Daily Market Outlook

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Unwinding of Trump Trade

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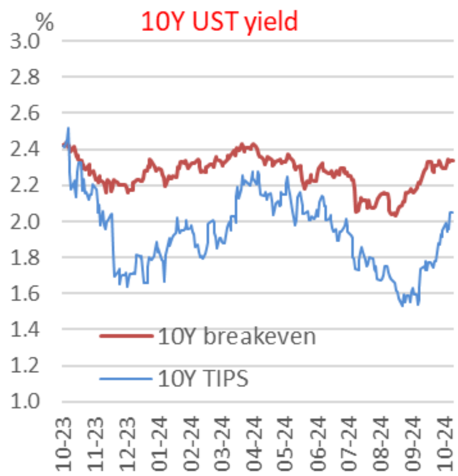
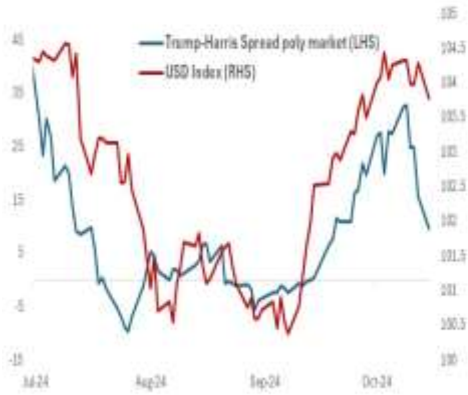
- **USD rates**. The initial reaction lower in UST yields in response to payrolls did not last. While there were different Interpretations on the effects of one-off factors on October payrolls, what drove the market was the looming US elections as reflected by the rates and bond market performances. At the front-end, Fed funds futures pricing for the rest of the year has been stable, last at 47bps; but market pared back 2025 rate cut expectation to the latest 76bps, reflecting worries about inflation implication of potential tariffs. At the longer end, 10Y real yield rose further by 9bps to above the 2% level; according to NY Fed ACM model, 10Y term premium has risen by more than 40bps from its low in mid-September, reflecting worries over fiscal positions. This may shed some light on the room for potential retracement, although investors are likely to stay on the sidelines and reluctant to add to duration at this juncture as the election result is too close to call. Back to the data, nonfarm payroll rose by a meagre 12K in October, with the manufacturing sector (mainly transportation and equipment) having lost 46K jobs partly due to strike activity; while other sectors might have been affected by hurricanes Helene and Milton, it is difficult to quantify the effects. Nevertheless, the jobless rate stayed at 4.1%. Overall, the outcome is unlikely to have a material implication on the Fed funds rate outlook. For this week, we expect a 25bp cut at the FOMC meeting. On liquidity, usage at the Fed's o/ reverse repo fell by USD45.8bn to USD155bn on Friday; this week, net bills settlement is USD41bn which is the usual amount. Total reverse repo on the Fed's balance sheet fell to USD627bn as of 30 October from USD668.6bn in the prior week while bank reserves were stable at USD3.2trn.



Source: Bloomberg, OCBC Research

- **DXY.** ***US Elections – Binary but Asymmetric.*** USD traded choppy last Fri. Payrolls surprised to the downside at +12k jobs (vs. 100k expected, 254k prior) while the 2-month net revision was -112k. Unemployment rate and average hourly earnings held steady at 4.1% and 4% y/y, respectively. Meanwhile ISM manufacturing slipped (46.5 vs. 47.6 expected) but prices paid surged to 54.8 (vs. 50 expected). DXY traded lower at first, but losses were pared and DXY traded higher into NY close. This morning, DXY opened and gapped lower. This is likely to have factored in the latest polling over the weekend – Harris closing the gap on Trump. Times/Siena poll showed Kamala Harris finding support in North Carolina, Nevada, Wisconsin and Georgia. Meanwhile Trump maintained an edge is Arizona while also improving in Pennsylvania – 19 electoral college votes (and is a key battleground). In the betting market, Trump's lead has narrowed significantly to 9.6ppts from high of 32.9ppts (29 Oct). Coincidentally (or not), the DXY also peaked around the same time and subsequently declined since then. Between now and election outcome, we still expect 2-way trades. Some of the build-up in USD gains seen in the last month may correct lower in the interim but given that Harris and Trump remain neck-and-neck even at this point, the pullback may also be shallow ahead of event day. Hence on decision day, FX price action may be asymmetric, depending on how much is being corrected between now and then. On US election outcome, results should start to come in on 6 Nov 7am (SGT) onwards. But the range of time zones across US means that some states on the west coast like Alaska and Hawaii are still polling. Some states will also count votes more quickly than others but if the race is tight, then counting should continue and the winner may only be announced a few days later. In 2020, the result was only called for Biden 4 days later after Pennsylvania was confirmed while in 2016, Clinton conceded the morning after election day. One other point to note is that mail-in votes take longer to count as they need to be verified (vs. in-person voting) and this year is a record 70million of early votes being cast. Tallying of the votes is expected to see USD trade choppy. DXY was last at 103.67. Daily momentum turned bearish while RSI fell from overbought conditions. We continue to see room for USD to drift lower. Support here at 103.60)21 DMA), 102.90/103.10 levels (100 DMAs, 38.2% fibo fibo retracement of 2023 high to 2024 low) and 102.20 (50 DMA). Resistance at 103.80 levels (200 DMA, 50% fibo), 104.60 (61.8% fibo), and 105.20 levels. Data of interests this week include ISM services (Tue); FOMC (Fri 3am SGT).

USD peaked and declined alongside the narrowing of Trump-Harris spread



Source: Bloomberg, OCBC Research

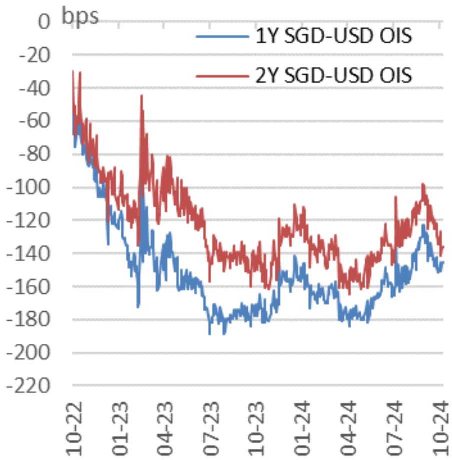
- **EURUSD. *Unwinding Underway.*** EUR continued to drift higher as Trump trade unwound. Pair was last seen at 1.0890 levels. Momentum is mild bullish while RSI rose. Resistance here at 1.09 (50% fibo), 1.0940 (100 DMA), 1.0970. Support at 1.0830 (61.8% fibo retracement of 2024 low to high), 1.0760 (recent low). The move higher remains in line with our view that *quite a bit of negativity is in the price of EUR following recent dovish rhetoric out of ECB, softer growth/ economic momentum, USD strength and the fear of Trump win and the threat of that 10-20% tariff. But with much negativity in the price, we do caution for the risk of rebound.*

- **USDJPY. *Stay Short.*** USDJPY fell sharply amid the pullback seen in USD as Trump trade unwinds. Pair was last at 151.70 levels. Bullish momentum on daily chart faded while RSI fell from near overbought conditions. Near term likely to see further pullback. Support at 151.55 (200 DMA), 150.60/70 levels (50% fibo retracement of Jul high to Sep low, 100 DMA). Resistance at 153.30 (61.8% fibo), 155 and 156.50 (76.4% fibo). Apart from

Trump trade unwinding, Governor Ueda's press conference last week does have persisting effect. He said that the current political situation in Japan wouldn't stop him from lifting rates if prices and the economy stay in line with BoJ's forecast. He also made reference to FX rates more likely to affect prices in Japan than before. He also said that similar wage deals next year as this year would be good but there is not much information on next year's shunto yet. Overall, his remarks were more hawkish than expected and is likely to have paved the way for BoJ hike in Dec, which remains our house view. Recent labour market report also pointed to upward wage pressure in Japan with 1/ jobless rate easing, 2/ job-to-applicant ratio increasing to 1.24 and 3/ even female labour participation rate rose to1.2ppts (vs. a year ago). Japan's trade union confederation (or Rengo) is again calling for wage increase of 5% or more overall and 6% or more for SMEs for 2025. Wage growth remains intact, alongside broadening services inflation and this is supportive of BoJ normalizing rates while JPY should continue to regain strength.

- **USDSGD. *Rise Over?*** USDSGD fell, tracking the pullback in USD as Trump trade unwinds. Pair was last at 1.3160. Bullish momentum on daily chart faded while RSI eased from near overbought conditions. Support at 1.31 (38.2% fibo), 1.3040 (50 DMA). Resistance at 1.3190 (50% fibo), 1.3290 (61.8% fibo retracement of Jun high to Oct low). S$NEER strengthened; last at 1.62% above model-implied mid.

- **SGD rates**. SGD OIS has outperformed USD OIS in the recent upward move, in line with historical pattern. From the recent lows in mid-October, the passthrough from USD OIS onto SGD OIS rates were below 50% across tenors of 2Y to 10Y. As a result, SGD-USD OIS spreads became more negative. This week brings the auctions of 4W MAS bills, 12W MAS bills and 6M T-bills. 3M implied SGD rate was last trading at 2.93%, around 3-4bps lower than the level on 29 October the date of the previous auction; 12W MAS bills cut-off is seen at 3.18-3.26%. 6M implied SGD rate was last at 2.76%, similar to the level around the time of the previous auction. It is too early to gauge 6M T-bills cut-off, and we will update market levels nearer the auction. Bond/swap spreads have been either stable or edging higher – with SGS outperformance at the 5Y and 20Y against swaps over recent days. Asset-swap wise, pick-up (before bid/offer spreads) was last at around SOFR+75bps at 20Y SGS, around SOFR+58bps at 15Y SGS and around SOFR+52bps at 10Y SGS.



Source: Bloomberg, OCBC Research

- **CNY rates**. PBoC net withdrew CNY224.3bn of liquidity via daily OMOs this morning, upon heavy maturity; for the rest of the week, there is a total of CNY1158.5bn of reverse repos maturing. PBoC conducted its first OMO outright reverse repo last Thursday, following the announcement of this new tool last Monday; CNY500bn of 6M reverse repos was conducted. Amount of outright reverse repos to be conducted this month may be higher, in view of the CNY1.45trn of MLF maturing in mid-month. To recap on this new monetary tool as we already highlighted last Monday: 1/ tenors are of multi-month, and hence it injects longer term facility (as compared to the existing daily OMO reverse repos), which help better smooth out liquidity need and may help the gradual retirement of MLF; 2/ The main difference from a pledged reverse repo is that outright reverse repos involve a transfer of the bond title, and hence there is a higher flexibility in terms of what PBoC can do with the bonds which are sold to them under outright reverse repos; 3/ this new tool may also promote outright repos and reverse repos transactions in the market, moving towards international convention; 4/ Since OMO outright reverse repo is conducted under multiple price/rate auctions, there is no additional administered or policy rate guidance, which means this is primarily a liquidity tool, and it is a good candidate to replace part of MLF if the intention is to fade policy rate guidance apart from the short-term OMO reverse repo/repo rates.

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