Daily Market Outlook

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High-Beta FX hit; yields retraced lower

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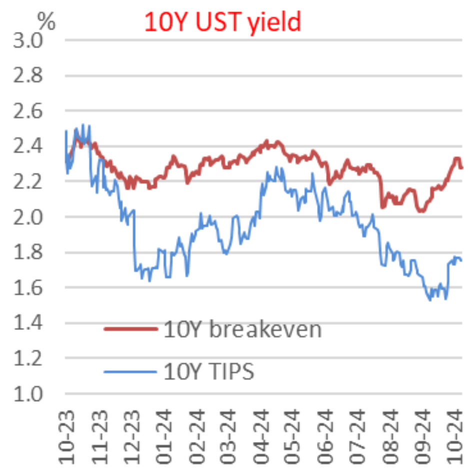
- **USD rates.** UST curve bullish flattened overnight in a risk-off session; the fall in the 10Y yield was led by lower breakeven, probably as the falling oil prices alleviated some inflation concerns. We continue to see 10Y breakeven mildly above 2% as fair, and a near-term range is seen at 2.15-2.35%. Fed funds futures were little changed, pricing 47bps of cuts before year end and a total of 103bps of cuts in 2025 in the absence of major data. Meanwhile, Daly's comments overnight were somewhat balanced, explaining that the central bank would have to start monetary easing early "to ensure we don't overtight" and reiterated that current rates remain restrictive; however, she then sticked to her line saying that the FOMC has to stay vigilant and intentional to balance both mandates – 2% inflation and full employment. We maintain a downward bias to 2Y UST yield as the market had earlier adjusted higher expectation of Fed funds rate trajectory, and as additional rate cuts materialise these will be reflected in the then valuation. Our base-case remains for a 25bp cut at each of the November and December FOMC meetings. Near-term range for the 2Y UST yield is seen at 3.85-4.00%. Usage of the Fed's o/n reverse repo fell by USD45bn to USD286bn on Tuesday, when there were USD19bn of net bills and USD22bn of net coupon bond settlement. For the rest of the week, net bills settlement amounts to USD22bn.

- **DXY.** ***Supported Still.*** Decline in US equities saw negative sentiment spillover onto FX markets. High-beta FX proxies, including NZD, AUD and KRW traded under pressure while USD remains broadly supported near recent highs. US curbs on sales of advanced AI chips to some countries and news of a major Dutch chipmaker cutting its guidance on earnings for 2025 were the main triggers for the decline in tech shares. Elsewhere, chatters of "Trump trade" (short CNH) gathered momentum as we inch closer to US elections (5 Nov). Polls still show that Harris and Trump are neck and neck. In an interview at the Economic Club of Chicago overnight, Trump defended his proposed tariff plans on foreign goods as it would protect "the companies that we have here and the new companies that will move in". DXY was last at 103.27 levels. Daily momentum remains bullish but RSI is still around 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

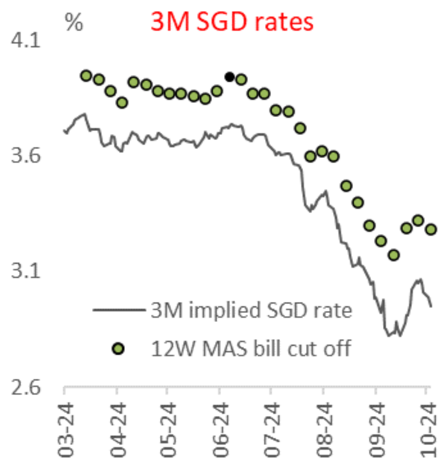


Source: Bloomberg, OCBC Research

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.

- **USDSGD. *NODX Tomorrow.*** USDSGD continued to trade in a subdued range but near recent highs. Relative to declines seen in other AXJs overnight, SGD's magnitude of decline was fairly muted. S$NEER was last estimated at 1.9% above model-implied mid. MAS maintaining status quo on policy stance means that S$NEER strength may linger and only fade at some point when core inflation in Singapore start to ease more. When that happens, markets will probably then 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. 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 1.3030 (50 DMA), 1.2960/80 levels (23.6% fibo, 21 DMA).

- **SGD rates.** 4W and 12W MAS bills cut off at 3.30% and 3.28% respectively, at the higher end of expected ranges. The cut-offs were 7bps and 4bps lower, respectively, than last week's cut-offs, while implied SGD rates had fallen by more during this period. SGD5.2bn of 1Y T-bills are auctioned on Thursday; 1Y implied SGD rate last traded at 2.57%, which was around 59bps 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 3.06%, the cut-off of the upcoming 1Y T-bills is very likely to be below 3%. 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%. Further out the curve, there may still be room for SGS outperformance against swaps at the long end.



Source: MAS, Bloomberg, OCBC Research

- **IndoGBs**. The conventional bond auction on Monday drew incoming bids of IDR44.3trn while IDR25trn of bonds were awarded versus indicative target of IDR22trn. Upsizing is in line with our expectations. Cut-offs appeared a tad higher than market levels; nevertheless, cut-offs were near the lowest incoming bid levels for FR104 (2030 bond) and FR097 (2043 bond). In the five days to 14 October, foreign inflows amounted to IDR2.6trn; non-bank domestic investors and BI increased holdings, while banks reduced holdings. IndoGBs look supported at current levels while the global bond environment has also turned more positive overnight; on the curve, we prefer short tenors.

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