GLOBAL MARKETS RESEARCH

Daily Market Outlook

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USD Bid; CGB Curve Steepened

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Global Markets Research and Strategy

- **DM rates.** Gilts and Bunds traded in ranges overnight with long-end Gilt mildly underperforming ahead of 30Y gilt auction later today and UK budget on 30 October. Meanwhile, market is not convinced by BoE Governor Bailey's earlier comments that the BoE could be a bit more aggressive/activist in rate cuts; indeed, just one day after Bailey's comments, BoE Chief Economist Pill cautioned against cutting interest rates too far or too fast. GBP OIS last priced a total of 36bps of cuts by year end, versus 40bps post Bailey's comments. Our base-case remains for a 25bp cut in the Bank Rate by year-end, likely to be delivered at the November MPC meeting. UK August jobless rate/earnings and September payroll will be released later today. We expect the ECB to deliver another 25bp cut this week; back-to-back rate cut however does not necessarily mean there will be another cut at the December meeting. In USD market, there is net coupon bond settlement of USD22.1bn and net bills settlement of USD41bn this week.

- **DXY. *Supported.*** USD was a touch firmer overnight. Lack of details on Chinese stimulus and market chatters of Trump trades being put on again ahead of US elections may have kept the USD broadly supported. CNH is amongst the biggest underperformer today. DXY was last at 103.2 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). Markets and Fed's dot plot are now in alignment while DXY has also retraced 50% of its decline since early Jul. We are expecting more 2-way trades ahead, given 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 should continue to drive 2-way moves in USD. Today brings Daly, Kugler and Bostic, with more Fed officials lined up for the week.

- **EURUSD. *ECB Guidance is Key but Policymakers May Go for Optionality.*** Markets have moved ahead to price in ~96% probability of an ECB cut at the upcoming meeting (Thu). Softer CPI, downward revisions to 2024 growth for Germany, softer PMIs and dovish pivots from several ECB officials were the triggers. Kazaks said "rate cuts are necessary as economy is weak... rates can go to neutral if inflation at 2% in 2025". Earlier, Villeroy said that ECB will "quite probably" cut interest rates at its next meeting (17 Oct). Schnabel (typically a hawk) said that "with signs of softening labor demand and further progress in disinflation, a sustainable fall of inflation back to our 2% target in a timely manner is becoming more likely, despite still elevated services inflation and strong wage growth". As dovish expectations are already in the price, EUR may even rebound ("sell on rumour, buy on fact") if ECB falls short on dovish guidance at the meeting. EUR was last at 1.09 levels. Daily momentum is bearish bias though RSI fell into oversold conditions. Key area of support at 1.0900 levels (50% fibo). Decisive close below puts next support at 1.0870 (200 DMA), 1.0830 (61.8% fibo). Resistance at 1.1010, 1.1050/60 levels (21, 50 DMAs, 23.6% fibo retracement of 2024 low to high).

- **USDSGD. *Holding Pattern.*** USDSGD continued to trade higher, tracking moves in USD uptick. Pair was last at 1.3095. Daily momentum is bullish while RSI is near overbought conditions. Resistance at 1.31 (38.2% fibo retracement of Jul high to Sep low), 1.32 levels (50% fibo). Support at 1.3040 (50 DMA), 1.2980 (23.6% fibo), 1.2960 (21 DMA). In recent meeting (Mon), MAS kept policy status quo – no change to width, or the level or slope of policy band. S$NEER was last estimated at 1.83% above model-implied mid, largely consistent with 10d average. MAS maintaining status quo on policy stance means that S$NEER strength may linger and only fade at some point this year when core inflation in Singapore starts 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 a wait-and-see approach – to ease policy only when core CPI falls towards their projection.

- **CNY rates**. CGB curve steepened further led by mildly higher 30Y yield, on prospects of additional bond supply albeit not imminently. The risk sentiment is subdued this morning, as market awaits further details of fiscal measures to be unveiled, while September trade data printed on the weak side. Aggregate financing printed CNY3.76trn in September, quickening from August's CNY3.03trn but slower than a year ago; additional financing mainly came from new yuan loans and government bond issuances – consistent with the fiscal direction. There is CNY789bn of MLF maturing this month; while it is a relatively large sum, the chance of it being replaced by RRR cut induced liquidity does not appear high at this juncture when exact amount of additional bond supply is unclear. 1Y implied CNY rate has stayed above 2Y CGB yield in recent days, while the gap with 12M AAA-rated NCD rate is not wide. These levels are not conducive to inflows into short-end CNY fixed income assets. The gap between 12M offshore and onshore forward points was last at 234pips; we continue to see limited room for further convergence there.

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