

Daily Market Outlook

27 September 2024

Watching LDP Elections, US Core PCE

- **USD rates.** Short-end UST yields corrected further higher reflecting some adjustments in rate cuts expectations but not a reversal of trend. August durable goods order printed firmer than expected, virtually flat versus expectation for a 2.6% MoM drop; initial jobless claims were mostly in line together with the revision in the previous number. Fed funds futures last priced 73bps of cut before year end and 116bps of cuts in 2025. 10Y breakeven and real yield stayed in expected ranges, last at 2.17% and 1.62% respectively. The 7Y coupon bond auction garnered solid demand with bid/cover ratio at 2.63x versus 2.50x prior. This concluded this week's coupon bond auctions all of which went well. Net coupon bond settlement is at USD118bn next Monday, followed by net bills settlement totalling USD14bn on Tuesday and Thursday. US Treasury has planned for small net bills issuances for the October-December period, ahead of the reinstatement of the federal debt ceiling on 2 January 2025. On the data front, there are August PCE and core PCE price indices tonight.
- **DXY. 2-Way Risks Near Term.** USD slipped amid slippage in initial jobless claims but levels remain confined to recent lows. DXY was last at 100.65. Daily momentum is mild bullish while RSI dipped. Interim double-bottom appears to be forming – we continue to watch price action. Resistance at 101.10 (21 DMA), 101.90. Support at 100.20 levels (interim double bottom). This week, we watch core PCE (Fri). A hotter print would bring back fears of second-round inflation risks, especially so when Fed is guiding for frontloading of rate cuts. We are also caution of quarter-end flows that may distort price action in the short term.
- **USDJPY. LDP Election in Focus Today.** LDP lawmakers will gather at party HQ and voting starts at noon (SGT). Lawmakers will cast 367 votes, while rank-and-file members will cast 368 votes (to represent the party's membership base of approx. 1.1mil). By 120pm (SGT), results of the first round will be announced. If no-one wins a majority, a run-off will be held between the top 2 candidates. In the run-off, each lawmaker gets one vote but the share of rank-and-file will drop to 47 (one for each of Japan's prefectures). The final winner will be announced at 230pm (SGT). 9 candidates are fighting for that one position and polls suggest these 3 candidates may garner the most votes: ex-environment

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minister, Shinjiro Koizumi, 43; economic security minister Sanae Takaichi, 63; and former defence minister Shigeru Ishiba, 67. Takaichi has been vocal against BoJ raising rates. The caution of her winning was likely one of the factors that saw USDJPY rather supported, contrary to other USDAXJs. USDJPY may see a knee-jerk reaction down should the leadership not go to her. That said, BoJ going for a gradual pace of policy normalisation may see pace of USDJPY decline slow in the interim. Pair was last at 145.20. Bullish momentum on daily chart intact while RSI rose. Risks skewed to the upside. Next resistance at 146.20 (50 DMA), 148 (38.2% fibo retracement of Jul high to Sep low). Support at 143.40 (21 DMA), 142 levels.

- **USDSGD. 2-Way Risks.** USDSGD continued to trade near recent low but decline may have found strong support in the short term. Pair was last at 1.2847. Daily momentum is flat while RSI rose. Risks somewhat skewed to the upside. Resistance at 1.2910, 1.2970 (21 DMA). Support at 1.2820, 1.2740 levels. Sell rallies preferred.
- **SGD rates.** PBoC officially announced the 50bp cut in RRR to be effective today; this cut applies to financial institutions except those which have already been subject to the lowest 5% ratio. After this RRR cut, weighted average reserve ratio is 6.6%. PBoC also said the 20bp cut in the 7-day OMO reverse repo will be effective today, and the spread between the rates on 14-day and 7-day OMO reverse repos will be maintained, and as such, the rate on this morning's 14-day OMO reverse repo was adjusted down by 20ps accordingly. The cuts today represent the implementation of policies announced earlier. Market looks for more support on the fiscal side, where policy makers have mentioned to strengthen fiscal measures.
- **SGD rates.** The 50Y Green SGS (Infra) cut off at 2.62% which was where the market was trading before the auction; bid/cover ratio was at a fair 1.64x. Some selling post auction was seen, which might reflect switching between bonds or simply following USD rates direction. 6M T-bills cut off at 2.97% versus 3.1% prior; a cut-off below 3% was not a surprise given how much market interest rates had fallen. The more interesting observation was that over the past two 6M T-bills auctions, the cut-off did not fall as much as market interest rates did. This suggests that investors demand may not stay overwhelming if the absolute levels of yield go further lower. On balance, they may be some 10bps downside to the 6M T-bill yield over the coming weeks or months, but we note the cut-off depends a lot on the prevailing market interest rate which keeps changing over time.

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