Daily Market Outlook

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Watch US NFP

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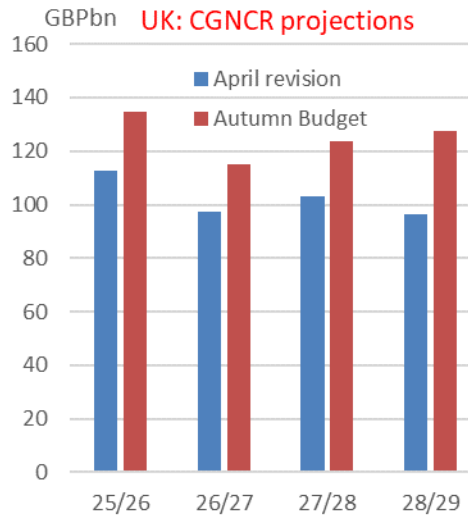
- **USD rates**. UST yields retraced from intra-day highs to end the day mostly flat. Yields Initially rose taking cue from the Gilt market while US data also printed on the firm side. UST yields have since retraced probably on some short covering as investors stay on the sidelines ahead of payroll and US elections. September core PCE price index stayed at 2.7%YoY against consensus for a mild easing to 2.6%YoY; while the sequential reading was in line with expectations at 0.3%MoM, August number was revised up to 0.2%MoM from 0.1%MoM. September personal income was also stronger than expectation, having grown 0.5%MoM. Earlier on Wednesday, US Treasury confirmed the planned auction sizes for the Nov-Jan quarter remain unchanged compared to the previous plan. 10Y UST yield has risen by 67bps from its low in mid-September while the 10Y term premium as per NY Fed ACM model has risen by 51bps from its recent low, explaining part of the upticks in nominal yields. With US elections and fiscal worries in play, uncertainty is high as to how market will react to payroll tonight.

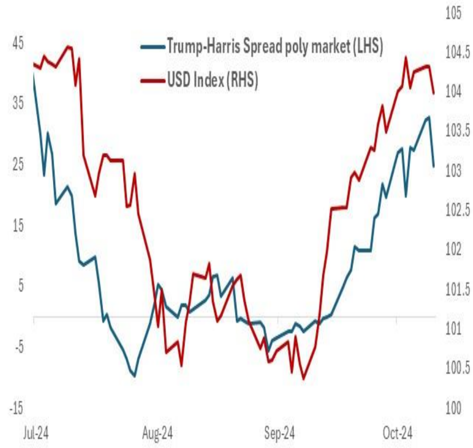
- **GBP rates**. Gilts stabilised somewhat in late session on Thursday; yields were still up by cumulative 20bps plus compared to just before the announcement of the Autumn Budget. To recap, fiscal spending is budgeted to increase by GBP70bn a year over the next five years; half of the increase in spending is planned to be funded through an increase in taxes and the rest through an increase in borrowing. The more expansionary Budget pushed up yields via two channels, namely higher supply and potentially higher inflation pressures. For now, it appears market reacted more to the latter. For fiscal 2024/25, most of the increased borrowing will be via long-end gilts, followed by medium-tenors; but the Gilt curve bearish flattened as market pared back rate cuts expectations. GBP OIS last priced 32bps of rate cuts before year end, versus as much as 43bps priced last week; our base-case remains for only one more 25bp cut before year-end, likely at the November MPC meeting. As increased net borrowing is planned for the years ahead, there may not be a near-term reversal in market reaction



Source: UK DMO, OCBC Research

- **DXY. *NFP in Focus.*** USD drifted lower despite US data printing better than expected – ADP employment, core PCE, initial jobless claims. The pullback in USD can be explained by the pullback in Trump spread over Harris (betting markets). Technically, the move lower is consistent with our earlier caution *that we see room for USD to retrace lower.* DXY was last at 103.93. Bullish momentum on daily chart faded while RSI fell from overbought conditions. We continue to see room for USD to drift lower. That said, pullback may also find some support ahead of US elections next week. Support at 103.80 levels (200 DMA, 50% fibo), 102.90/103.20 levels (21, 100 DMAs, 38.2% fibo retracement of 2023 high to 2024 low) and 101.90 (50 DMA). Resistance at 104.60 (61.8% fibo), 105.20 levels. Focus today is on payrolls report. Consensus is looking for NFP to print lower at 100k (vs. 254k prior), unemployment rate to hold steady at 4.1% and hourly earnings to hold up at 4% YoY. A softer print, alongside Trump spread narrowing may have an asymmetrical larger pullback in USD.

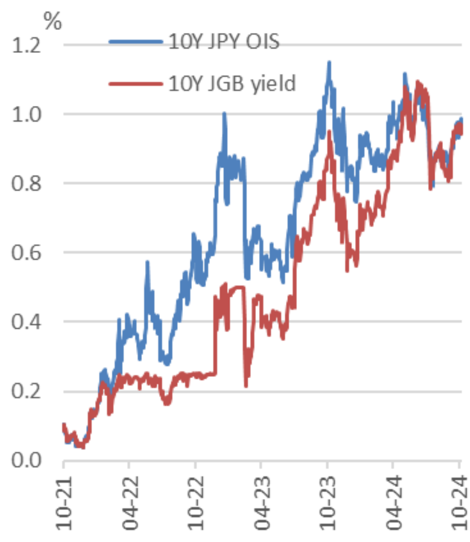
USD pullback consistent with narrowing of Trump-Harris spread



Source: Bloomberg, OCBC Research

- **EURUSD. *Short squeeze Underway.*** EUR traded higher, in line with our caution for short squeeze trade. We had previously said *there was already quite a bit of negativity is in the price of EUR following recent dovish rhetoric out of ECB, softer growth/ economic momentum, USD strength and the fear of Trump win and the threat of that 10-20% tariff. But with much negativity in the price, we do caution for the risk of rebound if EU data this week surprise to the upside.* 3Q24 GDP surprised to the upside (+0.4% QoQ vs. 0.2% expected) while CPI inched higher on both headline (2% YoY vs. 1.9% expected) and core (2.7% YoY vs. 2.6% expected). Elsewhere, the unemployment rate unexpectedly dipped to 6.3% (vs. 6.4% expected). EUR was last seen at 1.0880. Momentum turned mild bullish though there are signs that the recent rise in RSI is moderating. Resistance at 1.09 (50% fibo), 1.0940 (100 DMA). Support at 1.0830 (61.8% fibo retracement of 2024 low to high), 1.0760 (recent low).

- **JPY rates**. BoJ kept its policy rate unchanged at 0.25% on Thursday as widely expected. The overall rhetoric from the Outlook report and Ueda's press conference was seen as mildly hawkish. Although projected core CPI (all items less fresh food) for fiscal 2025 is revised a tad lower due to decline in crude oil and other resource prices, the BoJ assessment remains that underlying inflation is to increase gradually on an improving output gap, a tightening labour market and inflation expectations. BoJ sees "risks to economic activity are generally balanced. Risks to prices are skewed to the upside for fiscal 2025". We continue to expect a 10-15bp hike at the December MPC meeting. 10Y bond/swap spread has been trading around multi-year median level; the next support for 10Y JGB is seen at 1.09% and then 1.12% corresponding to the 10Y JPY OIS levels.



Source: Bloomberg, OCBC Research

- **USDJPY. *Sell Rallies.*** USDJPY fell post BoJ press conference. Governor Ueda said that the current political situation in Japan would not stop him from lifting rates if prices and the economy stay in line with BoJ's forecast. He also made reference to FX rates more likely to affect prices in Japan than before. He also said that similar wage deals in 2025 as to 2024 would be good but there is not much information on next year's Shunto yet. Overall, his remarks are more hawkish than expected and is likely to have paved the way for a BoJ hike in December, which remains our house view. Recent labour market report pointed to upward wage pressure in Japan with 1/ jobless rate easing, 2/ job-to-applicant ratio increasing to 1.24 and 3/ even female labour participation rate rose to 1.2ppts (versus a year ago). Japan's trade union confederation (or Rengo) is again calling for wage increase of 5% or more overall and 6% or more for SMEs for 2025. Wage growth remains intact, alongside broadening services inflation and this is supportive of BoJ normalizing rates. Our house view continues to look for 10-15bp hike before year-end. Pair was last at 152.30 levels. Bullish momentum on daily chart faded while RSI fell from near overbought conditions. Near term likely. Support at 151.55 (200 DMA), 150.60/70 levels (50% fibo retracement of Jul high to Sep low, 100 DMA). Resistance at 153.30 (61.8% fibo), 155 and 156.50 (76.4% fibo).

- **USDSGD. *Rising Wedge.*** USDSGD fell, in line with our technical observation for rising wedge pattern, which is typically associated with a bearish reversal. Move lower in USDSGD mirrored the moves in broad USD. Pair was last at 1.3224. Bullish momentum on daily chart shows signs of fading while RSI eased from near overbought conditions. Support at 1.3190 (50% fibo), 1.31 (38.2% fibo). Resistance at 1.3290 (61.8% fibo retracement of Jun high to Oct low), 1.3350 levels (200 DMA). S$NEER was last at 1.47% above model-implied mid.

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