# GLOBAL MARKETS RESEARCH

## Daily Market Outlook

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# Weak payrolls; wait for inflation to give the green light


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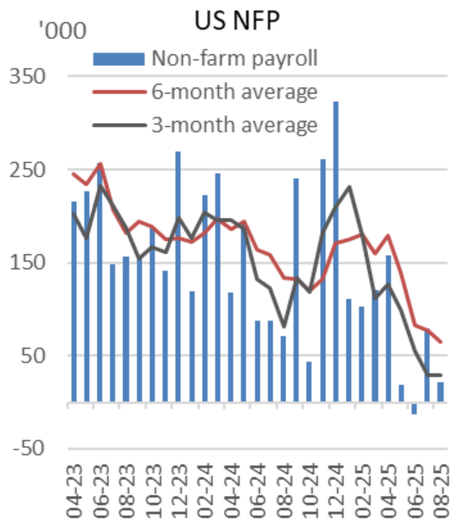
Global Markets Research and Strategy


- **USD rates**. UST yields slid and market added to rate cut expectations upon the payroll release. 2Y yield fell by 13bps at one point to an intra-day low of 3.46%; yields ended the day 5-8bps lower across the curve. Fed funds futures more than fully price a 25bp cut at the September FOMC meeting, and price a total of 69bps of cuts for this year. Our base-case remains for a total of 75bps of cuts this year, where we have pencilled in a 25bp cut at each of the remaining FOMC meetings. A continued cooling in the labour market justifies rates at a less restrictive level, but some FOMC members are waiting for inflation to give the green light. The fall in the 10Y UST yield was driven by lower real yield, rendering the curve little changed on the day, underlining our view that "the subdued growth outlook will probably constrain the steepening momentum across the 2s10s segment." 10Y yield is now at our year-end target and near-term range is at 4.06-4.20%. Between now and end-2026, market prices a total of 146bps of cuts and the 2Y yield at 3.52% is roughly in line with such pricings; at current valuation, 2Y UST is prone to upside surprises in inflation prints – PPI on Wednesday and CPI on Thursday. Before these, there are also QCEW data for Q1-2025 and QCEW revisions for Q1 to Q4-2024 due on Tuesday. Back to the labour market data, August non-farm payroll was low at 22K while there were further revisions to previous months' data which saw a fall of 13K in June payroll; three-month average of non-farm payroll was 29K. Meanwhile, the unemployment rate ticked up to 4.3% (versus 4.2% prior) and the underemployment rate rose to 8.1% (versus 7.9% prior) under the household survey.




Source: Bloomberg, OCBC Research

- **DXY.** ***Bears to Watch Inflation Prints This Week.*** USD fell as dismal US payrolls report adds to labour market woes in US. Some dovish repricing was observed with markets now more than fully pricing in a 25bp cut for Sep FOMC. This week, the focus turns to BLS prelim revision to payrolls on Tue; PPI on Wed 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 97.90 levels. Daily momentum is not showing a clear bias while RSI fell. Risk skewed to the downside in the interim. Support at 97.50, 96.40 levels. Resistance at 98.70 (100 DMA) and 99.60 (23.6% fibo retracement of 2025 high to low). Fedspeaks are in blackout communication till FOMC (17 Sep).

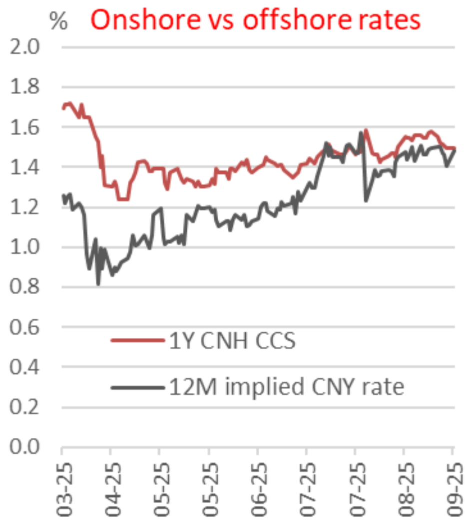
- **USDJPY.** ***Political Risks vs USD Softness.*** USDJPY gapped higher this morning, in response to weekend news that PM Ishiba said he will resign as LDP leader. The date for LDP party election race to look for the next LDP leader will be announced tomorrow and is likely to be held within weeks. A few names have been floated as potential contenders, and they include Sanae Takaichi - favours stimulus measures and was vocal against BoJ hiking rates; Shinjiro Koizumi - an agriculture minister and was responsible for bringing down rice prices; Yoshimasa Hayashi – chief cabinet secretary. Near term, political uncertainties in Japan may temporarily hinder BoJ from normalising policy at upcoming meetings and this can be one of the factors undermining JPY. But JPY weakness (due to politics) should reverse when uncertainty fades. Moreover, Fed cutting rate in due course should also help to bring USDJPY lower at some point amid Fed-BoJ policy divergence. Pair was last at 148.10 levels. Daily momentum is mild bullish while RSI rose. Near term risks skewed to the upside but retain bias to sell rallies. Resistance at 148.32 (23.6% fibo), 148.80 (200 DMA) and 149.30 levels. Support at 147.20 (50 DMA), 146.70 (38.2% fibo retracement of Apr low to Aug high) and 145.80 (100 DMA).

- **EURUSD.** ***French Vote Today.*** EUR traded better bid amid USD softness as payrolls underwhelmed. A confidence vote on budget is expected today. Prediction market is looking for 99% chance that the confidence vote fails and PM Bayrou will be out as French PM by 31 Dec. Recall last year, a no-confidence vote 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. Unemployment rate near all-time low while inflation is well contained near 2%. Pair was last at 1.1710. Daily momentum is mild bullish while RSI rose. 2-way trades still likely. Resistance at 1.1750, 1.1830 levels (2025 high). Support at 1.1650/60 levels (21, 50 DMAs) and 1.1570 (23.6% fibo retracement of Mar low to Jul high). ECB meeting in focus (Thu). It is widely expected ECB will keep policy rate on hold as ECB is likely near end of rate cut cycle.

- **USDSGD.** ***Range-bound.*** USDSGD traded lower post-NFP as USD fell. Pair was last at 1.2848. Bullish momentum faded somewhat while RSI was flat. Slight bias to the downside but likely still caught in recent range. Support 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, apart from FX reserves (Mon). S$NEER is about 1.73% above our model-implied mid.

- **SGD rates.** SGD OIS opened little changed at the 1Y while 2Y to 10Y rates were down 1-2bps thus far. It is still early in the day, but front-end SGD OIS not falling as much as USD OIS is not surprising, given past massive outperformance in SGD rates, trigger for the latest falls in USD rates being idiosyncratic, and the volatile overnight SGD interest rate. O/n implied SGD rate traded lower at 1.63% this morning, versus 1.85% at Friday close and 1.56% at Thursday close. There are 4W and 12W MAS auctions tomorrow as usual. 1M and 3M implied SGD rates were trading at around 1.32% and 1.25% respectively this morning, which were 4bps higher and 5bps lower than the respective rates compared to last Tuesday. These point to a mild upside to 4W cut-off and downside to 12W cut-off, in the range of 1.40-1.50%. On SGS, 2Y bond/swap at around -25bps continues to be supportive of 2Y SGS.

- **CNY rates**. PBoC net injected a small amount (CNY8.8bn) of liquidity via daily OMOs this morning. Focus this week and for the upcoming weeks is the provision of medium-term liquidity, given heavy NCD maturities and CGB supply. Last Friday, PBoC auctioned CNY1trn of 91-day outright reverse repo, which represented a rollover of the CNY1trn outright reverse repo of original maturity of 91-day. Later in the month, CNY300bn of outright reverse repo of original maturity of 182-day matures, while MLF maturity is at CNY300bn. We expect PBoC to stay supportive of liquidity. 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 six days. That said, further downside to CNH CCS may be limited, as these rates may 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%.



Source: Bloomberg, OCBC Research

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