Daily Market Outlook

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FOMC Next as Markets Digest Election Outcome

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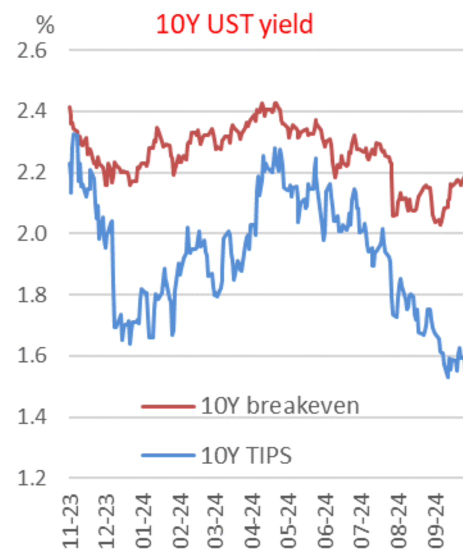
- **USD rates**. Most of the sell-off in USTs happened during Asian hours on Wednesday when the election votes were being counted. There appears to be an early sign of stabilization when Europe came in and through NY session. The 10Y yield touched intra-day high of 4.48%, 21bps higher than Tuesday's NY close, as we had mentioned upside at the tune of 20bps. Yields eased slightly towards close. While market is still digesting the election outcome and potential implications, focus will also be shifted to FOMC decision tonight. We expect a 25bp Fed funds rate cut. Around past US elections, there was largely a continuity in monetary policy direction and in the broader trend move in short-end yields, which was based on the prevailing economic fundamentals, in our view. The Fed's rate cut agenda may not be affected to a large extent, although there could be adjustments in the pace of rate cuts in so much as the inflation outlook is affected – the impact of potential changes in fiscal policies and of tariffs on inflation is indirect and it takes time to be reflected. Overnight, the 30Y coupon bond auction drew mixed results; cut-off was a tad below market level as the bond cheapened into the auction; bid/cover ratio was higher at 2.64x versus 2.50x prior but indirect accepted was lower to 62.7% versus 80.5% prior. There may still be some two-way trades in the days ahead as market continue to digest the election outcome.



Source: Bloomberg, OCBC Research

- **DXY. *Still 2-Way Trades.*** USD broadly strengthened in the aftermath of Trump's victory. Market reaction was well flagged and expected. Near term, we may still see USD supported, largely on tariffs, inflation and fiscal concerns. In the interim, EUR, JPY, KRW, CNH, MYR, THB may face more swings (due to higher sensitivity to market developments re US elections). Threat of Trump tariff on all imports by up to 20% can hurt EUR as US was the largest partner for EU exports of goods in 2023. Potential deterioration in US-China relations over US threat on 60% tariffs on imports from China may undermine RMB. Alongside a softer JPY and higher UST yields, AXJ FX may face downward pressure. But at the same time, we also expect policymakers to be more vigilant of the potential policy risks associated with Trump as President. Hence, excessive, one-sided moves in FX markets may be countered with smoothing pressure. Elsewhere, China's NPC (4

– 8 Nov) should not be written off. The meeting is likely to factor in US election risk premium and we believe Chinese policymakers should still be determined on delivering support measures to mend the economy and repair sentiment. Larger than expected stimulus may help to support sentiment and partially offset against CNH depreciation. Over the next 24 – 48 hours, we should expect FX to continue trading with 2-way risks as markets digest election outcome, including who takes the House and if existing lawsuits against Trump will have any implications. FX volatility should continue to ease but remain elevated relative to year's average. Trump's threat on tariff is clearly one of the biggest risks that markets are concerned about, but we do not know how long it takes for those policies to be in place. That said, the uncertainty may be sufficient to keep USD/AXJs supported. DXY was last at 105 levels. Daily momentum is flat while RSI rose. Resistance at 105.20, 105.60 levels (76.4% fibo). Support at 104.60 (61.8% fibo), 103.70/80 levels (21, 200 DMAs, 50% fibo retracement of 2023 high to 2024 low). Moving on, FOMC is on tap next (3am SGT Fri morning). We do not expect the election outcome to impact this particular FOMC meeting and still expect Fed to deliver a 25bp cut at the meeting. Focus is on the tone and language.

- **EURUSD. *Downside Risks.*** EUR continued to trade with a heavy bias, in response to US elections outcome. Threat of Trump tariff on all imports by up to 20% can hurt EUR as US was the largest partner for EU exports of goods in 2023. There are also concerns if Trump may interfere with support for European security. Pair was last seen at 1.0730 levels. Momentum turned flat while RSI fell. Risks skewed to the downside. Next support at 1.0660/70 levels. Resistance at 1.0740 (76.4% fibo), 1.0830 (61.8% fibo retracement of 2024 low to high).

- **USDSGD. *Consolidation.*** USDSGD rose, tracking the rise in broad USD, UST yields as Trump won elections. Pair was last at 1.3310 levels. Daily momentum is flat but rise in RSI moderated. We see consolidation for now. Resistance at 1.3350 (200 DMA). Support at 1.3290 (61.8% fibo retracement of Jun high to Oct low), 1.3190 (50% fibo), 1.31 (38.2% fibo). S$NEER eased; last at 1.38% above model-implied mid.

- **CNY rates**. PBoC continued to net withdraw liquidity from the market via daily OMOs which was as expected. Liquidity condition is supported, with repo-IRS being offered down by 2bps across. The general expectation on NPC appears to be one that under a Trump victory, policy makers may hammer out more aggressive fiscal stimulus to buffer any potential impact of tariffs. The monetary and fiscal policy backdrop shall underline our steepening bias on the CGB curve, with fiscal stimulus putting a floor to long end yields via a few channels: higher bond supply, better growth prospects, and asset re-allocation. At the front end, liquidity is likely to be well managed. PBoC has recently introduced yet another monetary policy tool, namely outright reverse repo, which injects liquidity of multi-month tenors. This helps to smooth liquidity over quarter-end and year-end, and buffer MLF maturity. In offshore, there may be sporadic tightening of CNH liquidity should the spot move become disorderly. 1W implied CNH rate traded higher at 2.17% versus 1.77% on Tuesday.

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