GLOBAL MARKETS RESEARCH

Daily Market Outlook

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Dovish Powell; Lower USDCNY Fix

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Global Markets Research and Strategy

- **USD rates.** Short-end UST yields fell as Powell's commentaries reinforced market rate cut expectation. Powell commented "in this less dynamic and somewhat softer labor market, the downside risks to employment appear to have risen". Fed funds futures last priced 49bps of cuts for the rest of this year, and 73bps of cuts for 2026. September CPI is scheduled to be released on 24 October. Consensus look for a 0.4%MoM in the headline and 0.3%MoM in core, while the YoY rate is expected to have ticked up to 3.1% versus 2.9% prior. If there is no upside surprise, market is likely to hold onto rate cut pricings. Before CPI, Fed's beige book is published tonight. On QT, Powell opined that the Fed may stop balance sheet run-off in the coming months. To recap, FOMC minutes noted that if balance sheet runoff were to continue at the current pace, bank reserves were expected "to be close to the USD2.8trn range by the end of Q1-2026". We do not expect QT to run beyond Q1-2026, with the decision to stop QT potentially being made earlier. 10Y swap spread has been edging up over recent days and was last at -45bps. QT pace in terms of US Treasury securities has already been slowed to USD15bn per quarter; as and when QT ends, expectation is for the Fed to allocate some of the proceeds into bills. The reaction in swap spread may be mostly done.

- **GBP rates**. Gilts rallied by 5-7bps on Tuesday upon soft labour market data prints. September PAYE payrolled employment fell by 10K, in line with expectation; weekly earnings ex-bonus and private earnings ex-bonus printed a tad softer than expected. August jobless rate edged up to 4.8%, the highest since April 2021. GBP OIS added mildly to rate cut expectation, but still only pricing in a 39% chance of a 25bp cut before year end. BoE Governor Bailey commented UK growth "was running a little bit under potential" and pointed to signs of weakness in the labour market. Earlier, Taylor, one of the two who voted for a 25bp cut at September meeting, said he saw rising risk of a hard landing. We maintain our expectation for one 25bp cut per quarter, with a terminal rate of 3.50%; these include an expected 25bp cut this quarter, and a final 25bp cut in Q1-2026. At the mid-tenor, we expect 10Y bond/swap spread to stay within the range of -55bps to -50bps near-term.

- **DXY. *Powell Sets a Dovish Tone.*** Recent rise in USD was stopped in its track. Fed Chair Powell sounded dovish in his speech, warning about sharp slowdown in job creation. He also spoke about putting a stop to reducing the size of Fed balance sheet soon. To add, USDCNY fix was set below 7.10 this morning – first time in 11 months. This helped to anchor sentiments in AXJs. And overnight, there seemed to be some breakthrough in French impasse after PM Lecornu agreed to reverse the proposed increase in retirement age – helping to lift EUR. We continue to expect USD to trade moderately softer as Fed resumes easing while US exceptionalism fade. For USD bears to return with more conviction would require US data to come in softer (when data gets released), alongside Fed easing rates more decisively. DXY last at 98.90 levels. Bullish momentum on daily chart shows signs of fading while RSI fell from overbought conditions. Pullback is not ruled out in the interim. Support at 98.40 (38.2% fibo) and 98 levels (21, 50 DMAs). Immediate resistance at 99.10 levels (50% fibo retracement of May high to Sep low), 99.80 (61.8% fibo), 100.20 levels. US CPI initially scheduled for release today will be released on 24 Oct.

- **EURUSD. *French PM Survives Another Day*.** EUR was a touch firmer overnight as political uncertainties in France found a breather. French PM Lecornu pledged to suspend President's Macron pension reforms, and importantly, he reversed the proposed increase in retirement age from 62 to 64. Socialist party (PS) agreed to not join efforts to topple the government. PM Lecornu faces 2 no-confidence motions and he faces a real risk of being ousted if Socialists join forces. Macron had indicated that any vote to topple Lecornu's cabinet would force him to dissolve parliament and call elections. The fragile situation still warrants caution for EUR bulls in the interim though the broader fundamental outlook remains supportive of the euro, suggesting a bias for buy-on-dips approach (but requires patience). EUR last seen at 1.1620 levels. Bearish momentum on daily chart shows signs of easing while RSI rose. Resistance at 1.1640 (100 DMA, 23.6% fibo), 1.1690/1.1700 (21, 50 DMAs). Support at 1.1550, 1.1460 (38.2% fibo retracement of Apr low to Sep high).

- **USDJPY. *Unwinding of Takaichi Trade.*** USDJPY extended its move lower as Japanese political developments continued to unravel. JPY fell 4% at one-point post-LDP election. This decline was termed the *Takaichi trade*, due to perceived policies associated with the PM to-be Takaichi while market pushed out BOJ rate hike expectations. But *Takaichi trade* lost momentum after long-time partner Komeito party withdrew from LDP coalition and that the opposition parties appear to be uniting. A meeting will be held between opposition parties DPP, CDP and JIP today to discuss how they can close policy gaps and pick their choice of leader. It was reported that parliament will convene an extraordinary session on 21 Oct, selecting the date for a session widely expected to include a vote to pick the next prime minister. Both lower and upper houses of the parliament will vote on its choice of PM and a simple majority rule is sufficient. But LDP alone does not have a simple majority. In the Lower House, LDP only has 196 seats while DPP, CDP and JIP combined will have 210 seats. To some extent, this may suggest that some of Takaichi's policies may have to be watered down or there is greater risk that her proposed policies (if she wins) may not be passed smoothly in parliament. Further unwinding of *Takaichi trade* is not ruled out but it remains to be seen what the policies of the opposition coalition are, at this point. Political uncertainty may also delay BOJ policy normalisation timeline though we argue that macro conditions are in place for BOJ to hike, even at the Oct MPC. Pair was last at 151.10 levels. Bullish momentum on daily chart shows early signs of fading while RSI fell. Risks skewed to the downside. Immediate support at 151 (38.2% fibo retracement of the run-up) before 150.35 (50% fibo) and 149.67 (61.8% fibo). Resistance at 151.90 (23.6% fib), 152.60 levels.

- **USDCNY. *Lower Fix.*** USDCNY gapped lower in the open this morning, guided by lower USDCNY fix at 7.0995 (vs. 7.1021 yesterday). It appears that 7.10 is no longer the line in the sand. Pattern of setting the fix stronger looks like a continuation of PBOC's "measured" pace of appreciation since Apr, via the fix to influence the path of RMB. This is consistent with the goal of RMB internationalisation. The next few days will be key to monitor if this is a one-off fix below 7.10 or the trend can continue. This can potentially have some spillover effect onto other USDAXJs especially if USDCNY can go below 7.10. A gradual pace of RMB appreciation can serve as a wealth-effect and confidence repair function. On wealth channel, it can stabilise domestic asset prices - equities, household wealth etc.. Stable/resilient RMB can also help encourage return of flows into RMB-denominated assets. From an optics perspective, firmer RMB and higher equity prices tend to go hand in hand. In a way, this helps to repair confidence and strengthen momentum. USDCNY last seen at 7.1265. Bullish momentum shows early signs of fading while RSI fell. Risks somewhat skewed to the downside. Support at 7.1240 (21 DMA), 7.1020 and 7.0870 (76.4% fibo retracement of 2024 low to 2025 high). Resistance at 7.1380 (61.8% fibo), 7.1490 (50 DMA).

- **USDSGD. *Revert to Tracking External Drivers.*** USDSGD fell, tracking moves in broader USD and USDCNY this morning (after the fix was set below 7.10). Bullish momentum on daily chart shows signs of fading while RSI fell. Gravestone doji formed yesterday is typically associated with a short-term bearish reversal signalling an end of an uptrend. We watch price action for further confirmation. Support at 1.2950 (23.6% fibo retracement of 2025 high to low), 1.2890 (21 DMA). Resistance at 1.3010, 1.3080 levels (200 DMA, 38.2% fibo). S$NEER remains steady post-MAS decision; last at 1.42% above model implied mid.

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