

Daily Market Outlook

7 October 2024

Payroll Aftermath

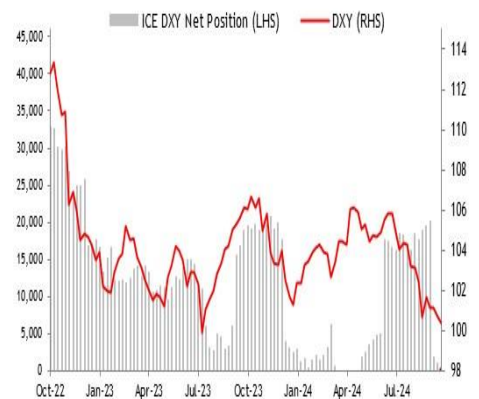
- DXY. Rebound Continues.** USD was boosted again for the 5th back-to-back session and this time the trigger came from the blockbuster payrolls report. NFP came in +254k (vs. 150k expected) while unemployment rate dipped to 4.1% (vs. 4.2% expected) and hourly earnings rose 4% y/y (vs. 3.8% expected). The hotter-than-expected jobs report saw further unwinding of dovish bets, adding to the USD’s rebound momentum. Markets are now just eyeing 2 * 25bp cut each for the remainder of the 2 FOMCs in Nov and Dec. With US elections less than 1 month to go, polls still find Trump and Harris neck-and-neck. Further rebalancing in historically low DXY position may imply that USD may stay supported in the interim. DXY was last at 102.50. Daily momentum remains bullish while RSI rose. Upside risks intact. Resistance at 102.90 (38.2% fibo). Support at 101.80/90 levels (50 DMA, 23.6% fibo retracement of 2023 high to 2024 low). Focus this week on FOMC, CPI data (Thu); PPI (Fri).
- USD rates.** UST yields surged upon the outsized payroll print together with other firm labour market statistics; the curve ended the day flatter as market pared back rate cuts expectations. Fed funds futures last priced a total of 52.5bps of cuts before year-end, essentially pricing out a 50bp cut at a single meeting; rate cuts priced in 2025 has been trimmed to 96.5bps. Under the establishment survey, September payroll came in at 254k, while the previous two months’ readings were revised up by a total of 72k. Average hourly earnings growth picked up to 0.4%MoM or 4.0%YoY. According to the household survey, the jobless rate edged lower to 4.1% from 4.2% prior, while the underemployment rate also fell to 7.7% from 7.9% prior, when the labour force participation rate held steady at 62.7%. These are strong sets of outcomes from both surveys. These outcomes serve to remind market that inflation is not out of the picture, while a 50bp-size is not the norm. Nevertheless, additional Fed funds rate cuts from here do not require a recession scenario, in our view. Our base-case remains for one 25bp Fed funds rate cut each at the November and December FOMC meetings and a total of 125bps of cuts in 2025. We have a downward bias to 2Y UST yield. First, the 2Y yield at 3.95% is in line with current Fed funds futures pricing which is a tad less dovish than our base-case for 2025. Second, as and when additional Fed rate cuts materialise, there

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Global Markets Research and Strategy

DXY Net Long at Multi-Year Low



Source: CFTC, Bloomberg, OCBC Research

will be downside to short-end yields, as the prevailing rate and expected rate trajectory will be increasingly factored into the valuation at the short-end. The next level to watch for the 2Y yield is 3.83% and then 3.70%. At the 10Y, we had over the last couple of weeks opined how it would be difficult for the 10Y real yield to break below the range of 1.5-1.7% without a slew of weak data; now with 10Y real yield having broken above this range to 1.74%, a slew of weak data is probably required to push it back into range. Meanwhile, 10Y breakeven at 2.2% looks fair. A near-term range of 3.90-4.10% and a wider range of 3.85-4.05% is seen for the 10Y yield.

- **USDJPY. Run-Up Finds Resistance.** USDJPY took another leg higher after US payrolls report surprised to the upside. Pair was last at 148.40. Bullish momentum on daily chart intact while rise in RSI shows signs of moderation near overbought conditions. Upside risks remain but bias to fade rallies. Immediate Next resistance at 149.30, 150.70 (50% fibo retracement of Jul double-top to Sep low) and 151 levels (200 DMA). Support at 148 (38.2% fibo), 147.10 and 145.20 (50 DMA). Finance Minister Kato said that sudden moves in the currency market have negative impacts on companies and households while chief currency official Mimura is watching FX markets with a sense of urgency. Last week, both PM Ishiba and Governor Ueda sent a coherent message that policymakers are in no hurry to normalise policy while former BoJ member Masai spoke about “range of 140 – 150 for USDJPY is comfortable”.
- **USDSGD. MAS Policy Decision on 14 Oct.** USDSGD continued to get bumped up for 5 consecutive sessions. Hotter US payrolls was the trigger, in line with our caution that *the corrective rebound can continue*. Pair was last at 1.3040 levels. Daily momentum is bullish while rise in RSI moderated near overbought conditions. Resistance at 1.3060 (50 DMA), 1.31 (38.2% fibo retracement of Jul high to Sep low) Support at 1.2980 (23.6% fibo), 1.2940 (21 DMA). S\$NEER was last estimated at ~1.79% above our model-implied mid. MAS policy decision will be announced on 14 Oct, alongside 3Q GDP. We expect MAS to maintain policy status quo again at the upcoming Oct MPC meeting as prevailing appreciating path of the S\$NEER policy band remains appropriate. But we do not rule out an outside chance that the MAS may surprise with an earlier easing, given that MAS adopts a forward-looking approach to monetary policy making and that the core CPI’s disinflation journey remains intact, apart from the slight bump-up in August.
- **IndoGBs** held up well on Friday after the selling on Thursday, as support was seen in the market. This morning, the domestic bonds unsurprisingly faced selling pressure taking cue from the UST market. Investors may stay on the sidelines for now, waiting for

levels and yield differentials to adjust and stabilise. In the five days to 3 October, banks' holdings of IndoGBs (including bills) rose by IDR21.5trn while foreign inflows amounted to IDR5.4trn. Earlier, Q4 gross issuance target was announced at IDR180trn. With six conventional auctions and six sukuk auctions in the quarter, individual auction sizes of IDR22trn and IDR8trn for conventional and sukuk sales respectively would be consistent with the quarterly target. That said, last Tuesday's conventional bond awarded IDR24trn of bonds versus target of IDR22trn; further upsizes cannot be ruled out, given the 2.7% fiscal deficit outlook. Tomorrow's sukuk auction has a target of IDR8trn, comprising the reopening of PBS32 (2026 bond), PBS30 (2028 bond), PBS04 (2037 bond), PBS39 (2041 bond), PBS38 (2049 bond), and bills.

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