GLOBAL MARKETS RESEARCH

Daily Market Outlook

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ECB decision; SGD 1Y T-bill cut-off surprised

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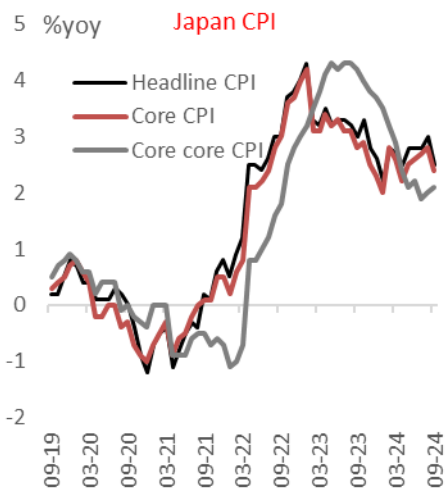
- **EUR rates**. Market has been repricing relative central bank dovishness, scaling back rate cuts expectation for the Fed, but adding to rate cut expectations for the ECB and BoE, primarily on the divergence of data when monetary decisions are data-dependant. ECB cut each of its three key interest rates by 25bps, as widely expected. The central bank said the decision is based on their "updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission". The meeting was not accompanied by the quarterly economic review, but from the statement there is a downward adjustment in the inflation outlook; the central bank now expect inflation to reach target "in the course of 2025" instead of "over the second half" of 2025. That said, as Lagarde pointed out, the MPC statement keeps the "magic language" that the central bank "will keep policy rates sufficiently restrictive for as long as necessary". On balance, it does not look like the ECB is shifting gears in terms of the pace of rate cuts; future decision remains highly data dependent. EUR OIS last priced a total of 38bps of cut at the December meeting, meaning market is split between a 25bp and a 50bp cut, which looks too dovish to us.

- **JPY rates**. Japan CPI and core CPI inflation eased to 2.5%YoY and 2.4%YoY respectively in September. The easing in inflation had been expected, due to some government subsidies. The contribution to YoY inflation from fuel, light and water charge alone was reduced by 0.43 percentage point. Meanwhile, core core CPI inflation edged up to 2.1%YoY versus 2.0% prior. Overall, the outcome is unlikely to affect the direction of monetary policy normalization. While the BoJ may pause this month to pace out such policy normalization, our base case remains for a 10-15bp rate hike at the December meeting



Source: CEIC, OCBC Research

- **DXY. *Overbought.*** USD continued to trade near recent high after retail sales, Philly Fed business outlook came in better than expected. This underscores the potential return of US exceptionalism after recent US data somewhat surprised to the upside. That said, we remain cautious of the recent run-up in USD, as it is starting to look technically stretched. DXY was last at 103.73 levels. Daily momentum remains bullish but RSI shows signs of turning lower from overbought conditions. Run up does look stretched technically and pullback is not ruled out. Resistance at 103.80 levels (200 DMA, 50% fibo). Support at 103.30 (100 DMA), 101.75/90 levels (50 DMA, 23.6% fibo retracement of 2023 high to 2024 low), 102 (21 DMA). Elsewhere geopolitical tensions in the middle east remains heightened. Bloomberg reported that *Israel said it killed Hamas leader Yahya Sinwar, the architect of the Palestinian group's attack on southern Israel that triggered a year-long war in Gaza.* It was also reported that Iran had warned Israel against retaliation for missile attack. On US, election developments remain fluid. Polymarket shows Trump's lead over Harris widened to 61.7:38.1 while traditional polls still show the election as neck and neck between Trump and Harris. The main message is that traditional polls and decentralized betting polls have diverged significantly, even as we get closer to elections. And as such, defensive positioning/ trump hedges (long USD, long gold, short CNH) may still gather traction given the fluidity of election developments and geopolitical uncertainties.

- **EURUSD. *ECB Maintains Optionality.*** EUR dipped on ECB cut overnight but magnitude of decline has moderated. ECB said the disinflationary process is 'well on track,' and is more confident about sustainably reaching its 2% target in a timely manner. Lagarde repeatedly said it will remain data-dependent and follow a meeting-by-meeting approach. EUR was last seen at 1.0840. Momentum remains bearish but RSI shows signs of turning higher from oversold conditions. Support at 1.0830 (61.8% fibo retracement of 2024 low to high), 1.08-figure. Resistance at 1.09, 1.0940. With dovish expectations baked in, we see limited room for EUR to venture south in the near term (unless there is major risk-off surprises) while risk-reward is skewed for tactical bounce.

- **USDJPY. *Verbal Jawboning.*** USDJPY traded above 150 briefly amid rise in UST yields. But this morning, FX chief Mimura flagged "sudden, one-sided move" in FX. He also said "We'll keep monitoring the forex market with a high sense of urgency, including any speculative moves." USDJPY dipped in response. Pair was last at 149.95. Bullish momentum on daily chart intact but shows signs of fading while RSI shows signs of easing from near overbought conditions. Bias for pullback play. Support seen at 148, 146.90 (21 DMA). Resistance at 150.70/80 levels (50% fibo retracement of Jul high to Sep low, 100 DMA). Tactical bias to sell rallies.

- **USDSGD. *Looking for Pullback.*** S$NEER continue to ease away from its upper-bound post-MAS MPC; last estimated at 1.62% above model-implied mid. On a 5-day% change within the basket, SGD had weakened somewhat more vs. USD, IDR, KRW, THB, TWD. Even with that, S$NEER continues to trade in the upper bound. USDSGD was last at 1.3136. Daily momentum is bullish while RSI shows signs on turning from near overbought conditions. Pullback is not ruled out. Support at 1.3030 (50 DMA), 1.2970/80 levels (23.6% fibo, 21 DMA). Resistance at 1.3140/50 levels (recent high), 1.32 levels (50% fibo retracement of Jul high to Sep low).

- **SGD rates.** Thursday's 1Y T-bills cut off at 2.71%, which was below expectations. The 67bp drop in the 1Y cut-off from the 3.38% at last auction on 25 July was mildly more than the drop in the 1Y implied SGD rate during that period. The outcome was against recent observations that the movements in the 6M T-bill cut-off have been tamer than the movements in market implied rate. The 1Y cut-off at 2.71% and the recent 6M cut-off at 3.06% means investors expect the 6M rate to fall to below 2.35% six months later, which looks overly low to us. The 1Y bill sales might have benefited from a lack of supply for the rest of the year. Still, the outcome reflects very solid demand. The downtrend in cut-off shall not be automatically extrapolated as a number of factors could affect the level including USD rates and the liquidity situation.

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