OCBC TREASURY RESEARCH

Daily Market Outlook

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Rates and FX Themes/Strategy

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- The **UST** curve bearish steepened further, as investors positioned for nonfarm payroll tonight, while ISM manufacturing came in better than expected. TIPS underperformed, as inflation expectations fell; this left the 10Y real yield 25bp higher over the past two sessions as nominal yield rose at the same time. USD OIS pricing turned a tad lower during the NY session, back to an expected 70% chance of a 75bp hike at the September FOMC, from as much as being fully priced during Asian hours on Thursday.

- Potential reaction to payroll. The recent surge in long-end real yield may start to face some resistance before some strong data are seen. The 10Y real yield has rebound by more than 70bp from the low at end July. Risk for the 10Y nominal yield is asymmetric to the downside upon the payroll release; meanwhile, front-end rates and yields do not appear to require the endorsement from payroll to hold onto current rate hike expectation and as such there may only be meaningful reaction should it print much to the downside.

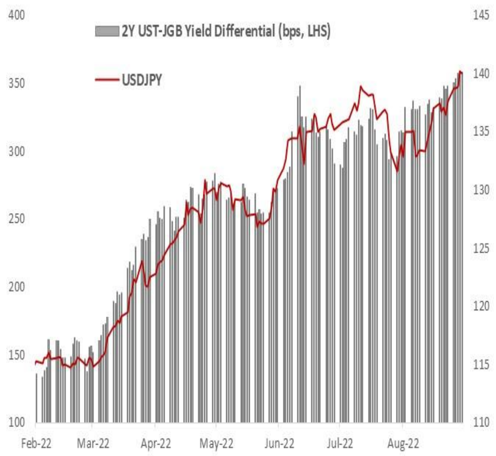
Source: Bloomberg, OCBC

- The 4W and 8W **T-bills** garnered strong demand, with b/c at 2.65x and 3.02x respectively, as yields have gone higher. Net bill supply is on the light side next week, at USD10bn, which may stay low in the coming weeks as US Treasury's cash balance – standing at USD627bn as at end August - is moving towards end-quarter target of USD650bn. Light supply is likely to keep the front part of the bill yield curve relatively flat despite hawkish rate hike expectations.

- **DXY. US Payrolls Report in Focus (2030hr SG time).** USD jumped, tracking the spike in 2y UST yield to 15y high of 3.54% overnight as ISM manufacturing surprised to the upside (52.8 vs. 51.9 Bloomberg consensus) while Fed's hawkish rhetoric lingers. Bostic said that Fed's campaign to cool inflation was not complete and they still need to slow the economy. Stronger data print somewhat gave Fed the green light to go large again at the upcoming FOMC (22 Sep). Tonight's US payrolls will be key. Bloomberg consensus looks for NFP to slow to 298k in Aug, from 528k previously and for wage growth to stay elevated at 5.3% YoY (vs. 5.2% in Jul). A bumper print will reinforce expectations for Fed to continue to 75bps hike and this should continue to keep USD supported. A softer print may provide a temporary respite for USD and risk proxies. DXY was last at 109.54 levels. Bullish momentum on daily chart remains intact while RSI is near overbought conditions. Resistance at 110 levels. Support at 107.60 (21 DMA), 107 (50 DMA). Day ahead brings US payrolls, factory orders and durable goods orders.

- **EURUSD. Consolidate.** EUR gains this week was reversed entirely overnight following a resurgent USD. Pair was last at 0.9955 levels. Mild bearish momentum on daily chart remained but fall in RSI moderated. Consolidative trades likely ahead of US data event risk – payrolls. A firmer print there could pose renewed downside pressure on EUR. Support at 0.9910, 0.9850 levels. Resistance at 1.0010 (23.6% fibo retracement of Aug high to low), 1.0080 levels (38.2% fibo). 0.9910 – 1.0000 range likely intra-day. That said, we continue to keep a look out on ECB meeting (8 Sep) as recent ECB speaks seem to be preparing ground for 75bps hike. We also keep in view the extraordinary meeting of EU energy ministers (9 Sep) and Ursula's state of the union address to EU parliament (14 Sep) on potential structural reform of the electricity market as Ursula said that an "emergency intervention" is required to bring down rising energy prices. A favourable outcome can help to ease price pressures overall and could mitigate recession fears in Euro-area. This can be supportive of EUR. Day ahead brings PPI.

USDJPY. Driven by Yields. USDJPY broke above 140 overnight. Upside surprise to US ISM triggered higher UST yields, in turn widening the 2y UST-JGB yield differentials to multi-year high of +357bps (up from +347bps a week ago). Further widening of yield differentials can underpin JPY weakness. A turn-around in USDJPY would require UST yields to come off more significantly. Pair was last at 140. Bullish momentum on daily chart intact while RSI is rising into overbought conditions. Bias to lean against strength. Resistance at 14.23 (yest high), 140.60. Support at 139.40, 139 levels. US payrolls later this evening is expected to drive USDJPY.



Source: Bloomberg, OCBC

- **SGD rates** have been following USD rates higher more closely than usual these days, as the broad dollar has stayed strong and domestic liquidity is probably on the tight side, which limit the downside to the USD/SGD forward points. The 6M T-bill cut off at 2.99% yesterday, similar to the 2.98% at the previous auction on 18 August; the spreads below the implied SGD rates from the USD LIBOR curve at the respective dates were similar, but the 6M implied SGD rate from USD SOFR went higher by 20bp+ during the period and as such the cut-off appears to be not as elevated. On SGS, the last auction in the year is scheduled on 28 September with the 30Y re-opening. With supply well manageable and a lack of direct QT impact on the SGD market, we expect SGS outperformance over USTs through to year-end.

- **USD/SGD. Bias to Fade Upticks**. USDSGD rose as the spike in 2y UST yield triggered a wave of USD demand. Focus today on US payrolls. A bumper print could keep UST yields and USD broadly supported while softer print may see USD gains fizzled out. S$NEER is trading 1.11% above the midpoint. Pair was last at 1.4020 levels. Bullish momentum remains intact while RSI shows sign of turning from near overbought conditions. Bias to fade upticks. Immediate resistance at 1.4030, 1.4060 and 1.41 levels (Jul high). Support at 1.3935 (23.6% fibo retracement of 2022 low to high), 1.3890 (50DMA) and 1.3835 (38.2% fibo).

- **IndoGBs** did not react much to the inflation prints in Indonesia on Thursday, as market focused on the potential fuel price hike and global market reaction to NFP tonight. Headline inflation came in lower than expected, at 4.69% YoY, but core inflation went higher at 3.04% reflecting more pass-through. Immediate impact of fuel price hike could be more significant than such pass-through. The inflation and hence rate hike prospects, together with BI's operation twist, are likely to keep the IndoGB curve flat. We watch if the 10Y yield can stay below 7.20% should US yields move further higher tonight. The domestic bonds saw seven days of outflows amid the jumps in global yields, with foreign holdings down to IDR759.5trn as of 31 August.

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