Daily Market Outlook

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Heavy Data Week

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- **USD rates**. USTs traded in ranges with short-end yields ending Friday a tad lower while long end yields were up mildly, as July PCE/core PCE indices printed in line with expectations. Core PCE indices rose by 0.3%MoM or 2.9%YoY (versus 2.8%YoY prior). The 0.1 percentage point uptick in YoY inflation was mostly attributable to services. Separately, the final reading of University of Michigan survey saw lower inflation expectations for both short-term and long-term. This is a heavy-data week, with ISM, JOLTS job dataset, durable goods orders, ADP employment change before payrolls and the household survey on Friday. Fed funds futures last priced an 87% chance of a 25bp cut at September FOMC meeting; between now and end 2026, a total of 142bps of rate cuts are priced which is on the dovish side. 2Y UST yield at 3.62% reflects such Fed funds rates expectation, and further downside to the yield looks limited. Meanwhile, 10Y UST yield is also near the lower end of the trading range of 4.20-4.33%. Given how the market is set up, bonds would be prone to correction should labour market statistics print with strong-side surprises. Still, to alter market expectation for a 25bp September cut, upside surprise to August inflation (to be released on 11 September) is probably required.

- **DXY.** ***US Holiday Today.*** USD stays backfooted as core PCE came in largely in line with estimates. Elsewhere, Chicago PMI slumped while University of Michigan sentiment and inflation expectations underwhelmed. On Fedspeaks, Fed's Waller sees potential for jumbo 50bp cut if labour market weakens further. He currently backs 25bp cut but he said that his view could change if the employment report points to a substantially weakening economy and if inflation remains well contained. Daly reiterated openness to rate cut. She also said that Fed policymakers cannot wait for perfect certainty without risking harm to labour market. For now, markets are still pricing in 87% chance of 25bp cut at Sep FOMC and a total of about 55bps cut this year. Focus this week shifts to ISM manufacturing (Tue); JOLTS job openings report (Wed); ADP employment, ISM services, initial jobless claims (Thu) and more importantly, NFP report (Fri). Softer data print may potentially change the narrative and weigh on USD. In particular, we will be on the look out for any pick-up in discussion for a jumbo 50bp cut at Sep FOMC. DXY last at 97.70 levels. Mild bearish momentum on daily chart intact while RSI fell. Risk skewed to the downside in the interim. Support at 97.50, 97.10 levels. Resistance at 98.00/20 levels (21, 50 DMAs), 98.70 (100 DMA) and 99.60 (23.6% fibo retracement of 2025 high to low).

- **JPY rates**. MoF has reportedly asked primary dealers for their views on reducing issuance of long-end JGBs. FY2025 supply of long-end JGBs have already been trimmed, to JPY2.5trn at 40Y, to JPY8.7trn at 30Y and to JPY10.2trn at 20Y. Any further reduction will again need to be compensated for by increases in the issuances of bills and/or 2-5Y bonds. Given fewer number of 40Y auctions, it may be more actionable to cut 40Y size compared to that of 30Y or 20Y. Separately, comments in a prepared speech by BoJ member Nakagawa, who had been seen as a dove, were considered hawkish. He opined that, despite underlying CPI inflation is expected to decelerate temporarily, "it is likely that the mechanism by which wages and prices rise moderately in interaction with each other will be maintained", and given the current level of real interest rates – meaning quite negative, "if its outlook for economic activity and prices is realized, the Bank will accordingly continue to raise the policy interest rate". Our base-case remain for a 25bp hike in the BoJ Target Rate before year end, which is 69% priced by JPY OIS. Potential further reduction in long-end supply, together with increasing likelihood of a BoJ policy rate hike, may slow the steepening momentum in the JGB curve, although it is unlikely to reverse the steepening bias given lukewarm demand for long-end bonds and a likely very gradual hiking pace. This week's focus is the 10Y and 30Y auctions.

- **USDJPY. *Bias to Sell Rallies.*** USDJPY continued to trade modestly softer. Pair was last at 146.90 levels. Bearish momentum on daily chart remains intact while RSI fell. Bias remains for downside play. Support here at 146.70/90 (50 DMA 38.2% fibo retracement of Apr low to Aug high), 145.40/50 levels (100 DMA, 50% fibo). Resistance at 147.90 (21 DMA), 148.32 (23.6% fibo) and 149.10. Focus this week on US data, for implication on UST yields and USD. Softer NFP print may liven up chatters for a jumbo Fed cut, and that can have implication on USDJPY. Elsewhere, we continue to keep a look out on the release of the election review report, which should be ready by early-Sep. This report is to inform the LDP on who will take responsibility for the upper house election setback in July. Tokyo CPI last Fri was in line with expectations, reinforcing our bias that BoJ should normalise policy at some point this year. A divergence in Fed-BoJ monetary policy should underpin the broader direction of travel to USDJPY.

- **USDSGD. *Spillover Influence from Stronger RMB.*** USDSGD traded a touch softer but remains caught in very subdued range. Pair was last at 1.2830 levels. Daily momentum shows signs of turning bearish while RSI fell slightly. 2-way risks with bias to sell rallies.

Resistance at 1.29 levels. Support here at 1.2830 (50 DMA), 1.28 and 1.2760 levels. S$NEER was last seen around 1.91% above our model-implied midpoint, putting model-implied spot lower bound around 1.28 levels. This still implies limited room for SGD to strengthen unless its peers appreciate significantly. A stronger RMB and softer USD would be a recipe for SGD to appreciate more.

- **USDCNH. *Mild Rebound from Lows.*** USDCNH rebounded this morning after USDCNY daily fix was set higher (at 7.1072 vs. 7.1030 last Fri), snapping the 5-day streak of lower fixes. Pair was last at 7.1287. Bearish momentum on daily chart intact while RSI rose from oversold conditions. Inverted hammer observed on Friday's price pattern may point to bullish reversal in the short term. We do not rule out a short term rebound in USDCNH, given a relatively large decline. Resistance at 7.1460 (61.8% fibo retracement of 2024 low to 2025 high), 7.1720/40 levels (21, 50 DMAs) and 7.20 levels (100 DMA, 50% fibo). Support at 7.1160 (recent low), 7.11 levels. Nevertheless, we had earlier shared how the USDCNY daily fix has been set lower over the last few months, influencing spot. In the near term, we keep a look out if policymakers will slow the pace of setting the USDCNY fix lower as that may slow the pace of RMB gains in the interim.

- **CNY rates**. Reverse repos maturity this week is heavy at CNY2.27trn as a result of recent injections. There are also CNY3.5trn of NCDs maturing this month, where support from foreign investors is likely lacking with narrow asset-swap pick-up. But for this week, NCD maturity is relatively light at CNY330bn while PBoC has tended to withdraw back some liquidity passing month end. As such, investors observe how PBoC pace out partial liquidity drainage, if they do. This morning, August RatingDog PMI (same series as the previous Caixin PMI as compiled by S&P) printed higher at 50.5. Over the weekend, official manufacturing PMI printed 49.4 while non-manufacturing PMI printed 50.3; these pushed composite PMI a tad higher to 50.5. We maintain a mild steepening bias on the CGB curve. Over recent weeks, swap points have been trading higher, alongside wider CNY-USD rates differentials. In offshore, DF was bid and implied rates traded higher at month-end while there were Southbound Stock Connect outflows at HKD20bn last Thursday. Nevertheless, Friday saw a reversal to inflows of HKD12bn. On balance, CNH rates are likely to stay anchored.

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