Daily Market Outlook

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Positioned for QCEW revisions

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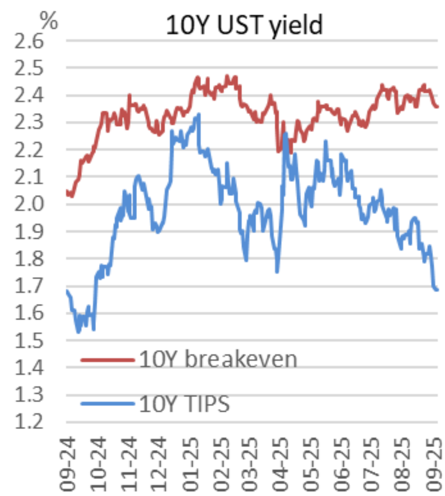
- **USD rates**. UST yields fell further with long-end bonds outperforming and hence the curve a tad flatter. Market added further to rate cut expectation, with Fed funds futures pricing in a total of 72bps of cuts this year, in line with our base-case for 75bps. Investors have likely positioned for anticipated downward revisions at QCEW data – risk surrounding this release is asymmetric in that a better outcome might be shrugged off as investors focus on recent months' development, while a weak outcome might reinforce market expectation for Fed funds rate cuts. That said, valuation of 2Y UST with yield at 3.49% appears stretched and the bond is likely prone to upside surprises in inflation – PPI and CPI to be released on Wednesday and Thursday. At the 10Y, the downward move in nominal yield since the recent high on 18 August was primarily driven by a lower real, underlining our view that "the subdued growth outlook will probably constrain the steepening momentum across the 2s10s segment." 10Y term premium edged lower to 0.70% (last estimated by New York Fed's ACM model) but still does not appear particularly low while 10Y swap spread has stay in range. 10Y yield broke below our year-end expectation of 4.10%; near-term range is now seen at 4.00-4.20%.



Source: Bloomberg, OCBC Research

- **DXY. *Bears Watching Data.*** USD fell further as markets position for QCEW downward prelim revision to payrolls (10pm SGT). Further dovish repricing was also observed with markets now more than fully pricing in a 25bp cut for Sep FOMC and nearly 3 cuts for 2025. This week, the focus is on 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 97.40 levels. Daily momentum is showing a mild bearish bias while RSI fell. Risk skewed to the downside in the interim. Support at 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).

- **Gold. *Supported.*** Prospects of Fed cutting rates soon and a softer USD are some of the main drivers behind the recent surge in gold prices towards 3600 levels. Last week's data provided strong evidence that the US labour market is weakening quite sharply and this reinforced Fed easing bias. This week, the focus turns to US PPI and CPI data. A scenario of softer print may potentially see markets considering the chance of a 50bp cut at Sep FOMC or even a deeper Fed cut trajectory, and this can have further boost to prices of gold. Looking on, several structural supports remain in place. (1) The ongoing diversification out of the USD; (2) Strong official-sector demand, led by China and other EM reserve managers appear likely to continue while Fed kicking off rate cut cycle in due course is likely to lower real yields and further enhance gold's appeal; (3) Broader portfolio demand for gold as a reliable store of value and hedge against both inflation and geopolitical risks should also help underpin the constructive outlook. XAU was last at 3647 levels. Bullish momentum on daily chart intact while RSI is in overbought conditions. Next resistance at 3747 (123% fibo). Support at 3500, 3430 (21 DMA).

- **USDJPY. *Await LDP Election Date, Campaign.*** USDJPY slipped amid decline in UST yields and USD as markets braced for US prelim QCEW revision to payrolls and Fed easing bias. Dovish re-pricing saw market price in nearly 3 Fed cuts for the year. Focus next shifts to when the LDP election is. Market chatters of the party election being held next month. A date will be announced today. The successor will then have to win a vote in parliament to become the next PM. Likely contenders include (1) Sanae Takaichi who favours stimulus measures and was vocal against BoJ hiking rates; (2) Shinjiro Koizumi is an agriculture minister and was responsible for bringing down rice prices. At the last election, which he narrowly lost, he presented himself as a change/reformer candidate. If elected, he will become Japan's Prime Minister; (3) 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 147.35 levels. Daily momentum is flat while RSI fell. 2-way risks but retain bias to sell rallies. Support at 147.20 (50 DMA), 146.70 (38.2% fibo retracement of Apr low to Aug high) and 145.80 (100 DMA). Resistance at 148.32 (23.6% fibo), 148.80 (200 DMA) and 149.30 levels.

- **EURUSD. *Hovering Near Recent Highs.*** EUR continued to drift higher even with French PM set to resign after losing confidence vote yesterday. Markets positioning for QCEW payrolls revision and prospects of Fed cutting rates appear to have a bigger effect on USD (henceforth EUR) while markets may have been getting used to French politics. We reiterate that political noises may have short term bearish implication on EUR but the broader fundamentals should still support EUR, on a buy on dips. Pair was last at 1.1770. Daily momentum is mild bullish but rise in RSI moderated. 2-way trades still likely. Resistance at 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).

- **USDSGD. *Range-bound.*** USDSGD continued its momentum to trade softer. Pair was last at 1.2822. Daily momentum turned mild bearish while RSI fell. Slight bias to the downside but likely still caught in recent range. Support here 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 1.70% above our model-implied mid.

- **IndoGB**. IndoGBs pared back yesterday's gains as the sentiment turned subdued, and ahead of supply today. Yields were up by 4-8bps across the curve thus far. Today's auction comprises the reopening of FR109 (2031 bond), FR108 (2036 bond), FR106 (2040 bond), FR107 (2045 bond), FR102 (2054 bond), FR105 (2064 bond) and bills. Indicative target is at IDR27trn with potential to be upsized to IDR40.5trn. There may not be an upsize at this auction in view of the overall market sentiment while previous upsizes and international transactions render the funding positions comfortable. Our preference for 2Y IndoGB on the curve had panned out well over the past month; we turn neutral for now. Foreign investors sold IDR9.19trn worth of IndoGBs on 1-3 September, with holdings standing at IDR944.66trn or 14.75% of outstanding as of 3 September.

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