Daily Market Outlook

9 September 2024

Inconclusive data

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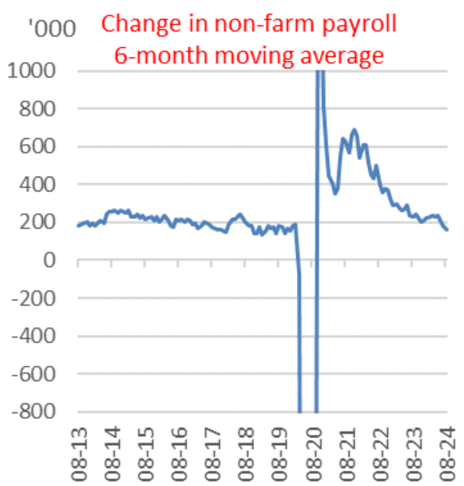
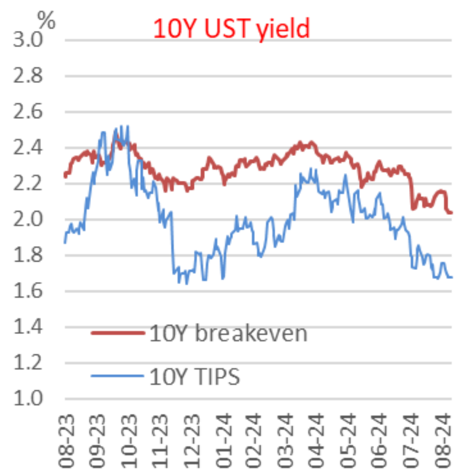
- **USD rates**. The UST curve steepened on Friday upon payrolls and other labour market statistics releases. Market at one point added to expectation for a 50bp cut at this month's FOMC meeting but has since pared back such expectation to around 38% which was only a tad more dovish than the 32% priced before payrolls. A total of 115bps of rate cuts are priced before year-end, similar to that before payrolls, again after some intra-day fluctuations. The current level of 2Y UST yield looks dovish enough compared to Fed funds futures pricing. The intra-day whipsawing in yields reflected perceived uncertainty as to how the US economy will land ultimately. The 2% level proved to be sticky for the 10Y breakeven, while more weak data are needed to push long-end real yield materially lower. Together, the 10Y UST yield stayed just above our near-term expected floor of 3.7%. On the liquidity front, there is a net bills paydown of USD59bn on the week, likely pointing to some rebounds in usage at the Fed's o/n reverse repos.

- **September FOMC**. Our base case remains for a 25bp Fed funds rate cut at the meeting next week. We expect there will be some discussions about bigger rate cuts, either for this meeting or for some of the upcoming meetings, to maintain policy optionality instead of representing a particular decision. August payrolls printed soft at 142K compared to expectation of 165K but nevertheless higher than each of the previous two months (with some downward revisions). The household survey showed unemployment rate was little changed at 4.2%, so was average weekly hours. The August labour market outcome was inconclusive which did not end the debate among market participants on growth moderation versus growth deterioration, but it appears that the FOMC would not characterise the growth outlook as deteriorating at this juncture. Waller opined that "the August report along with other recent labor data tend to confirm that there has been a continued moderation in the labor market"; the August "jobs report continues the longer-term pattern of a softening of the labor market that is consistent with moderate growth in economic activity"; "while the labor market has clearly cooled, based on the evidence I see, I do not believe the economy is in a recession or necessarily headed for one soon". Meanwhile, Williams commented officials can move policy "towards neutral over time depending on the evolution of the data", and "there is not a general principal of you should be gradual, or you should move fast". Some FOMC officials appear open to bigger-sized cuts



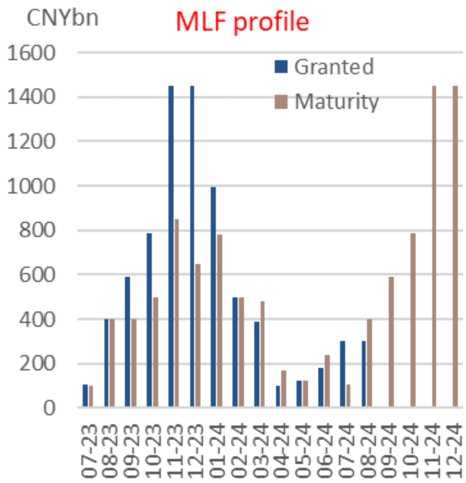
Source: Bloomberg, OCBC Research



Source: Bloomberg, OCBC Research

and/or back-to-back cuts but it is all data-dependant and thus far the data do not provide a strong justification for a 50bp cut to start with.

- **CNY rates**. Repo-IRS opened mixed this morning, as investors continue to await additional monetary policy actions. August PPI deflation deepened to -1.8%YoY, while CPI also printed softer than expected at 0.6%YoY. We still put hope on potential RRR cut(s) over the coming months. CNY591bn of MLF mature this month; MLF maturities become heavier in the months ahead, with CNY789bn in October and CNY1.45trn each in November and December. The heavy MLF maturity profile provides 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, ideally through the former. The decision to deliver an additional interest rate cut may be a tougher one, given official opinions that there are limitations to further reductions in deposit and lending rates. The 2Y CGB yield may be finding an interim floor at the 1.40% level, while there is room for short-end repo-IRS to play some catch-up with bonds. The rest of the week brings the releases of August money aggregates, new yuan loans, aggregate financing and trade numbers.



Source: CEIC, OCBC Research

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