Daily Market Outlook

3 September 2025

UST, USD correction ahead of data

- **USD rates**. UST yields rose on Tuesday, taking cue from Bunds and gilts; US yields nevertheless retraced from session highs to end the day 3-4bps higher. As the US rates market pricings have been on the dovish side, investors might have taken this opportunity to lighten some positions ahead of important labour market data. Releases of labour market statistics/surveys starts tonight with the July JOLTS dataset. 2Y UST yield at 3.65% is in line with market pricings of Fed funds rate; although such pricings are on the dovish side, bond valuation does not appear overly stretched. 10Y UST yield has also moved higher away from the lower end of the 4.20-4.33% range. This renders risk surrounding labour market statistics less asymmetric than just days ago. On the liquidity front, TGA balance was last at USD555bn as of 29 August, USD295bn away from end-quarter target, and as such net bills issuance continue with net bills settlement at USD70bn this week (of which USD50bn overnight). The increase in TGA balance has been mostly matched with reduced usage at the Fed's reverse repo; more recently, bank reserves started to fall, which stood at USD3.22trn as of 27 August, down USD92bn from the previous week.

- **GBP rates**. While the gilt curve bearish steepened, the sales (via syndication) of GBP14bn of 10Y gilt attracted solid demand of GBP141.2bn, underlying our view that 10Y bond/swap spread at below -50bps is supportive of the bond; last at -55bps. According to the DMO, "domestic market provided the main support for the issue, taking around 60% of the allocation". Yesterday's transaction was the third of eight syndications planned in the programme for 2025-26. Next supply is the auction of GBP1.75bn of the 2043 bond on 9 September. Despite the strong sales, fiscal concerns lingered ahead of the Autumn Budget as the government is still finding ways to plug the fiscal gap, after reversing welfare reforms which could have saved GBP6.25bn. Separately, we have been expecting BoE to slow QT pace for the next 12-month period – decision to be made at September MPC meeting, potentially to GBP60-80bn; but this would still require some active gilt sales given maturity of GBP49bn in the Oct 2025 – Sep 2026 period. Further support to the gilt market can come from a slower pace of QT at around GBP50bn.

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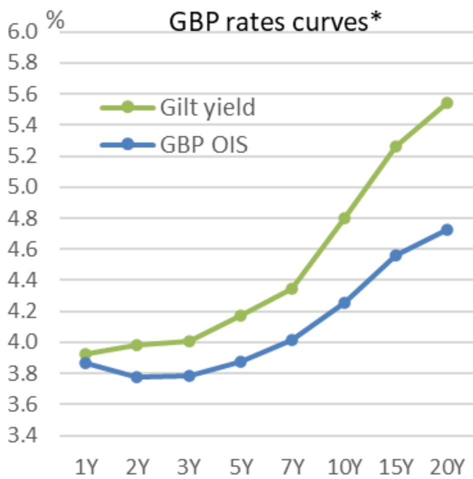

Source: Bloomberg, OCBC Research

*2 September 2025

- **DXY.** ***JOLTS Job Openings Today.*** USD rose overnight but range remains confined to recent levels. Markets are still waiting to see how NFP data (Fri) and BLS prelim benchmark revision to establishment survey (next Wed) turn out to be. The latter will show a revision to payrolls in the 12months to Mar-2025 by reconciling monthly payroll data to Quarterly Census of Employment and Wages (QCEW) for 1Q 2025. This QCEW data is based on state unemployment insurance tax records that almost all employers are required to file. Official benchmark revision will be available in Feb 2026 data but the prelim report at this point will give an indication on how robust or weak the labour market is. To recap, the March 2024 payrolls benchmark was revised down by 598K, and in 2023, it was revised down by 187K. Softer data print may potentially change the narrative and weigh on USD. In particular, we will be on the lookout for any pick-up in discussion for a jumbo 50bp cut at Sep FOMC. DXY last at 98.40 levels. Daily momentum turned mild bullish while the rise in RSI moderated. 2-way risks likely. Resistance at 98.70 (100 DMA) and 99.60 (23.6% fibo retracement of 23.6% fibo retracement of 2025 high to low). Support at 98.00/20 levels (21, 50 DMAs), 97.50 and 97.10 levels. Data focus this week is on JOLTS job openings report, Fed's Beige Book (today); ADP employment, ISM services, initial jobless claims (Thu) and more importantly, NFP report (Fri). On Fedspeaks, Musalem, Williams and Goolsbee are lined up this week before Fedspeaks go into a communication blackout on 6 Sep.

- **EURUSD.** ***2-Way Risks.*** EUR saw a larger pullback overnight on renewed focus on French politics. We had earlier cautioned that FX markets have so far "ignored" the French political drama risk and we cautioned against complacency in the near term. The risk of a French government fallout and without a leader for weeks or even months should not be ruled out. Prediction market is looking for 96% chance that the confidence vote on 8 Sep fails. Recall last year, a no-confidence vote gamble (although not on budget) saw the exit of former PM Barnier. Pair was last at 1.1630. Bullish momentum on daily chart faded while RSI turned lower. 2-way trades still likely. Despite the pullback we flagged, EUR is still trading the recent range. Support at 1.1620, 1.1570 (23.6% fibo retracement of Mar low to Jul high). Resistance at 1.1655/65 levels (21, 50 DMAs), 1.1750, 1.1830 levels (2025 high). That said, we acknowledged that political risk may only have short term implication on EUR and broader fundamentals should still support EUR, on a buy on dips.

- **Gold.** ***Bullish Breakout.*** XAU broke pushed higher into record levels into NY session to firmly close above 3,500. Prospects of Fed cutting rates, risk of geopolitical tensions persisting for longer and chatters of central banks buying were some of the factors driving gold higher. Gold last seen at 3540 levels. Bullish momentum on daily chart intact while RSI rose into overbought conditions. We still continue to watch price action – if it manages to close above 3500 on weekly and monthly frequency. Next resistance at 3600, 3750, and 3890 levels. Support at 3390 (21 DMA), 3360 (50 DMA).

- **USDCNH. *Rebound Meets Resistance.*** USDCNH was a touch firmer for a 3rd consecutive session this week, tracking USDCNY fix which was set higher again – today at 7.1108 vs 7.1089 on Tue and 7.1072 on Mon vs. 7.1030 last Fri. This string of higher USDCNY fixing snapped the 5-day streak of lower fixes prior. Pair was last at 7.1425. Bearish momentum on daily chart intact but shows tentative signs of moderation while RSI rose from oversold conditions. Inverted hammer observed on Friday's price pattern may point to bullish reversal in the short term. We continue to flag the risk of a short term rebound in USDCNH, given a relatively large decline (on a multi-week horizon). Resistance here 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.

- **USDSGD. *2-Way Risks.*** USDSGD traded higher, tracking the broad rebound in USD while RMB weakened after USDCNY fix was set higher for a 3rd consecutive session. But price action remains caught in recent range. Pair was last at 1.2890 levels. Daily momentum turned mild bullish while RSI rose. 2-way risks likely with sight risk to upside in the interim. Resistance here at 1.29, 1.2950 levels. Support at 1.2830 (50 DMA), 1.28 and 1.2760 levels. S$NEER eased slightly away from its upper bound; last seen around 1.84% above our model-implied midpoint. Nevertheless, this still implies limited room for SGD to strengthen unless its peers appreciate significantly. For now the pair may continue to see 2-way trades as markets await US data releases, that may frame expectations for Fed easing trajectory.

- **CNY rates**. This month's focus is medium-term liquidity maturities and the sizes of rollovers. NCD maturity this month is relatively heavy at CNY3.5trn, which concentrates on the 2nd to the 4th week of the month. Outright reverse repos maturity added up to CNY1.3trn, although MLF maturity is on the light side at CNY300bn. PBoC have been net withdrawing of liquidity via daily OMOs thus far this week, in line with the practice to drain back some liquidity passing month end. We expect PBoC to turn supportive of liquidity again after this week. Still, short-end repo-IRS remain floored at 1.5% level, before the next outright interest rate cut. In offshore, CNH rates stay anchored, with liquidity being supported by equity flows through Southbound Stock Connect. Inflows in recent days more than offset the one-day hefty outflows on 28 August. That said, downside to CNH CCS appears limited, as these rates may also be floored by onshore implied CNY rates, especially when offshore-onshore rate spreads have now narrowed. Near-term range for 1Y CNH CCS is seen at 1.45-1.55%.

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