GLOBAL MARKETS RESEARCH

Daily Market Outlook

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Brace for inflation prints

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Global Markets Research and Strategy

- **USD rates**. UST yields rebounded from intra-day lows to end 3-7bps higher in a flattening manner, as investors looked past labour market statistics and forward to the next key data prints. The downward revisions under QCEW were bigger than expected; the downward revision of 911K points to an average of 76K per month. Yields dipped transiently upon the releases, but quickly rebounded, as rate cuts are already in the price in view of the softening labour market. Demand at the 3Y coupon bond auction was solid, stopping through at 3.485% despite the recent richening in the bond. Bid/cover ratio was higher at 2.73x versus 2.53x, while indirect accepted was higher at 74.2% which left primary dealer award at a record low of 8.4% for this tenor. Still, short-end bonds are likely prone to upside surprises in inflation – PPI and CPI to be released tonight and on Thursday. 10Y yield rose back to trade near our year-end expectation of 4.10%; near-term range is at 4.00-4.20%.

- **DXY. *Bears Await Inflation Prints.*** USD rebounded post-BLS revision in what looked like a "buy on rumour, sell the fact" trade. Markets have fully priced in a 25bp cut for Sep FOMC and nearly 3 cuts for 2025. Focus shifts to PPI today and the CPI on Thur. Softer inflation print may be needed for markets to consider if a 50bp cut at Sep FOMC or a deeper Fed cut trajectory may be warranted. DXY was last at 97.70 levels. Daily momentum is showing a mild bearish bias while RSI was flat. 2-way trades intra-day with bias to sell rallies. Resistance at 98.10 levels (21, 50 DMAs), 98.70 (100 DMA) and 99.60 (23.6% fibo retracement of 2025 high to low). Support at 96.40 levels.

- **USDCHF. *Near Term Bounce Not Ruled Out; Sell Rallies*.** USDCHF rebounded overnight off its multi-week lows of sub-0.80. There were 2 remarks from SNB President Schlegel in a recent interview worth highlighting. One, he noted that the bar is very high for reintroducing negative interest rates, given the harmful effects on savers and pension funds. He emphasised that negative rates would only be considered under exceptional circumstances. With policy rate currently at 0, this may suggest that policy easing is not on the table at the upcoming meeting on 25 Sep. Two, he indicated that the *franc has mainly appreciated against the dollar. In real terms, however, the appreciation is not as great as it seems at first glance.* Such rhetoric implies less of a ceiling on CHF strength and with SNB reluctant to counter appreciation, USD/CHF may remain a sell-on-rally (should USD softness persists). Pair was last at 0.7975 levels. Mild bearish momentum on daily chart intact while RSI rose from near oversold conditions. Bearish crossover observed with 21 cutting 50 DMA to the downside. Bias to sell rallies. Resistance at 0.8020 (21, 50 DMAs, 50% fibo retracement of Jul low to Aug high), 0.8060 (38.2% fibo). Support at 0.7920 (recent low), 0.7870 (2025 low).

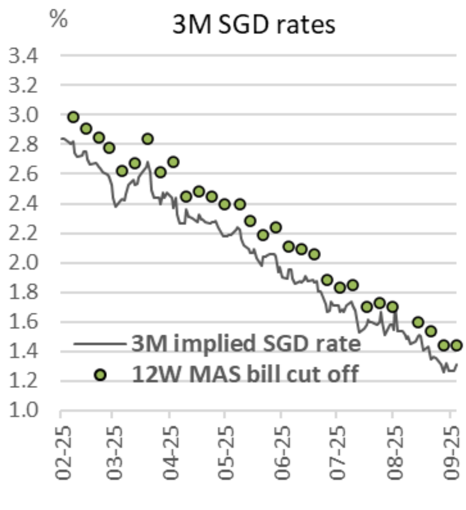
- **JPY rates.** JPY OIS edged higher upon media headlines that the "BoJ is said to see chance of hike this year despite politics" and "BoJ is said to likely keep rates unchanged on 19 September". We note these do not reflect any fresh opinions or expectations. First, JPY OIS essentially price in a zero chance of a move at September meeting. Second, recent speeches by BoJ officials have continued with the stance that if their baseline scenario is realised, then it would be appropriate to raise the policy rate. Our base-case remains for one 25bp hike in Q4 this year, while JPY OIS last priced 16bps. Separately, the decision on the composition of JGB purchases during Q4 is to be made by 30 September. According to an earlier BoJ study during the review of monetary policy, "bid-ask spreads begin non-linear widening when the share of the Bank's outstanding holdings of an individual JGB issue exceeds 50 percent. Moreover, once the share exceeds 70 percent, an increase in the Bank's purchases can even reduce overall market trading volumes". As such, any further reduction in the purchase amounts of super long end bonds will not be surprising.

- **USDJPY. *Sell Rallies.*** USDJPY fell to low of 146.31 yesterday on BoJ report saying *see chance of hike this year despite politics.* Pair subsequently rebounded. Last seen at 147.35 levels. Daily momentum is showing tentative signs of turning mild bearish while RSI is flat. 2-way risks but retain bias to sell rallies. Support at 146.70 (38.2% fibo retracement of Apr low to Aug high) and 145.90 (100 DMA). Resistance at 147.50 (21, 50 DMAs), 148.32 (23.6% fibo) and 148.80 (200 DMA). The LDP election to find the next successor is on 4 Oct. More details on who the candidates are, and their policy bias should be expected from 22 Sep, when the leadership campaign starts. It is a full-spec vote, meaning that the election is conducted in its complete format. All LDP members – Both lower and upper house will vote and each will have 1 vote. All rank-and-file members (about 1.1mio of them) across the country will also vote but the votes are tallied and converted into the same number of votes as there are LDP lawmakers (about 296 LDP members) in parliament. Near term, political uncertainties in Japan may temporarily hinder BoJ from normalising policy at upcoming meeting on 19 Sep. But JPY weakness (due to politics) should reverse when uncertainty fades. Wage growth, broadening services inflation and upbeat economic activities in Japan should continue to support BoJ policy normalisation, likely at future meetings – they have one meeting scheduled on 30 Oct and another one in Dec. Markets yet to fully price a hike. Moreover, Fed cutting rate in due course should also help to bring USDJPY lower at some point amid Fed-BoJ policy divergence.

- **EURUSD. *Buy Dips Preferred.*** EUR continued to trade near 1.17-handle despite French political risks. Fiscal and debt issues can have implications on EUR. We do not rule out the risk of French rating being downgraded, and this may well have some downward pressure on EUR. Nevertheless, we reiterate that political noises may have short term bearish implication on EUR but the broader fundamentals should still support EUR, on a buy on dips. Pair was last at 1.1700. Daily momentum is mild bullish but RSI is flat. 2-way trades still likely in the interim; bias to buy on dips. Support at 1.1650/60 levels (21, 50 DMAs) and 1.1570 (23.6% fibo retracement of Mar low to Jul high). Resistance at 1.1830 levels (2025 high).

- **USDSGD. *Range-bound.*** USDSGD continued to trade near recent low. Pair was last at 1.2830. Daily momentum turned mild bearish but decline in RSI moderated. Consolidation likely intraday. Support here at 1.2810/30 levels. Resistance at 1.2920, 1.2950 levels. Expect the pair to remain driven by moves in USD, JPY and RMB. There is no domestic data scheduled for release this week. S$NEER is about 1.75% above our model-implied mid.

- **SGD rates**. 4W and 12W MAS bills cut off at 1.45% and 1.44% respectively, which was little changed from the auctions a week ago despite higher implied SGD interest rates. SGD7.8bn of 6M T-bills will be auctioned on Thursday. 6M implied SGD rates traded at around 1.17% this morning, which was around 3bps below the level two weeks ago, which may point to a range of 1.40-1.45% for 6M T-bill cut-off barring bigger movements in the market running into the auction. Front-end SGD rates have stayed volatile. SORA was fixed higher at 1.7149% on Tuesday, while 1M and 3M implied rates traded around 10bps higher yesterday. In view of the volatility, we continue to favour bond/swap spread trades at the short end.



Source: MAS, Bloomberg, OCBC Research

- **IndoGBs** showed some stabilisation at open this morning, after the sell-off on Tuesday. The conventional bond auction yesterday garnered incoming bid amount of IDR79.55trn, which was not as strong as those at previous auctions; IDR24.45trn of bonds were awarded versus indicative target of IDR27trn. Most of the incoming bids went to the 5Y and 10Y bonds as usual. Quarter to date gross issuances amounted to IDR237.35trm, which still look set to surpass quarterly target of IDR252trn with two sukuk and one conventional bond auctions left for the quarter. Month to date (as of 8 September), bond outflows amounted to IDR16.3trn. Nevertheless, domestic banks and other non-bank domestic investors have added to holdings, making up for the interim slack, while net supply during these days was minimal.

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