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GLOBAL MARKETS RESEARCH

Daily Market Outlook

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MAS Review; Market Reaction to China MoF

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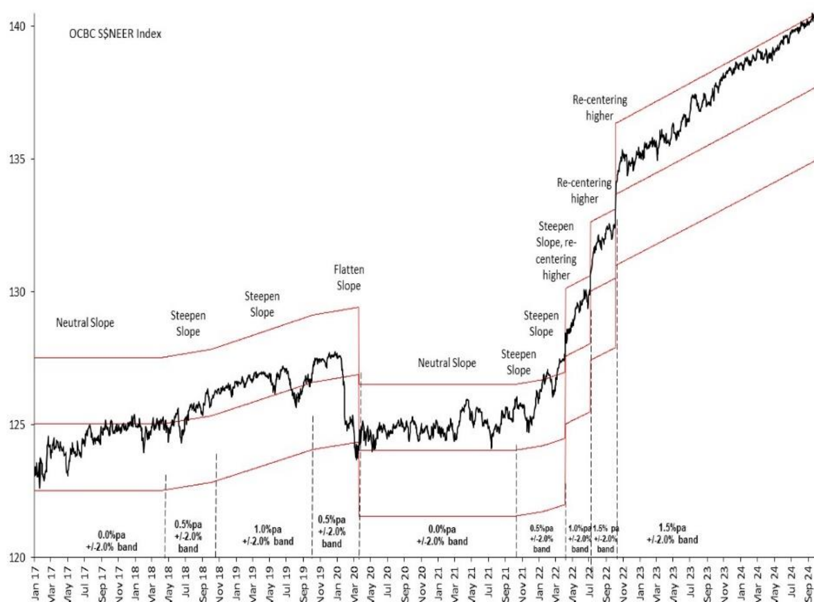
Global Markets Research and Strategy

- **USDSGD. *Holding Pattern.*** MAS kept policy status quo – no change to width, or the level or slope of policy band. 3Q GDP was +2.1% q/q saar. (vs. +0.4% in 2Q). On growth, MPS noted that *growth momentum was stronger than expected and was largely underpinned by a step-up in manufacturing output, particularly in the electronics industry. Activity also picked up in the modern services cluster*. On inflation, MPS noted that core inflation should end the year around 2% and average 2.5-3% for 2024 (vs. 4.2% from 2023). MAS continue to expect core inflation to average around mid-point of the forecast range of 1.5 – 2.5% in 2025. In terms of inflation risks, MPS highlighted that *risks to Singapore's inflation outlook are more balanced compared to three months ago. If there is stronger-than-anticipated demand for labour due to upsides in GDP growth, it may take longer for unit labour cost growth to moderate and consequently for services price inflation to normalise. An intensification of geopolitical tensions and commodity price shocks could add to imported costs. However, a significant downturn in the global economy would induce an abrupt easing in cost and price pressures, causing domestic inflation to come in materially lower than expected.* S$NEER was last estimated at 1.9% above model-implied mid, largely consistent with 10d average. MAS maintaining status quo on policy stance means that S$NEER strength may linger and only fade at some point this year when core inflation in Singapore start to ease more in coming months. When that happens, markets can be guided to price in weaker S$NEER. For now, we expect MAS to continue to adopt wait-and-see approach – to ease policy only when core CPI falls towards their projection. USDSGD was last at 1.3066. Daily momentum is bullish while RSI is near overbought conditions. Resistance at 1.31 (38.2% fibo retracement of Jul high to Sep low) Support at 1.3040 (50 DMA), 1.2980 (23.6% fibo), 1.2950 (21 DMA).

- **SGD rates**. Reaction in SGD rates is muted thus far, as MAS outcome is in line with expectations, while USD rates traded in ranges on Friday. The normalization (as in becoming less negative) in SGD-USD OIS spreads has already paused, as absolute rate levels went up and we also flagged earlier that "this spread normalization may lose some momentum near-term, as the latest CPI prints suggest that MAS may keep S$NEER parameters

unchanged at the upcoming meeting in October". Near-term implication could be higher pass-through from falls in USD rates onto SGD rates. Our medium-term view remains that short-end SGD rates shall lag in a downward move, but patience is needed – requiring short-end USD rates to return to a downtrend (which we expect) and MAS pivoting (seems not in sight yet). SGD5.2bn of 1Y T-bills are auctioned on Thursday; 1Y implied SGD rate last traded at 2.6%, which was around 56bps lower than the level on 25 July when the last 1Y T-bills auction was conducted. With the latest cut-off of 6M T-bills at 3.05%, the cut-off of the upcoming 1Y T-bills is very likely to be below 3% - a matter of how much below. Recent observations have been that the movement in the 6M T-bill cut-off lagged market implied rates. Similarly, we suspect the 1Y T-bill cut off may not entirely catch up with the lower market rate. On balance, we are more inclined to see the cut-off near the range of 2.85-2.90%.

S$NEER Continues to Trade in the Upper Half of the Policy Band



Source: Bloomberg, OCBC Research

- **DXY.** ***Supported.*** USD rose for a second straight week amidst unwinding of dovish bets. This round, the triggers came from firmer CPI and FOMC minutes, which unveiled details of pushback at the Sep FOMC. 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 while DXY has also retraced 50% of its decline since early Jul. There is no major data catalyst in the near term until core PCE (31 Oct), NFP (1 Nov) in a few weeks' time to drive USD in a meaningful direction. Between now and then, external drivers (geopolitics, China support measures, US election campaign, etc.) and Fedspeaks may

see 2-way moves in USD. Markets in US closed for Columbus Day holiday today (14 Oct). DXY was last at 103 levels. Daily momentum remains bullish but RSI shows signs of turning lower from overbought conditions. 2-way trades still likely. Resistance at 103.30 (100 DMA), 103.80 levels (200 DMA, 50% fibo). Support at 101.75/90 levels (50 DMA, 23.6% fibo retracement of 2023 high to 2024 low), 101.30 (21 DMA).

- **CNY rates**. Repo-IRS traded on the soft side at open, while CGB yields were a tad higher, reflecting some mixed market reaction following the weekend press conference. Reaction thus far underlines our view for short-end IRS to play some catch-up with bond yields, but our conviction level is not high as to whether this momentum can be extended. Special LGB issuances amounted to CNY3.6trn in the first nine months of the year versus full-year quota of CNY3.9trn, after a quickening in the issuances in August and September. The 2.3trn number mentioned refers to the remaining quota and the issuance proceeds which has not been deployed. Nevertheless, key positives are allowing special LGB proceeds to be used to buy unsold homes and raising issuance quota. The former measure shall help expedite the deployment of the proceeds. Looking ahead, hope remains for more detailed numbers to be unveiled, as MoF mentioned a one-time large-scale quota for debt swap and room for higher fiscal deficits, among others. Market will be keen to see how these descriptive wordings translate into actual numbers. We believe there will be some liquidity released via another RRR cut to buffer some of the upcoming bond supply pressure.

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