Daily Market Outlook

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Payrolls in focus

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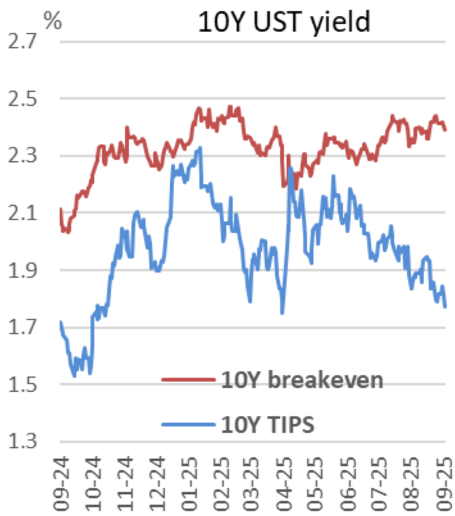
- **USD rates**. UST yields fell further overnight as job market indicators continued to come in soft. Fed funds futures fully price a 25bp cut at September FOMC meeting, and a total of 60bps of cuts this year; between now and end-2026, 140bps of cuts are priced. 2Y UST yield at 3.58% level reflects these Fed funds rate pricings which is on the dovish side; further downside to short-end yields appears limited. Meanwhile, 10Y UST yield has fallen by a cumulative 10bps over the past two days, mainly driven by lower real yield as market reacted to labour market data, underlining our view that the subdued growth outlook will probably constrain the steepening momentum across the 2s10s segment. Our year-end expectation for 10Y UST yield remains at 4.10% and remains for the 2s10s segment to settle at around 50bps. Given how the market is set up, USTs are probably more prone to upside surprises in payrolls than the September Fed funds futures contract is. It likely requires material upside to payroll to dent market expectation for a September cut. Economists' forecasts for payrolls are again in a wide range, from 0K to 144K for the August reading. Given the very small payroll changes in the previous two months, an outcome of 150K will bring 3-month average to 79K and an outcome of 200K will bring 3-month average to 96K. A reading of above 150K may be the threshold for potential market reaction.

- **DXY. *NFP Can be binary event for USD.*** Overnight data continued to show that US labour market is softening. ADP employment disappointed at 54k (vs. 68k expected), jobless claims rose and ISM services employment remains in contractionary territory. This puts focus on US payrolls data tonight (830pm SGT). Consensus looks for a 75k print (below 6m average of 81k) for NFP. Given that markets already fully priced in a 25bp cut for Sep and a total of 2 cuts for the year, a much softer-than-expected data print will be needed to alter the rate cut narrative and weigh on USD. Conversely, if the print comes in much stronger than expected, then the USD may see another spike. Next week, the focus will be on PPI, BLS revision to establishment survey (Wed) and CPI (Thu). Markets remain worried about a tariff-driven inflation and any uptick may also upset USD bears. DXY slipped, alongside softer UST yields. last at 98.20 levels. Daily momentum shows signs of turning mild bullish while RSI is flat. 2-way risks likely. Resistance at 98.70 (100 DMA) and 99.60 (23.6% fibo retracement of 2025 high to low). Support at 98.00/20 levels (21, 50 DMAs), 97.50 levels.



Source: Bloomberg, OCBC Research

- **EURUSD. *French Vote Monday.*** EUR remains largely supported amid the mild pullback in USD. Focus is on French politics in the near term. Prediction market is looking for 97% chance that the confidence vote on 8 Sep fails and PM Bayrou will be out as French PM by 31 Dec. Recall last year, a no-confidence vote gamble (although not on budget) saw the exit of former PM Barnier. The risk of a French government fallout and without a leader for weeks or even months should not be ruled out. To add, Dutch holds General Elections on 29 Oct. These political noises may have short term bearish implication on EUR. Nevertheless, broader fundamentals should still support EUR, on a buy on dips. Pair was last at 1.1670. Daily momentum and RSI indicators are not showing a clear bias. 2-way trades still likely. Resistance here at 1.1670 levels (21, 50 DMAs), 1.1750, 1.1830 levels (2025 high). Support at 1.1620, 1.1570 (23.6% fibo retracement of Mar low to Jul high). But today, US payrolls can influence USD/ FX if there is any major surprises either side to the data.

- **USDJPY. *Political Risks.*** USDJPY was a touch softer amid pullback in UST yields while Japan wages continue to rise (4.1% y/y vs. 3% expected). The rise in wages remain consistent with Governor Ueda's comments and this keeps hopes for policy normalisation alive. Pair was last at 148.15 levels. Daily momentum and RSI indicators are not showing a clear bias for now. 2-way risks likely, with US data risk to watch tonight. Bias to lean against strength. Resistance at 148.80 (200 DMA), 149.20 levels. Support at 147.20 (50 DMA), 146.70 (38.2% fibo retracement of Apr low to Aug high). Moving on, focus is on 8 Sep as LDP members submit responses to decide if the party presidential election should be brought forward. Earlier this week, 4 LDP members including Secretary-General Hiroshi Moriyama indicated their intention to step down after the review report on the upper house election in July was presented. Report had indicated nine factors on why voters are not supporting the LDP. This included the loss of trust brought on by money scandals, measures to deal with higher CPI, etc. It remains unclear if PM Ishiba will resign and if any new leadership will bring about any positive change. The risk of an earlier LDP election may temporarily undermine the JPY but politically-driven JPY depreciation is likely to reverse when the domestic house is in order.

- **USDSGD. *Watch US Payrolls.*** USDSGD eased slightly from recent highs, tracking the move lower in USDCNY this morning. Pair was last at 1.2878. Daily momentum is mild bullish while RSI shows signs of falling. Slight bias to the downside but likely still caught in recent range. Support at 1.2830. Resistance at 1.2920, 1.2950 levels. US payrolls still key to watch – surprises either side can trigger USD moves and this can influence USDSGD's directional bias. On S$NEER, SGD strength faded a bit further, with S$NEER easing away from its upper bound this week. Last seen around 1.67% above our model-implied midpoint. The MAS survey of professional forecasters published recently also noted that 42% of respondents anticipated MAS to ease policy in Oct. This is an increase from about 17% respondents seen in the Jun survey results.

- **CNY rates**. PBoC is to auction CNY1trn of 91-day outright reverse repo today, which represents a rollover of the CNY1trn outright reverse repo of original maturity of 91-day that is maturing. Later in the month, CNY300bn of outright reverse repo of original maturity of 182-day matures. We expect PBoC to stay supportive of liquidity. The liquidity drainage via daily OMOs this week is better seen as the usual practice to withdraw back some of the liquidity injected for month end. After the drainage of CNY1.2trn of liquidity via daily OMOs, reverse repos maturity eases to CNY1.07trn next week. In offshore, CNH rates have stayed anchored, with the soft USD rates while CNH liquidity is supportive. There were net-buy under Southbound Stock Connect over the past five days. That said, further downside to CNH CCS may be 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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