Daily Market Outlook

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BoK paused; BSP decision next

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- **USD rates**. UST yields edged lower overnight, while investors awaited inflation data. Auction parameters were solid at overnight's 5Y coupon bond sales. The tail of within 1bp was thin considering the extended rally in the bond with no concession into the sales. Bid/cover was higher at 2.36x versus 2.31x prior, primary dealer award at 8.8% matched the lowest on record, indirect award increased to 60.5% and direct award increased to 30.7%. Tonight brings Q2 PCE/core PCE, but the focus is on Friday's July readings. PPI points to a mild upside to core PCE deflator where consensus is already looking for a 2.9%YoY print versus 2.8% prior; it is a matter of whether it will print even higher. Between now and end 2026 fed funds futures price a total of 138bps of rate cuts 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 there be upside surprise in core PCE.

- **KRW rates**. KRW IRS are little changed thus far upon BoK decision to keep its Base Rate on hold which had been widely expected. The decision was not unanimous, with one member voting for a cut. 5 of the 6 members are open to rate cut in the next three months. Today's MPC statement said the movements in housing prices in Seoul and its surrounding areas, and household debt needs to be monitored, which were also mentioned at July MPC statement. The Board maintains its rate cut stance, underlying our view that today's hold represents a pause, rather than an end to the easing cycle. That said, BoK sounds a tad more sanguine about the growth outlook, revising this year's GDP forecast upward to 0.9% from 0.8%, opining "domestic demand is expected to sustain a modest recovery, affected by the implementation of a supplementary budget and by an improvement in consumer sentiment. Exports are likely to show favourable movements for some time, but are likely to gradually slow as the impacts of U.S. tariffs expand". We continue to see the terminal rate at 2.00%, but to be more paced out; we expect one 25bp cut in Q4 and one 25bp cut in Q1-2026, in line with Rhee's comments that "rate cut stance may continue until the first half of next year".

- **USDPHP. *BSP Policy Decision Today.*** Subdued inflation (1.7% average for first 7 months) and slowing growth (5.4% for 1H vs. 6.2% a year ago) reinforced the view that BSP may not be done easing yet. Earlier in the month, BSP Governor has also struck a notably dovish tone, saying that a rate cut in August is “on the table” and "two is more likely than one". However, he did say that the possibility of 3 cuts in "unlikely". Our house view looks for a 25bp cut at the upcoming meeting today (230pm SGT). Slight downside pressure on PHP not ruled out but beyond the near term, we do expect the PHP’s weakness to reverse. Inflation though subdued is still expected to settle towards BSP's target range of 2 - 4%. We are also expecting the Fed to resume rate cuts (our house view looks for 75bps cut in 2025). Overall, Fed resuming rate cut and a broadly softer USD can help to offset negativity in PHP. USDPHP last seen at 57.13. Bearish momentum on daily chart shows signs of fading but rise in RSI slowed. Consolidation likely for now. Nevertheless, we observed that price action suggests a head and shoulders pattern. This can be associated with a bearish reversal. Resistance at 57.25 (21 DMA), 57.40 (200 DMA) and 57.50 levels (61.8% fibo retracement of 2025 high to low). Support at 57 (50 DMA), 56.60 levels (100 DMA, 38.2% fibo). Look for opportunity on rallies to fade into.

- **DXY. *2Q GDP Today; Core PCE Tomorrow.*** USD dipped overnight, tracking the moves lower in UST yields. DXY last at 98 levels. Mild bearish momentum on daily chart intact while RSI drifted modestly lower. 2-way trades likely in the interim. Resistance at 98.50 (21 DMA), 98.90 (100 DMA), 99.60 levels. Support at 97.60 levels. Data focus today on 2Q GDP, initial jobless claims before core PCE (Fri) before NFP next Fri. We will be keeping a lookout on whether data or Fedspeaks changes the narrative from 25bp cut expectation to discussion of 50bp cut at Sep FOMC or whether the trajectory of cut increases. For now, markets are still pricing in 88% chance of 25bp cut at Sep FOMC and a total of about 55bps cut this year. USD bears would need weak US data or more dovish Fed rhetoric.

- **USDJPY. *Focus on Tokyo CPI Tomorrow (730am SGT).*** USDJPY slipped overnight amid pullback in UST yields. There was news of top trade negotiator Akazawa cancelling his trip to Washington as there were points that needed to be debated at the administrative level. This saw little FX reaction. Pair was last at 147.30 levels. Bearish momentum on daily chart remains intact while RSI fell modestly. 2-way trades likely in the interim, with bias to sell rallies. Support 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 Tokyo CPI. At Jackson Hole last weekend, Governor Ueda spoke about wage growth spreading from large enterprises to SMEs and barring a major negative demand shock, he expects labour market in Japan to remain tight and to continue to exert upward pressure on wages. We believe this should continue to keep BoJ policy normalisation hopes alive. A divergence in Fed-BoJ monetary policy should underpin the broader direction of travel to USDJPY. Elsewhere, we 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.

- **EURUSD. *Political Risks May Still Weigh.*** EUR managed a rebound overnight after Dutch caretaker PM Dick Schoof and his cabinet survived a no-confidence vote yesterday. Nevertheless, focus shifts to General elections on 29 Oct for Netherlands. Elsewhere in France, PM Bayrou said he would call for a confidence vote on budget (not government) on 8 Sept. The budget risk was supposed to come later in Oct but PM's call to vote on 8 Sep means the national assembly has to make an earlier return from their 2months recess (which was supposed to run till 22 Sep). Last year, a no-confidence vote gamble (although not on budget) saw the exit of former PM Barnier. Political risks in France and Netherlands deserve monitoring as they may have short term implication on EUR but broader fundamentals should still support EUR, on a buy on dips. EUR was last at 1.1650 levels. Daily momentum and RSI indicators are not showing a clear bias. 2-way trades still likely. Resistance at 1.1730, 1.18 levels. Support at 1.1610/50 levels (21, 50 DMAs) and 1.1570 levels.

- **USDSGD. *Range-bound, Driven by External Factors.*** USDSGD eased lower overnight, tracking moves in broader USD complex. Pair was last at 1.2845 levels. Daily momentum and RSI indicators are flat. 2-way trades likely to persist. Resistance at 1.29 levels. Support at 1.2830 (50 DMA), 1.28 levels. S$NEER continues was a touch softer at around 1.91% above our model-implied midpoint, putting model-implied spot lower bound around 1.2840/50 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. But at this point, range-bound trade still likely to take hold, until a catalyst comes along.

- **SGD rates**. SGD OIS were offered down further this morning. We have focused on bond/swap spreads to capture the softening in SGD rates. Wednesday's 5Y SGS auction was solid, cutting off at 1.53% (around 15-16bps above swap rate); bid/cover ratio at 2.66x was higher than that at the previous 5Y auction. SGS yield fell further after the auction. With the suppressed OIS, bond/swap spreads remain supportive of SGS at tenors 2Y and 5Y. While asset swap pick-up is still wider further out the curve thanks to the inverted SGD basis curve, the differences among different tenors narrowed as the SGD OIS curve has steepened. Combining bond/swap spread and the basis, pick-up at 5Y SGS was last at around SOFR+36bps which was decent.

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