GLOBAL MARKETS RESEARCH

# Daily Market Outlook

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## Consolidation


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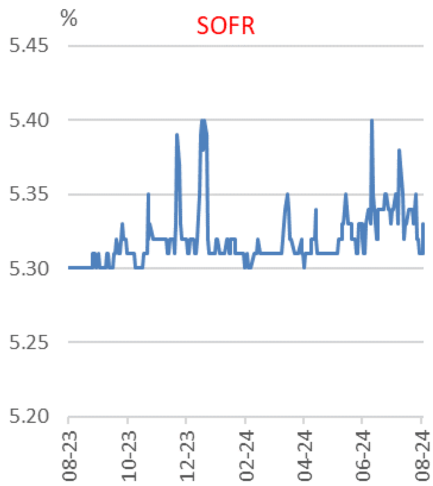



Source: Bloomberg, OCBC Research

- **USD rates**. UST yields edged higher during NY session as market had probably digested the dovish comments from Powell last Friday, while US data came in mixed. Fed funds futures last priced 100bps of rate cuts by year end and 123bps of cuts in 2025. With three FOMC meetings left for the year, a 50bp cut at one of these meetings would be required for market expectation to materialise. Our base-case remains for a 25bp cut at the September FOMC meeting, unless the August payroll/labour market statistics come as another big downside miss. Usage at the Fed's o/n reverse repo rose to USD354bn on Monday, which is set to fall over the week with USD66bn of net bills settlement and USD36bn of net coupon bond settlement. Liquidity is on the tight side this week with these settlements, coupled with month-end demand. Near-term range for the 2Y yield is seen at 3.85-4.10% and for the 10Y yield at 3.75-4.00%; some interim rebounds in yields cannot be ruled out.

- **DXY. *Consolidation.*** USD's sell-off shows signs of stabilising as Jackson hole excitement comes to pass. This week, 2Q GDP (Thu) and core PCE (Fri) will be the highlight. Firmer print may potentially slow USD's bearish momentum, but another underwhelming print should re-expose USD to further downside. That said, month-end flows, geopolitical risks may potentially distort price action. DXY was last at 100.87. Bearish momentum on daily chart intact while RSI is near oversold conditions. Not ruling out the risk of short squeeze but bias to fade rallies. Death cross observed as 50DMA cuts 200DMA to the downside. Support here at 100.60 levels. Clean break puts 99.60 in focus. Resistance at 101, 101.50 and 102.20 (23.6% fibo retracement of 2023 high to 2024 low).

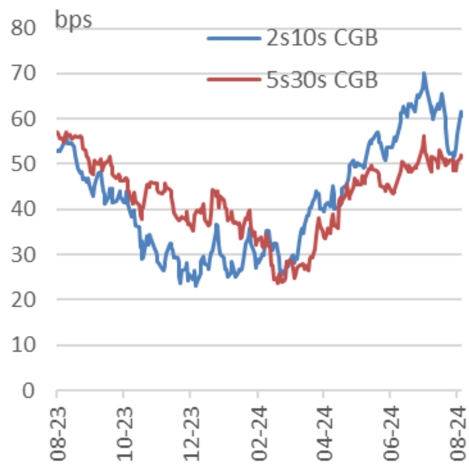
- **EURUSD. *Corrective Move Lower.*** EUR's recent run higher towards 1.12 may have run its course for now and technically, there are signs to suggest that a pullback may be on the cards. The move higher in recent weeks can largely be attributed to the EUR playing catch up to gains seen in other FX amid a softer USD environment while EU-UST yield differentials narrowed further (-153bps vs. -200bps in Apr). The solid current account data for the eurozone – was also one catalyst - monthly current account surplus for Jun at EUR51bn was the highest on record. The last all-time high was back in Jan 2015 when it was about EUR42.75bn surplus. Moreover, ECB officials have not been outright dovish in the last few weeks. Recall last Fri, Holzmann said a Sep cut is not a foregone conclusion while Chief Economist Lane said that a return to 2% inflation target is not secure yet. And markets were probably getting excited to price in new-found dovishness in Fed, and the USD. Finally, on growth, Euro-area PMIs have yet to show much improvement. Manufacturing PMIs in Euro-area, Germany slumped further into contractionary territory while consumer confidence lags. We cannot rule out markets re-focusing back to short EUR as Jackson Hole comes to pass. Pair was last at 1.1170 levels. Daily momentum is bullish while RSI shows signs of turning lower from near overbought conditions. Elsewhere price action resembled a rising wedge pattern, typically associated with a bearish reversal in the near term. Support at 1.1090, 1.10, 1.0930 (61.8% fibo retracement of 2024 high to low). Resistance at 1.12 (recent high) and 1.1280 (2023 high).

- **AUDUSD. *Interim Double-Top.*** Rally in AUD over the last few weeks came on the back of hawkish RBA remarks, broadly softer USD, risk-on sentiment and higher iron ore prices. But the rise has met resistance at near 0.68 (the high for the year). Pair failing to break above it for the second time forms an interim double-top. Last seen at 0.6780. Bullish momentum on daily chart intact but RSI eased from near overbought conditions. Corrective pullback is not ruled out for now. Geopolitical risks may undermine sentiments Support seen at 0.6730 (23.6% fibo), 0.6640/50 levels (38.2% fibo retracement of 2023 low to 2024 high, 50 DMA). Resistance at 0.6799 (double top). Break-out should see AUD bulls regain momentum to test 0.6870 levels.

- **USDSGD. *Rebound Risk.*** USDSGD traded modestly firmer, tracking the rebound in UST yields and USD. Pair was last seen at 1.3040 levels. Bearish momentum on daily chart intact but shows signs of waning while RSI rose from near oversold conditions. We remain cautious of rebound risks. Resistance here at 1.3040, 1.31 and 1.3210 (21 DMA). Support at 1.30, 1.2960 levels. S$NEER was estimated at ~1.84% above our model-implied mid. S$NEER nearing the stronger side of its band somewhat suggests that additional gains in SGD may only be incremental unless other FX in the basket appreciates another round. But with SG core CPI printing softer for 2 consecutive months, we can't rule out renewed interests in going short S$NEER, in hope that MAS may ease in Oct. I think this should not be ruled out especially if SG core CPI continues to decelerate.

- **SGD rates**. SGD OIS were paid up by 1-2bps thus far this morning, mildly outperforming USD rates; this is in line with historical pattern with SGD rates outperforming on an uptrend, while the flush SGD liquidity is also capping rates at the moment. Recent T-bills and MAS bills auction results suggest the lower rate-view has become yet more entrenched. One interesting observation, however, is the recent falls in cut-offs were somewhat smaller than the falls in implied SGD rates. There are 4W and 12W MAS bill auctions today. On balance, cut-off at the 12W MAS bill is seen at 3.45-3.55%. On Thursday, there is the auction of 6M T-bills; cut-off is seen at 3.18-3.23% as per this morning's level. On Thursday, there is also the auction of 5Y SGS (reopen); we expect demand to be solid as supply is on the low side with no more mid-tenor supply for the rest of the year after this 5Y bond.

- **CNY rates**. PBoC net injected liquidity via daily OMOs for a second day, at CNY323.4bn this morning. This is very short-term money which mainly smooths the daily fluctuation in liquidity. Market instead may hope for injections of longer-term money such as that released by an RRR cut. The CGB curve bearish steepened today, as bigger stimulus is yet to come while July industrial profit printed stronger at 4.1%YoY versus 3.6%YoY prior. We maintain a steepening bias on the curve, but it appears the steepening momentum is shifting among different segments day by day. Next to watch is August PMIs. In offshore, the CNH FX swap curve stays heavy.




Source: Bloomberg, OCBC Research

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