk matters and as such USD moves will dictate direction. Resistance at 1.12 (recent high) and 1.1280 (2023 high). Support at 1.1026 (recent low), 1.10, 1.0930 (61.8% fibo retracement of 2024 high to low). Today brings GDP (Fri). Underwhelming data print could move the needle for markets to price in a more dovish ECB.

- **USDJPY. *Death Cross.*** USDJPY extended its move lower, tracking decline in broad USD. Pair was last seen at 143.20. Bullish momentum on daily chart faded while RSI fell. Death cross formed with 50DMA cutting 200DMA to the downside. Risks skewed to the downside. Support at 142, 141.70 (Aug low). Resistance at 145.70 (21 DMA), 146.40 (23.6% fibo retracement of Jul high to Aug low) and147.20 (recent high). 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 and growing pace of normalisation can bring about faster narrowing of UST-JGB yield differentials and this should continue to underpin the broader direction of travel for USDJPY to the downside.

- **USDSGD. *Watching US Data.*** USDSGD fell further, tracking the broader softness in USD. Pair breached 1.30 briefly to trade a low of 1.2992 at one point. Pair was last at 1.30 levels. Daily momentum is mild bullish while RSI fell. Consolidation likely near recent lows as markets await US jobs data. Support at 1.2992 (recent low), 1.2960. Resistance at 1.3090 (21 DMA), 1.3160 levels (23.6% fibo retracement of 2024 high to low). S$NEER was last estimated at ~1.92% above our model-implied mid, with model implied spot lower bound at 1.2990. With S$NEER close to its lower bound, the room for further downside in USDSGD may be limited intra-day. However, if broader USD takes another leg lower, then the implied lower bound of USDSGD can be lower.

- **MYR rates**. MGS yields and MYR IRS were down 1-2bps on Thursday as UST yields slid the day before; again, MGS traded in a more stable manner and as such underperformed USTs on rallies. BNM kept its OPR unchanged at 3% as widely expected. The MPC statement was somewhat neutral and carried few changes. OCBC economists maintain view for BNM to remain on hold for the rest of 2024 and into 2025; key risk is from changes to domestic price policies. Separately, the auction size of reopening of 20Y MGII has been announced at MYR3bn plus private placement of MYR2bn, in line with expectations. Bond/swap spreads (IRS – yield) have come back down from the recent peaks in early August; this may present a small room for MGS to catch up. Improved MGS-UST yield differentials and the lowered MYR basis shall be constructive for foreign inflows into domestic bonds.



Source: Bloomberg, OCBC Research

- **CNY rates**. Repo-IRS traded on the soft side this morning thus far with limited price action. PBoC comments on Thursday about monetary policy did not come as a surprise – if anything, the market might be disappointed at the margin. While PBoC sees room for additional RRR cuts, a fair bit of their commentary focused on what have been done and how the effects of these measures are still being felt. We still put hope on potential RRR cut(s) over the coming months. 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. Meanwhile, a strong economic recovery is not in sight yet. The macro and policy backdrop 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.

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