GLOBAL MARKETS RESEARCH

Daily Market Outlook

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Potentially thin market liquidity

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Global Markets Research and Strategy

- **USD rates**. USTs rallied overnight led by the short end on weak data while the risk sentiment was generally subdued. ADP employment change printed -32K in September while the previous month's number was revised down to -3K from 54K. Market reaction had probably been amplified by a lack of official data this week with the government shutdown. ISM manufacturing improved somewhat but stayed below the 50-point threshold with main drags being the employment component followed by inventories and new orders component. Fed funds futures added back to rate cut expectation, pricing 47bps of cuts for the rest of the year, and 67bps of cuts for 2026. Overnight's 4M bill auction garnered solid demand, with the bid/cover ratio higher at 3.32x versus 2.93x prior, as investors locked in the yield ahead of expected rate cuts down the road. 2Y UST yield fell to 3.53%, reflecting the latest expected Fed funds rate trajectory. The fall in 10Y UST yield was mainly driven by lower real yield in response to the data. During previous incidents of government shutdown, market impact was modest in the form of safe-haven flows, and reaction usually did not last. Near-term range for 2Y UST yield is at 3.50-3.65% and for 10Y UST yield at 4.0-4.2%.

- **DXY. *Consolidation.*** USD continued to trade near recent lows as ADP employment underwhelmed. DXY last seen at 97.66. Mild bullish momentum on daily chart shows signs of it fading while RSI fell. Consolidation likely with risks somewhat skewed to the downside. But watch support at 97.60 (21 DMA, 23.6% fibo), 97.20. Break out of key support puts next support at 96.20 levels (recent low). Resistance at 98.00/40 levels (50, 100 DMAs, 38.2% fibo retracement of May high to Sep low) and 99 levels (50% fibo). With US government in shutdown since 1 Oct, most Federal data will be postponed at least till government reopens. As per BLS, the payrolls data (scheduled for Fri) is likely not going to be released. The COT CFTC positioning data is likely to be delayed as well and if the shutdown lasts longer, US retail sales and CPI data releases in the week after next will likely be affected. Nevertheless, private and Fed survey data will still be available (such as ISM survey, Uni of Michigan dataset, empire manufacturing, etc.) for markets and Fed policymakers to digest. Fedspeaks may also be another source of information for markets to rely on. We have Logan tonight; Goolsbee early tomorrow morning; and then Williams, Jefferson for the rest of the week. At the same time, many major markets in Asia are closed this and early next week. India is out today; China markets are already closed and will reopen on 9 Oct, Korean markets to close between 3 and 9 Oct, AU to close next Mon on 6 Oct, TW to close on 6 and 10 Oct and HK will be out on 7 Oct. Thin market liquidity in Asia and absence of data releases in US may well see subdued activity or even amplify price action on any shocks and surprises. Not all government shutdowns are the same. Some are longer like the last one in 2018 over 2019 while other shutdowns were shorter – like 3 days in early 2018. The duration of the shutdown can vary and the impact on asset classes are not entirely uniform. The last shutdown in 2018 crossing over to 2019 (during Trump presidency 1.0) was one of the longest (over 30days) in modern history. And during that period, gold was up nearly 4%. USDJPY, USDSGD was down 1.5%; DXY was down over 1%.

- **USDJPY.** ***Bias to Lean Against Strength.*** USDJPY consolidated this morning, after 4 sessions of back-to-back decline. Pair was last at 147.10 levels. Daily momentum shows signs of turning mild bearish but decline in RSI moderated. 2-way trades likely, given political risks heading into the weekend, but maintained bias to lean against strength. Resistance at 147.80 (21, 50 DMAs), 148.30 levels (200 DMA, 23.6% fibo retracement of Apr low to Jul high). Support at 146.50/70 levels (100 DMA, 38.2% fibo) and 145.40 (50% fibo). LDP party will vote to select its leader on Sat. We expect JPY weakness to reverse when political uncertainty fades and that BoJ to proceed with policy normalisation. Wage growth, broadening services inflation and upbeat economic activities in Japan should continue to support BoJ policy normalisation. The next meeting is on 30 Oct and another one in Dec. Markets are coming close to pricing in a hike at Dec meeting. We believe an earlier than expected hike in Oct meeting is plausible. Fed-BoJ policy divergence should underpin USDJPY's broader direction of movement to the downside. Near term, concerns of duration of US government shutdown provides another tailwind for JPY strength amid proxy demand for safe haven plays.

- **EURUSD.** ***Consolidation.*** EUR traded subdued in absence of fresh catalyst. CPI picked up to 2.2% y/y but well within consensus. Earlier comments from ECB officials may have tempered expectations. Lagarde said the inflation risks are quite contained in both directions. She also indicated that we are in a good place but that place is not fixed. Our house view believes that ECB rate cut cycle is nearing its end. Pair was last at 1.1740 levels. Mild bearish momentum on daily chart shows tentative signs of fading while RSI was flat. 2-way trades still likely, within recent range. Immediate resistance here at 1.1740/50 levels (21 DMA), 1.1810 and 1,1920 levels (2025 high). Support at 1.1640/70 levels (50 DMA, 23.6% fibo retracement of Mar low to Sep high), 1.16 (100 DMA) and 1.1460

(38.2% fibo). Elsewhere, we continue to monitor political risks. New French PM Sebastien Lecornu has ruled out wealth tax, aims to cut budget deficit to 4.7% of GDP in attempt to get budget 2026 by early Oct. It remains early to concur if he can turn things, but early polls show he only has a positive opinion of 16%. Additionally, the Netherlands will hold General Elections on October 29. These political developments may still pose short-term downward risk on the euro. However, the broader fundamental outlook remains supportive of the euro, suggesting a buy-on-dips approach.

- **USDSGD. *2-Way Trades.*** USDSGD inched lower overnight, tracking broader USD complex. Pair last seen at 1.2880 levels. Mild bullish momentum momentum on daily chart shows signs of it fading while RSI is flat. Compression of moving averages (21, 50 and 100 DMAs) observed. This is typically a precursor to a breakout trade, though directional play is only confirmed on breakout. Support at 1.2845/55 levels (21, 50, 100 DMAs). Resistance at 1.2950 (23.6% fibo retracement of 2025 high to low), 1.30 levels. Decline in S$NEER shows tentative signs of stabilisation. Last seen at 1.48% above model-implied mid (vs. 1.43% low on 30 Sep).

- **HKD and CNH rates.** HKD IRS were offered down 3-7bps this morning thus far, with short end outperforming, taking cue from the USD rates market. HKD-USD rates spreads are little changed compared to Tuesday levels. We remain of the view that given HKD-USD rates spreads have adjusted upward, there is room for short-end HKD rates to fall upon materialisation of further Fed funds rate cuts although we do not expect 100% pass-through. CNH CCS were offered down as well passing the offshore holiday. That said, with onshore China market absent and hence a lack of liquidity inflows, transience upticks in CNH CCS cannot be ruled out over the coming days. On balance, we continue to expect 1Y CNH CCS to mostly trade in the range of 1.45-1.55%.

- **SGD rates**. The optional mini auction scheduled for 29 October will go ahead with the 5Y bond (1 April 2030), with the size to be announced on 23 October. On 29 October, there is also the reopening of 10Y SGS (MD). Year-to-date SGS gross issuances amounted to SGD22.2bn, on the low side of our expected range. There is room for the market to absorb the mini auction. On swap side, SGD OIS were offered down this morning, following USD rates market, while domestically front-end liquidity appears to have loosened back again. SORA was last fixed at 1.04% while implied SGD rates edged lower this morning. Our forecasts have assumed some upward normalisation in SGD interest rates, and this view has partially panned out. That said, we recently noted that SORA not moving higher on a sustained basis may constrain further upward adjustment in SGD OIS for now.

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