Daily Market Outlook

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Corrective Pullback

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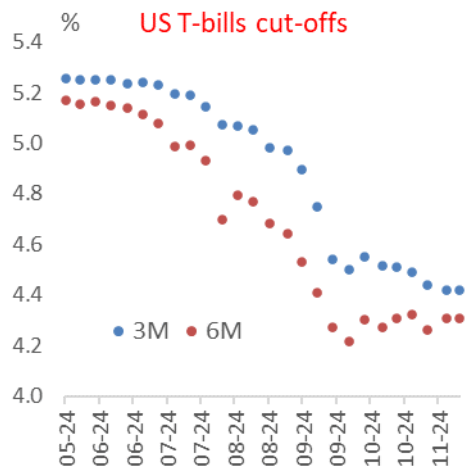
- **USD rates**. UST yields retraced from NY session highs post T-bills auctions and ended the day a few bps lower. The 3M and 6M T-bills auctions went well, cutting off at 4.42% and 4.31% respectively which were the same as the cut-offs at previous auctions; bid/cover for the 6M T-bills edged up to 2.87x from 2.73x prior. Fed funds futures pricing was little changed at 58% chance of a 25bp rate cut at the December FOMC meeting. Data releases this week include initial/continuing jobless claims, existing home sales, PMIs, University of Michigan survey, and regional Fed activity indices. Fed speakers are lining up as well. Short-end USTs may trade in relatively wide ranges with 2Y yield seen at 4.20-4.45% near-term, as market constantly reassesses rate cut prospects upon data releases and Fed commentaries. TIC data show foreign holdings of US Treasury securities rose by USD169.5bn during September, within which foreign official holdings rose by USD26.9bn. As of end-September, foreign official holdings accounted for 45.1% of total foreign holdings. This week also brings the auctions of USD16bn of 20Y coupon bond and of USD17bn of 10Y TIPS; the size of the 20Y coupon bond represents the usual upsize at the start of each quarter. Market will still watch how these bonds are absorbed to gauge the next direction for long end bond yields.



Source: Bloomberg, OCBC Research

- **DXY. *Corrective Pullback.*** USD eased overnight in line with our earlier caution for risks of technical pullback. DXY was last at 106.20 levels. Bullish momentum on daily chart eased while rise fell from near overbought conditions. Potential bearish divergence may be forming on daily MACD. Near term risks remain skewed towards a technical retracement lower. Support at 105.60 (76.4% fibo) and 104.50/60 levels (21DMA, 61.8% fibo retracement of 2023 high to 2024 low). Resistance at 107, 107.40 (2023 high). Near term, economic calendar is quiet for US. Prelim PMIs, Uni of Michigan sentiment data are out on Fri before core PCE (next Wed). Softer print can add to USD correction while a firmer print should see USD dips finding support. Elsewhere, markets may also pay attention to Trump nomination, with special focus on who takes the Treasury.

- **JPY rates**. The reaction to Ueda's comments on Monday was short-lived. JPY OIS once pared back rate hike expectation but is now back to pricing in around 13bps of hike for December which is in line with our base-case for a 10-15bp hike. Inflation expectation has stayed sustainably above the 2% level as reflected by the latest Tankan survey, while the labour market has continued to tighten gradually. Further expansion in the labour force may be limited, given female and senior labour force participation rates have already risen to relatively high levels. Between now and end-2025, we expect four hikes each with magnitude of 10-15bps, if inflation and growth pan out as expected. Next key to watch is October CPI to be released on Friday, especially the services components. The 10s20s part of the JGB curve has been steepening steadily; the spread at 83bps points to some upside to 10Y JGB yield with the next level to watch at 1.15-1.20%.

Source: Bloomberg, OCBC Research

- **USDJPY. *Downside Risks.*** USDJPY saw choppy trades over the last 24 hours. Markets were earlier hoping BoJ Governor Ueda dropped some hints or forward guidance on policy move at Dec MPC. But clearly those hopes were misplaced. He said that actual timing of adjustments will continue depending on developments in economic activity and prices as well as financial conditions – This is akin to policy decision being data dependent, which can justify policy action in Dec MPC. Governor Ueda also spoke about focus on shunto wage negotiations going forward. Bit and pieces of news flow relating to shunto may come intermittently but typically, we may have to wait till Mar or Apr next year for confirmation of the quantum of wage increase. USDJPY was last at 154.15. Bullish momentum on daily chart faded while RSI fell. Potential bearish divergence on RSI observed. Further downside play likely. Support at 153.30 (21 DMA, 61.8% fibo retracement of Jul high to Sep low) needs to be broken for bears to gather further traction towards 150.70 (50% fibo). Resistance at 156.50 (76.4% fibo).

- **EURUSD. *Short Squeeze.*** EUR rebounded as USD bulls paused. Pair was last at 1.0590 levels. Daily momentum remains bearish bias though there are signs of it waning while RSI shows tentative signs of turning higher from near oversold conditions. Falling wedge and inverted hanging man (last Fri) observed. Technical signs suggest EUR bears may be feeling the fatigue and risk of short squeeze/ bullish reversal is not ruled out in the near term. Resistance at 1.06, 1.0740 (21 DMA), 1.0860 (200 DMA). Support at 1.05, 1.0450 levels. This week brings plenty of ECBspeaks (about 26 officials this week), including Lagarde in Frankfurt (Fri). Overnight, Lagarde urged Europe to pool its resources in areas like defence and climate as productivity growth falters and world fragments into rival blocs. Stournaras said that ECB is almost certain to cut interest rates by a quarter point in Dec while Makhlouf said there is no rush to lower rates at a faster pace. Nagel warned that trade tensions can lead to greater inflationary pressures.

- **USDSGD. *Corrective Pullback.*** USDSGD continued to trade lower, amid broad USD pullback. Pair was last seen at 1.3390 levels. Daily momentum is mild bullish but shows signs of waning while RSI was flat. Bearish divergence on MACD and rising wedge pattern appear to be forming. Technical patterns point to signs of bearish pullback in the near term. Support at 1.3340 (200 DMA), 1.3290 (61.8% fibo retracement of Jun high to Oct low). Resistance at 1.3490, 1.3520 levels. Policy uncertainties associated with Trump policies, swings in RMB and JPY should continue to drive USDSGD in the near term. S$NEER was last at 1.35% above model-implied mid.

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