# Daily Market Outlook

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## USD Slippage; BoE Decision

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- **USD rates**. Long-end UST yields edged up overnight steepening the curve mildly amid dovish Fed remarks and soft 10Y coupon auction. The 10Y bond sales garnered a bid/cover ratio of 2.35x versus 2.61x prior, with primary dealer having to take up 16.2% versus 10.9% prior; the sales had been expected to suffer from the recent richening in the bond and hence market reaction was nevertheless muted. Tonight's 30Y coupon auction will be another test to market demand at current yield level. Fedspeaks erred on the dovish side; Cook said the jobs report was "concerning" and sees the revisions as "somewhat typical of turning points". Kashkari opined an interest rate cut might be appropriate "in the near term", referring to the jobs report and other indicator showing the US economy is slowing. These comments however do not reflect a material chance in stance, as after all, the median dot on the June dot plot pointed to two 25bps of cuts this year and there are only three FOMC meetings left. Fed funds futures last priced 61bps of cuts for this year and 71bps of cuts for 2026; this expected outcome does not appear to be out of reach and hence 2Y UST yield at around 3.70% level - which is in line with market Fed funds rate pricing - is not overly stretched either although interim uptick cannot be ruled out. Range for 10Y UST yield is seen at 4.10-4.34%.

- **GBP rates**. BoE is widely expected to cut its Bank Rate by 25bps later today, which is also in the price. We do not look for a three-way split in the votes; base-case is for one or two members voting for a hold, with an outside chance that there is a rare, unanimous decision. Regardless, the BoE is likely to continue with its gradual and careful approach. After today's expected cut, we expect another 25bp cut in Q4. GBP OIS pricing looks very fair. Decision on QT pace for the next 12-month period is due to be announced at the September MPC meeting, but investors nevertheless watch out for any assessment of QT progress at today's meeting. We see room for BoE to slow QT pace. First, APF holdings have come a long way down from the peak of GBP875bn in February 2022 to an expected GBP558bn by end-September. Second, Gilt maturity under the APF during the October 2025 – September 2026 period is at GBP49bn compared to GBP87bn during the October 2024 - September 2025 period. At the same QT pace, active gilt sales at GBP51bn amounts will be required which is higher than the GBP17bn in the current 12-month period.

Although the net impact on liquidity is the same, the active sales part may not be well received by the market. 10Y bond/swap spread was last at -52bps, a tad higher than the low observed in July but it remains supportive of 10Y Gilt.

- **DXY. *Will 21, 50 DMA Support Still Hold?*** USD extended its slippage overnight. Fedspeaks this week from officials, including Lisa Cook, Kashkari and Mary Daly have also been on a slightly dovish tilt, adding to USD softness. Lisa Cook said that the July jobs report was "concerning… revisions are somewhat typical of turning points". Kashkari said that a slowing of the economy may become appropriate to start adjusting the Fed fund rate. He added that tariffs still represent uncertainty, but it is unclear the effects on inflation and how long it will take for tariff effects to become clear. "If the best of all the options is we make some adjustments and then we have to pause, or even then we have to reverse course, that might be better than just sitting here on hold until we get clarity on tariffs." Labour market softness seen from 3 months of payrolls, and the employment subcomponent of both ISM manufacturing and services have shifted markets to price in a good chance of a cut in Sep. Depending on the outcome of US CPI next week, markets may even shift toward a 25 or 50bp cut for Sep. Recall last year, when the Fed first cut rate, they delivered a 50bp cut. Increase in dovish expectations can weigh on USD. DXY was last at 98.20. Bullish momentum on daily chart shows signs of fading but decline in RSI moderated. Some consolidation expected in the interim but bias to sell rallies. Support here at 98.20/30 levels (21, 50 DMAs), 97.20. Resistance at 99.60 (100 DMA), 100.50 levels. Tonight we have initial jobless claims data. A weaker print may add to soft labour market narrative and likely to have assymetrically more impact on USD bears.

- **EURUSD**. ***Supported.*** EUR continued to trade higher amid USD softness. Pair was last at 1.1660 levels. Mild bearish momentum on daily chart faded fast while RSI rose. Range-bound with risks skewed to the upside for now. Resistance at 1.1780 and 1.1830 (2025 high). EUR bulls need to clear these levels to see EUR bulls gain further traction. Support at 1.1600/30 (21, 50 DMAs), 1.1400/10 (38.2% fibo retracement of Mar low to Jul high, 100 DMA). Data release this week is relatively light with focus on German IP, trade (Today).

- **AUDUSD. *Buy Dips.*** AUD inched higher. Pair was last at 0.6510 levels. Bearish momentum on daily chart shows signs of fading while RSI rose. We stick with our bias to trade on longs. Resistance here at 0.6510/20 levels (21, 50 DMAs), 0.66 levels. Support at 0.6420/30 levels (100 DMA, 50% fibo retracement of 2024 high to 2025 low), 0.6380 (200 DMA) and 0.6310 (38.2% fibo). Softer 2Q

CPI, PPI and decline in job advertisements paved the way for RBA to cut cash rate at the next meeting (12 Aug), which is now largely priced. For the year, cash rate futures are already pointing to about 65bps cut. Unless we get further weakness in AU data or dovish repricing, otherwise the current dovish expectations is already in the price. Positive sentiment may turn to be supportive of AUD.

- **USDSGD. *Sideways.*** USDSGD was a touch softer, amid the slippage in USD. Pair was last at 1.2850 levels. Mild bullish momentum on daily chart shows signs of fading while RSI fell. Sideways trading likely, with slight bias to downside. Support at 1.2830/50 levels (21, 50 DMAs), 1.2760 levels. Resistance at 1.2990 (100 DMA). S$NEER was steady at around +1.90% above our model-implied midpoint.

- **USDTWD. *Turnaround Trade.*** USDTWD traded heavy this morning, on news that a large Taiwanese semiconductor is exempted from US 100% chip tariffs, even though it may affect some Taiwanese firms. This helps to remove some uncertainty for businesses and brings about some sort of closure to the tariff uncertainty we have seen so far. In addition, dovish pivot seen in more Fed officials, following the softer than expected labour market report is leading to expectations that Fed is likely to resume its rate cut cycle in due course. This in turn, is also another driver supporting broader market sentiment, benefiting risk proxies including TWD, KRW. USDTWD spot last seen at 29.84. Bullish momentum on daily chart intact but RSI turned sharply lower from overbought conditions. Bias skewed to the downside. Support at 29.72, 29.50 levels (21, 50DMA). Resistance at 30.00/10 levels.

- **HKD rates**. FX intervention this week amounted to HKD14.868bn and Aggregate Balance (interbank HKD liquidity) will fall to HKD64bn. FX intervention at weak-side convertibility undertaking totalled HKD105.9bn, reversing most of the HKD129.4bn done at the strong side in May. While HIBORs were off the lows observed in June, they were not very responsive to liquidity drainage thus far. As Aggregate Balance falls to a lower level, nearer the tipping point which may be generally seen as around HKD50bn level, front-end HKD rates may soon become more responsive to additional liquidity drainage. T/N staying at around -8pips to -9pips per day continues to encourage carry trades; further FX intervention cannot be ruled out until material increases in short-end HKD rates. We expect the benchmark 3M HIBOR to normalise back to 2.0-2.5% area over time.

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