

Daily Market Outlook

9 October 2024

Awaiting Catalyst

- **USD rates.** USTs stabilised overnight as market digested the payroll/labour market reports and has adjusted to a more realistic Fed funds rate path. Overnight, the 3Y coupon bond sales received lukewarm demand despite the recent cheapening in the bond; bid/cover was at 2.45x versus 2.66x prior, and indirect accepted was lower at 56.69% vs 78.2% prior. Nevertheless, this might be partially because investors stayed on the sidelines ahead of CPI releases. We maintain a downward bias to 2Y UST yield. First, the 2Y yield at 3.95% is in line with current Fed funds futures pricing which is a tad less dovish than our base-case for 2025. Second, as and when additional Fed rate cuts materialise, there will be downside to short-end yields, as the prevailing rate and expected rate trajectory will be increasingly factored into the valuation at the short-end. The next level to watch for the 2Y yield is 3.86/3.82%. On liquidity, front-end rates eased back to more normal levels after quarter-end, with SOFR at 4.83%, TGCR at 4.82%, and DVP rate at 4.84%. Still, the magnitude of the spikes at quarter-end has drawn some market attention. bank reserves stood at USD3.09trn and total reverse repos at USD799bn as of 2 October, which shall allow QT to run through to at least year-end before the next decision is made. When usage at reverse repos falls to and stay stable at a low level, any further QT will likely affect bank reserves more. By then, front-end rates may become a bit more sensitive to changes in bank reserves.
- **DXY. *Settling Into Range.*** USD struggled to go higher overnight as price action continues to suggest consolidation. Dovish expectation on Fed cut have now been priced out. Markets are just eyeing about 50bp cut for the rest of the year, as opposed to 75bps cut seen just 2 weeks ago. Markets and Fed's dot plot are now in alignment. USD has also rebounded, partially retracing the earlier ~5% decline seen in 3Q. To some extent, USD may have settled into this temporal state of equilibrium where the risks from here can largely be 2-way. Apart from US CPI, FOMC (Thu) and PPI (Fri), there is no clear major US data catalyst until the next payrolls or core PCE data in a few weeks' time. In terms of event risks, geopolitical tensions in middle east and US elections deserve monitoring. Even at this point, Harris and Trump are polling neck-and-neck. Markets adopting a cautious stance ahead of US elections may imply that USD may still stay supported on dips. DX

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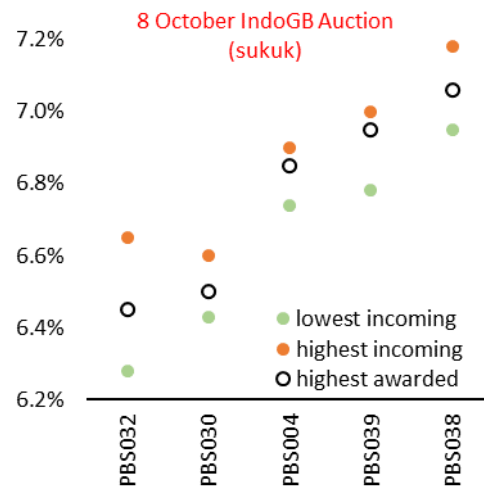
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was last at 102.50. Daily momentum remains bullish but rise in RSI shows signs of moderation near overbought conditions. 2-way trades likely. Support at 101.75/90 levels (50 DMA, 23.6% fibo retracement of 2023 high to 2024 low), 101.30 (21 DMA). Resistance at 102.90 (38.2% fibo), 103.30 (100 DMA).

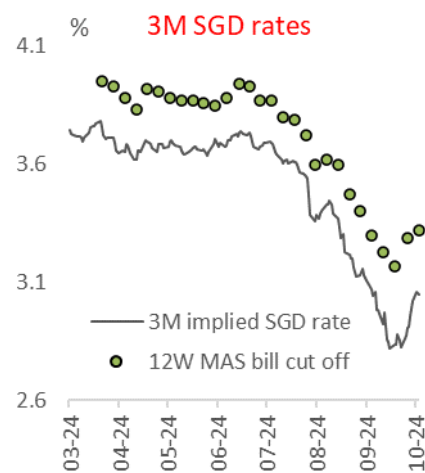
- **NZDUSD. 50bp Cut as Expected.** NZD fell in response to dovish cut. RBNZ stepped up the pace of rate cut, in line with market expectations. MPC agreed that monthly price indices signal a continued decline in consumer price inflation. RBNZ also said that economic growth is weak, in part because of low productivity growth, but mostly due to weak consumer spending and business investment. These comments are well in line with what was earlier flagged in the NZIER's quarterly survey of business opinions report. The key highlights were 1/ only a net 3 percent of firms were able to raise prices to pass on costs, down from 23% in previous quarter; 2/ significant proportions of firms are now reporting it easy to find skilled and unskilled labour (labour market is less tight). Markets continue to expect about 50bp cut at the next MPC in Nov and another 100bp cut or so in 1H 2025. These were already priced in prior to the MPC. Dovish RBNZ may weigh on Kiwi for now but given that expectations are in the price, the downside may also be constrained. NZD was last at 0.6105. Bearish momentum on daily chart intact while RSI is near oversold conditions. Support comes in at 0.61 (200 DMA), 0.6070 and 0.60 levels. Resistance at 0.6160 (50 DMA), 0.6625 (21 DMA).
- **USDSGD. Consolidation.** USDSGD traded a subdued range overnight in absence of clear catalyst. Pair was last at 1.3040 levels. Daily momentum is bullish while rise in RSI had moderated near overbought conditions. Resistance at 1.3050 (50 DMA), 1.31 (38.2% fibo retracement of Jul high to Sep low) Support at 1.2980 (23.6% fibo), 1.2940 (21 DMA). Expect consolidative price action. S\$NEER was last estimated at ~1.91% above our model-implied mid. MAS policy decision will be announced on 14 Oct, alongside 3Q GDP. We expect MAS to maintain policy status quo again at the upcoming Oct MPC meeting as prevailing appreciating path of the S\$NEER policy band remains appropriate. But we do not rule out an outside chance that the MAS may surprise with an earlier easing, given that MAS adopts a forward-looking approach to monetary policy making and that the core CPI's disinflation journey remains intact, apart from the slight bump-up in August.
- **KRW rates.** FTSE announced it will include Korean government bonds into FTSE WGBI, starting from November 2025; estimated full weight will be 2.22% which is to be phased in over four quarters. Depending on AUM assumption, cumulative passive inflows are estimated at USD50-60bn. Passive flows are unlikely to come in much in advance. Nevertheless, given some improvement in KTB-UST yield differentials at the short to mid-tenors, the

negative KRW basis, and the prospects of BoK finally starting the easing cycle, the market environment shall be conducive to inflows. Asset swap pick-up was last at around SOFR+65bps at 5Y KTB and around SOFR+70bps at 10Y KTB. KRW rates last priced around 60bps of rate cuts on a 6-month horizon.

- IndoGBs** opened on the weak side on Tuesday but mid to long tenor bonds stabilised and strengthened later into the day. Performances thus far this morning were again mixed, with the 5Y and 10Y benchmark appearing to garner better support. Tuesday's sukuk auction received incoming bids of IDR14.8trn while MoF awarded IDR7.75trn of bonds versus target of IDR8trn. Demand was not as strong as before probably affected by the external bond environment where UST yields surged in recent days. Cut-offs were nearer the highest incoming bid levels for PBS04 (2037 bond) and PBS39 (2041 bond), but nearer to lowest incoming bid level for PBS30 (2028 bond). With six conventional auctions and six sukuk auctions in the quarter, individual auction sizes of IDR22trn and IDR8trn for conventional and sukuk sales respectively would be consistent with the quarterly target of IDR180trn. Still, upsizes at some of the upcoming auctions cannot be ruled out as and when demand become stronger again, given the 2.7% fiscal deficit outlook.
- SGD rates.** 4W MAS bills cut off at 3.37% while 12W MAS bills cut off at 3.32%, which were 5bps and 3bps higher than last week's cut offs, respectively. The cut-offs were a tad lower than the movement in implied rates would have suggested. SGD6.8bn of 6M T-bills are auctioned on Thursday; the 6M implied SGD rate was trading at around 2.93% this morning which was 17bps higher than the level around the 26 September T-bills auction. We however suspect the cut-off may not catch up entirely with market level and would be looking for a rate in the 3.05-3.10% range. On SGD OIS, the spread normalization has indeed been interrupted, as rate levels themselves went up on some days while the chance for an imminent MAS easing is seen as having become lower since the August CPI prints and the recent retracement lower in S\$NEER. Patience is needed for better levels to re-enter the spread trade.



Source: DJPPR, OCBC Research



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