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Daily Market Outlook

US Resilience Shines

- ***US Resilience Shines:*** *Geopolitical relief boosted risk sentiment, but the bigger story remains US economic resilience. Upcoming inflation and labour market reports will be crucial in shaping expectations for Fed policy.*

- ***JPY's Next Test****: Coordinated intervention has put a floor under JPY weakness, but a sustained reversal still hinges on faster BoJ tightening and capital repatriation. For now, intervention is doing the heavy lifting.*

- ***PBoC's slightly higher fixes may restrain RMB bulls,*** *but the policy signal still points to a carefully managed, measured pace of appreciation.*

- ***Fundamentals and repatriation flows remain supportive of MYR,*** *but the Negri Sembilan election outcome suggests some political risk premium is still warranted.*

- ***SGDJPY may face further downside if JPY strength persists****, though a more durable move would require faster BoJ tightening, returning inflows and a stronger deterrent against JPY shorts. Technicals at this point looks oversold.*

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US Resilience Shines: Bond yields fell and equities rallied as oil prices retreated after President after President Trump's weekend announcement that he had called off another round of Iran attacks to pursue a diplomatic solution. While Iran denied reports of direct negotiations with the US, it said discussions with Oman on a temporary arrangement to safeguard shipping routes were progressing.

US ISM manufacturing rose to 55.6 in July, beating the 53.9 consensus and reaching its highest level since May 2022. The stronger-than-expected data helped limit the decline in US yields relative to Europe and kept the USD broadly flat to slightly firmer overnight.

Fed Chair Warsh's July press conference revived concerns over the Fed's inflation-fighting credibility, partially reversing the credibility gains made after the June meeting. A still-resilient labour market or evidence that disinflation is losing momentum could increase pressure on the Fed to reinforce its anti-inflation stance. With two inflation prints and two employment reports due before the September FOMC meeting, incoming data will be critical, beginning with this week's payrolls release.

Our base case remains that the Fed stays on hold for an extended period. However, if inflation fails to show further progress in the months ahead, the risk of another rate hike this year cannot be ruled out.

In the near term, limited policy signals ahead of the Jackson Hole symposium are likely to keep the USD rangebound and continue supporting carry trades. Beyond that, we expect US economic resilience to bring Fed tightening risks back into focus, underpinning our moderately bullish USD view over the next one to two quarters.

JPY's Next Test: What comes next for the JPY remains front of mind after the US and Japan confirmed coordinated FX intervention and signaled they stand ready to act again if needed.

The immediate question is whether the intervention-led JPY rally is running out of steam, with USDJPY possibly consolidating in a 156-161 range. Pushing USDJPY below 155, a level that could trigger stop-loss selling and extend JPY gains, appears to be more a question of policy resolve than firepower.

Japan's intervention capacity may also be larger than many assume. Reports suggest the authorities could access the Fed's FIMA repo facility to raise US dollars against their Treasury holdings instead of selling the securities outright. This enhances the credibility of future intervention efforts by significantly expanding Japan's potential firepower while easing concerns over potential sell-off of US Treasuries.

A more important question is whether intervention can reverse the broader trend of JPY depreciation. Much depends on whether joint intervention strengthens the case for a more aggressive BoJ tightening cycle. The July BoJ meeting was not especially hawkish, although Governor Ueda left the door open to a possible rate hike in September.

History suggests intervention works best when it reinforces a hawkish monetary policy stance rather than substitutes for one. A sustained JPY appreciation cycle would likely require three factors to align: (1) coordinated FX intervention, (2) a faster pace of BoJ rate hikes, and (3) repatriation of Japanese capital into domestic assets.

So far, only the first condition has been met. Risks are tilted towards an earlier BoJ rate hike, with markets assigning roughly even odds of a move at the 18 September meeting, alongside expectations for a higher terminal rate. However, it remains unclear whether the BoJ is prepared to validate a meaningfully more hawkish policy path.

RMB. Appreciation remains on a managed leash. The USDCNY fix has edged slightly higher for 2 sessions after reaching a recent low on 30 July. This should moderately temper RMB bulls as market momentum has again begun to run ahead of the official guidance. The spot-fix gap has widened to around -400pips at one point lately while the gap between fix expectations and the actual fix has also widened to nearly -600pips (31 Jul). The latest fixing guidance does not necessarily signal a change in direction. Rather, it reinforces the view that policymakers are engineering a very measured pace of appreciation, allowing the RMB to strengthen when conditions permit but reining it in whenever momentum begins to run ahead. The RMB remains on a managed leash, with room to appreciate, but not enough for expectations to become one-sided. USDCNH last at 6.7580 levels. Bearish momentum on daily chart intact while RSI rose modestly from near oversold conditions. 2-way risks ahead. Resistance at 6.78 (21, 50 DMAs). Support at 6.74, 6.72 levels.

USDMYR. Some political risks linger though fundamentals buffer. The decisive BN-PN win in the Negeri Sembilan state election—taking 25 of 36 seats—reinforces that political risks have not gone away, even though the result does not directly alter the Federal government's parliamentary position. That said, Malaysia's relatively resilient growth outlook, contained inflation and stronger external reserve position should continue to provide some buffer. BNM's efforts to encourage companies and state-linked entities to repatriate and convert overseas earnings are also improving onshore USD supply and may help limit MYR downside. Overall, political uncertainty could cap the pace of MYR appreciation, but external USD, rate dynamics and broader risk sentiments are likely to remain the more important directional drivers for now.

USDMYR last at 4.0955. Daily momentum is flat while RSI rose modestly. 2-way trades likely to persist. Immediate resistance at 4.0980/4.10 levels (23.6% fibo retracement of May low to Jun high), 4.12 levels. Support at 4.0840 (21 DMA), 4.0660/610 levels (50 DMA, 38.2% fibo)

SGDJPY. Near term oversold. The recent sharp decline in SGDJPY has been driven mainly by the JPY leg rather than any material weakness in SGD. With both US and Japan signalling a willingness to act again, further downside in SGDJPY cannot be ruled out if JPY strength extends. The bigger question is whether the move can be sustained. Intervention can shift the near-term risk-reward, but more durable JPY appreciation would probably require a quicker pace of BoJ tightening, a return of repatriation and portfolio inflows, and a sufficiently firm policy message to discourage JPY shorts from rebuilding. On the SGD side, MAS' recent slight increase in the pace of S$NEER appreciation should keep the SGD relatively supported on a trade-weighted basis. This can cushion SGDJPY at the margin but if the scenario of JPY recovery becomes more persistent, then the cross may still be exposed to the downside.

SGDJPY last seen at 122.50 levels. Bearish momentum on daily chart intact but RSI is in oversold conditions. Some retracement not ruled out in the interim. Resistance at 122.80/123 levels (200 DMA, 61.8% fibo retracement of 2026 low to high), 123.80 (50% fibo). Support at 122 (76.4% fibo), 120.50 (2026 low).

<u>SGDJPY Daily Chart</u>

Source: Bloomberg, OCBC Group Research

Technical Levels Table

	EURUSD	USDJPY	GBPUSD	USDCHF	AUDUSD	NZDUSD	USDCAD	XAUUSD	USDSGD	USDPHP	USDINR
Resistance 3	1.1641	162.06	1.3628	0.8209	0.7162	0.5976	1.4133	4175	1.2910	61.49	95.73
Resistance 2	1.1582	159.41	1.3540	0.8150	0.7088	0.5928	1.4084	4113	1.2863	61.24	95.50
Resistance 1	1.1545	158.30	1.3487	0.8126	0.7044	0.5899	1.4065	4084	1.2843	61.09	95.42
Spot	1.1512	157.41	1.3429	0.8100	0.7001	0.5868	1.4044	4060	1.2827	60.93	95.34
Support 1	1.1486	155.65	1.3399	0.8067	0.6970	0.5851	1.4016	4022	1.2796	60.84	95.19
Support 2	1.1464	154.11	1.3364	0.8032	0.6940	0.5832	1.3986	3990	1.2769	60.74	95.04
Support 3	1.1405	151.46	1.3276	0.7973	0.6866	0.5784	1.3937	3928	1.2722	60.49	94.81
Bollinger Band											
Bollinger Upper	1.1534	166.12	1.3530	0.8200	0.7037	0.5907	1.4183	4139	1.2973	61.98	96.88
Bollinger Lower	1.1333	157.61	1.3269	0.8026	0.6924	0.5715	1.3984	3980	1.2819	61.18	94.94

Source: Bloomberg, OCBC Group Research. Potential resistance and support levels are identified based on pivot points