Daily Market Outlook

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US CPI in Focus

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- **USD rates**. UST yields rose overnight as FOMC minutes suggested a more diverse view on the magnitude of the September rate cut. Fed funds futures further pared back rate cut expectations, to 45bps seen before year end and a total of 95bps in 2025. The recent data and the FOMC minutes serve to remind investors that a 50bp-size is not the norm and inflation is not out of the picture. In this regard, tonight's CPI can be the next catalyst for market direction. additional Fed funds rate cuts from here do not require a recession scenario, in our view. In-line prints of CPI will likely be seen as a greenlight to a slew of rate cuts down the road; and in that scenario there is room for the 2Y UST yield to retrace lower with the next level to watch at 3.86%.

- **FOMC minutes** key takeaways: 1/ the main reason for the start of easing was "greater confidence that inflation was moving sustainably towards 2 percent", while the overall assessment on the labour market was "solid" although many participants saw the evaluation of the labour market as challenging; 2/ "Some participants observed that they would have preferred a 25 basis point" and "a few others indicated that they could have supported such a decision" – this reflected more support for a 25bp cut as compared to the vote with one dissident only. 3/ the 50bp cut was partly a catch-up as "there had been a plausible case for a 25 basis point rate cut at the previous [July] meeting". Our base-case remains for a 25bp cut each at the November and December FOMC meeting.

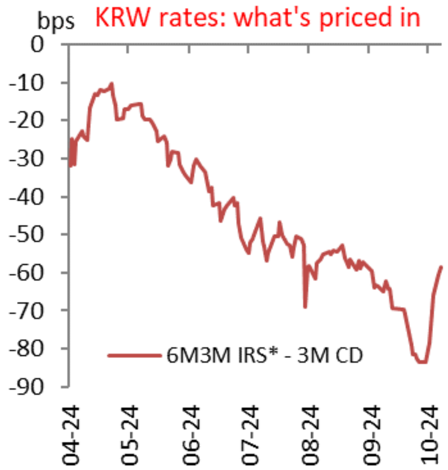
- **DXY. *Watching CPI, Initial Jobless Claims.*** USD inched higher overnight after FOMC minutes unveiled details of pushback at the Sep FOMC. On Fedspeaks, Daly said she expects 1 or 2 more cut this year while Collins said that 50bp cut in Sep was prudent given risks. Elsewhere, Logan said she supported a slower path of interest rate reduction. Dovish expectation on Fed cut have now been priced out. Markets are just eyeing about 45bp cut for the rest of the year, as opposed to 75bps cut seen just 2-3 weeks ago. Markets and Fed's dot plot are now in alignment. USD has also rebounded, partially retracing the earlier ~5% decline seen in 3Q. To some extent, USD may have settled into this temporal state of equilibrium where the risks from here can largely be 2-way. DXY was last at 102.88. Daily momentum remains bullish but rise in RSI shows signs of moderation near overbought conditions. 2-way trades likely. Resistance here at 102.90 (38.2% fibo), 103.30 (100 DMA). Support at 101.75/90 levels (50 DMA, 23.6% fibo retracement of 2023 high to 2024 low), 101.30 (21 DMA). Apart from US CPI, initial jobless claims (Thu) and PPI (Fri), there is no clear major US data catalyst until the next payrolls or core PCE data in a few weeks' time. In terms of event risks, geopolitical tensions in middle east and US elections deserve monitoring. Even at this point, Harris and Trump are polling neck-and-neck. Markets adopting a cautious stance ahead of US elections may imply that USD may still stay supported on dips.

- **EURUSD. *Weighed by Dovish ECB.*** EUR continued to trade with a heavy bias, weighed by dovish remarks from ECB officials. Kazaks said rate cuts are necessary as economy is weak.. rates can go to neutral if inflation at 2% in 2025 while Kazimir said can't rule out rate cut at next meeting even though he is not as convinced as media reports on Oct cut. EUR was last at 1.0945 levels. Daily momentum is bearish bias while RSI fell near oversold conditions. Risks remain skewed towards the downside. Double-top bearish reversal is underway. Support at 1.0900/30 levels (100 DMA, 50% fibo), and 1.0830 (61.8% fibo). Resistance at 1.1050/60 levels (50 DMA, 23.6% fibo retracement of 2024 low to high) and 1.1090 (21 DMA).

- **NZDUSD. *Bears Feeling Lethargic.*** NZD fell after RBNZ cut rate by 50bp. MPC agreed that monthly price indices signal a continued decline in consumer price inflation. RBNZ also said that economic growth is weak, in part because of low productivity growth, but mostly due to weak consumer spending and business investment. These comments were well in line with what was earlier flagged in the NZIER's quarterly survey of business opinions report. Markets continue to expect about 50bp cut at the next MPC in Nov and another 100bp cut or so in 1H 2025. These were already priced in prior to the MPC. Dovish RBNZ may weigh on Kiwi for now but given that expectations are in the price, the downside for NZD may also be constrained. Pair was last at 0.6090. Bearish momentum on daily chart intact while RSI is near oversold conditions. Support comes in at 0.6060 and 0.60 levels. Resistance at 0.61 (200 DMA), 0.6160 (50 DMA).

- **USDSGD. *Consolidation.*** USDSGD inched higher, tracking USD rebound. Pair was last at 1.3065 levels. Daily momentum is bullish while rise in RSI shows sign of moderation near overbought conditions. Resistance at 1.31 (38.2% fibo retracement of Jul high to Sep low). Support at 1.3050 (50 DMA), 1.2980 (23.6% fibo), 1.2945 (21 DMA). Expect consolidative price action. S$NEER was last estimated at ~1.86% above our model-implied mid. MAS policy decision will be announced on 14 Oct (Mon), alongside 3Q GDP. We expect MAS to maintain policy status quo again at the upcoming Oct MPC meeting as prevailing appreciating path of the S$NEER policy band remains appropriate. But we do not rule out an outside chance that the MAS may surprise with an earlier easing, given that MAS adopts a forward-looking approach to monetary policy making and that the core CPI's disinflation journey remains intact, apart from the slight bump-up in August.

- **KRW rates**. KTBs outperformed swaps at open this morning, on the first day of trading after the WGBI inclusion decision. Depending on AUM assumption, cumulative passive inflows are estimated at USD50-60bn. Comparing the WGBI weights across tenors and the tenor profile of KTBs, we reckon the inflow impact may be more felt at the 3-5Y segment, followed by the 5-10Y segment. Passive flows are unlikely to come in much in advance. Nevertheless, given some improvement in KTB-UST yield differentials at the short to mid-tenors, the still (albeit less) negative KRW basis, and the prospects of BoK finally starting the easing cycle, the market environment shall be conducive to inflows. We expect the BoK to cut its policy Bank Rate by 25bps, which has now become the consensus. KRW rates last priced around 58bps of rate cuts on a 6-month horizon. Market will watch the split of vote and the post-meeting press conference.



Source: Bloomberg, OCBC Research

*implied rate.

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