

Daily Market Outlook

5 November 2024

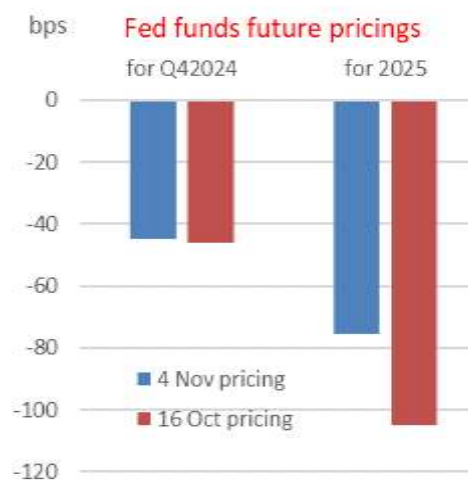
Brace for Election Volatility

- USD rates.** UST yields fell during UK/Europe hours but then rebounded to NY session high before retracing lower again; on the day, yields ended lower. The 3Y coupon bond auction was well received with bid/cover at 2.60x versus 2.45x prior and indirect accepted higher to 70.6% versus 56.9% prior. The rates market has priced in a fair bit of a Trump win scenario as illustrated by the more recent adjustments in rate cuts expectation, and the movements in 10Y term premium and/or real yield. At the front end, Fed funds futures pricing for the rest of the year has been stable over the past couple of weeks, last at 45bps; but market further pared back 2025 rate cut expectation to 76bps, reflecting worries about inflation implication of potential tariffs. At the longer end, according to NY Fed ACM model, 10Y term premium has risen by more than 45bps from its low in mid-September, part of which shall reflect worries over fiscal positions. Still, the 10Y term premium is around 25bps lower than the high attained in October 2023 when there was also heightened fiscal concerns. Risks surrounding the election outcome is asymmetric, with potential downside to 10Y yield at the tune of 40bps while upside may be at the tune of 20bps.
- DXY. 2-Way Trades.** USD’s pullback overnight was unsurprisingly shallow, given that US elections remain a key event risk and Trump-Harris are still polling quite tightly. CBS News’ most recent polling also shows the race as a toss-up in the 7 battleground states, including Pennsylvania, Michigan, Wisconsin, Nevada, Georgia, Arizona and North Carolina. That said, in the final PBS poll, Harris managed a 4-point lead over Trump, and this is a lead outside the poll’s 3.5-point margin of error. Between now and election outcome, we still expect election volatility to drive 2-way trades. On 6th Nov starting 7am (SGT), US election results should start to come in. But the range of time zones across US means that some states on the west coast like Alaska and Hawaii will still be 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 >80million of early votes being cast.

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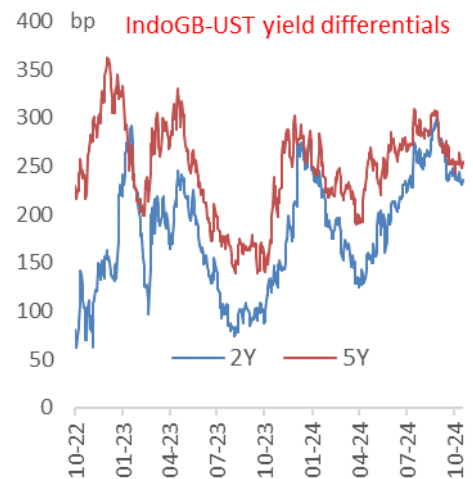


Source: Bloomberg, OCBC Research

Different states have their own triggers for recount. For example, in Pennsylvania, recount will automatically kick-in if margin of victory is less than or equal to half a percentage point. DXY was last at 103.90. Daily momentum turned bearish while RSI fell from overbought conditions. Support here at 103.70/80 levels (21, 200 DMAs, 50% fibo), 102.90/103.10 levels (100 DMAs, 38.2% fibo retracement of 2023 high to 2024 low) and 102.30 (50 DMA). Resistance at 104.60 (61.8% fibo) and 105.20 levels.

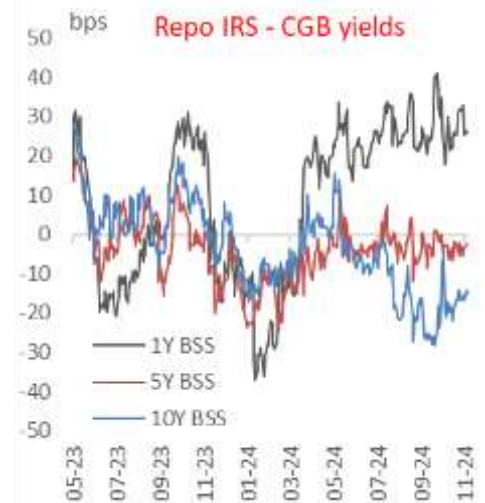
- **EURUSD. 2-Way.** EUR partially retraced earlier gains amidst US election volatility. Pair was last seen at 1.0880 levels. Momentum is mild bullish while the rise in RSI moderated. Resistance here at 1.09 (50% fibo), 1.0940 (100 DMA), 1.0970. Support at 1.0830 (61.8% fibo retracement of 2024 low to high), 1.0760 (recent low). Risks are 2-way from here dependent on outcome of US election results (which should start coming in on Wed).
- **USDJPY. Stay Short.** USDJPY consolidated; last at 152.40 levels. Bullish momentum on daily chart faded while RSI was flat. 2-way trades likely. Support at 151.60 (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). Aside from US election noises, Governor Ueda's press conference last week does have persisting effect. He spoke about how 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 to 1.2ppts (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. Sideways.** USDSGD consolidated post-Trump trade unwinding. Pair was last at 1.3190. 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 1.58% above model-implied mid.

- IndoGBs.** The sukuk auction today has an indicative target of 9trn, comprising the reopening of PBS32 (2026 bond), PBS30 (2028 bond), PBS04 (2037 bond), PBS39 (2041 bond), PBS38 (2049 bond) and bills. Our view remains that there is incentive to upsize bond sales whenever the market condition is constructive, probably not today as 1/ investors may still choose to stay on the sidelines despite some unwinding of Trump trades; and 2/the indicative target of IDR9trn is already higher than the previous IDR8trn. In the latest leg of upward move in yields, IndoGBs continued to outperform USTs, although not by a very wide margin for some tenors. As a result, IndoGB-UST yield differentials narrowed further which may not be particularly conducive to inflows. IndoGBs saw mild outflows of IDR3.8trn in the five days to 31 October, while domestically both banks and non-bank investors have added to their positions, by IDR31.7trn and IDR32.2bn respectively.



Source: Bloomberg, OCBC Research

- CNY rates.** Repo-IRS and CGB yields traded on the firm side at open, as October Caixin PMIs printed stronger than expected. The monetary and fiscal policy backdrop shall underline our steepening bias on the curve. fiscal stimulus shall put a floor to long end yields and potentially push these yields higher via a few channels: higher bond supply, better growth prospects, and asset re-allocation. We expect the 10Y CGB yield to trade in a range of 2.05-2.25%; this range reflects our upward bias to long end yields. PBoC continued with OMO net withdrawal upon relatively heavy reverse repo maturity, at a net CNY364.5bn this morning. Reverse repo maturity is still heavy for Wednesday and Thursday at a total of CNY758.6bn. Focus is instead on the next OMO outright reverse repo operation; amount to be conducted this month may be higher than last week's CNY500bn, in view of the CNY1.45trn of MLF maturing in mid-month. 1Y repo-IRS has stayed elevated compared to 2Y repo-IRS or bond yields, likely incorporating a "liquidity premium" in view of potential volatility in the 7-day repo rate itself. Given an additional liquidity management tool, there is room for such liquidity premium to narrow.



Source: Bloomberg, OCBC Research

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