Daily Market Outlook

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Divided Fed; Watch payrolls tonight

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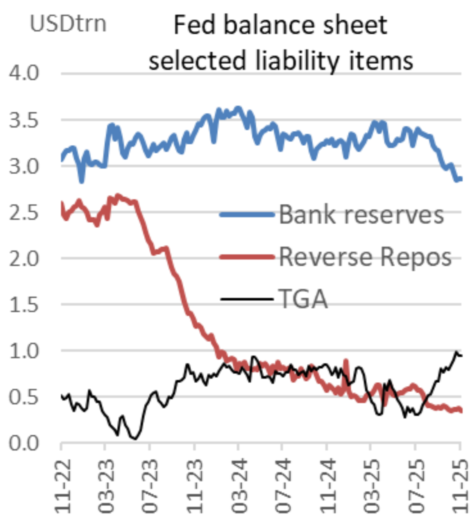
- **USD rates.** UST yields rose by 3-4bps overnight as the risk sentiment improved while FOMC minutes continued to reflect a split Committee – not surprising though. "Many participants" considered it appropriate to keep Fed funds rate unchanged for the rest of the year; "several participants" opined a December cut could well be appropriate. Neither represented the "majority" or "most". Market pared back near-term rate cut expectation, with Fed funds futures pricing in a 27% chance of a 25bp cut at December FOMC meeting. Still, a total of 82bps of cuts are priced between now and end-2026, which is capping short-end yields for now. Two special topics were discussed at the October meeting - the SRF and the balance sheet. The minutes, together with the recent speeches from SOMA Manager Perli and NY Fed president Williams, suggest the market may not need to wait for too long before the Fed decide to resume purchases of assets (expanding the balance sheet), and the desire to increase the share of T-bills under SOMA holdings appears strong given the low share now. Already, QT will end starting 1 December, and the principal payments from agency securities will be reinvested into T-bills. We have assumed it would amount to T-bills investment of USD15-17bn per month (the minutes mentioned USD15-20bn). The minutes noted this pace is "modest"; "a number of participants" described it as "only" USD15-20bn, i.e. policy makers may want to purchase additional amounts.



Source: Bloomberg, OCBC Research

- **DXY. *Watch out for NFP.*** USD traded broadly higher after FOMC minutes revealed that "many participants suggested that, under their economic outlooks, it would likely be appropriate to keep the target range unchanged for the rest of the year". To be fair, the category of "many" still ranks under "most/majority" and this continues to underscore a deeply divided Fed over Dec meeting. Nevertheless, probability of Dec cut has dramatically been pared to under 30%. Today brings the delayed Sep payrolls report (830pm SGT). This will give some preview into the backlog US data that may reveal about the US economy. DXY was last at 100.30 levels. Mild bearish momentum on daily chart faded while RSI rose. 2-way trades likely to persist though risks remain skewed to upside in the interim. Resistance at 100.6 (76.4% fibo). Support at 99.50/70 levels (21 DMA, 61.8% fibo), 99.10 (50% fibo retracement of May high to Sep low).

- **USDJPY.** ***Going the path of least resistance; Intervention Soon?*** USDJPY rose sharply, amid firmer USD while other domestic factors such as fiscal concerns, delayed BOJ policy normalisation, geopolitical flare-up between China and JP continue to undermine the JPY. Pair was last seen at 155.40 levels. Daily momentum and RSI indicators are flat for now. 2-way trades likely. Resistance at 158, 160 levels. Support at 153.80 (21 DMA), 151.60 (61.8% fibo retracement of 2025 high to low). PM Takaichi had earlier signalled her intent to ramp up the active use of fiscal policy to power economic growth by dropping an annual budget-balancing goal. She said that the government's long-held target of achieving a primary balance surplus will no longer be reviewed on a single-year basis. She made mention of multi-year budgets and also favour net debt to GDP (which is a lower figure at 130% of GDP instead of gross debt to GDP of 230%). This may imply that government can issue bonds with greater ease, to finance bigger fiscal spending targeted to boost growth. On Tuesday, LDP suggested extra budget of JPY25tn (much larger than JPY13.9tn last year). Risk of heavier fiscal burden amid rise in debt servicing cost and worries of lack of fiscal discipline can undermine JPY in the interim. That said, intervention risks are on the rise as USDJPY continues to trade higher. But the issue is intervention cannot alter the directional path if the trend is skewed to the upside. At most, it can only slow the pace of JPY depreciation.

- **USDSGD. *Consolidation*.** USDSGD rose, taking cues from a stronger USD after FOMC minutes. Pair last at 1.3070 levels. Bearish momentum on daily chart faded while RSI rose. 2-way trades likely. Resistance at 1.31 (38.2% fibo). Support at 1.3000/20 levels (21, 200 DMAs), 1.2930/50 levels (50 DMA, 23.6% fibo retracement of 2025 high to low). US payrolls report will be key to watch. Though dated, it may still affect USD. Softer print should take away bullish pressure from USD while a better-than-expected print could see USD build on gains. S$NEER last at 1.2% above model implied mid. 3Q final GDP is scheduled for release on Fri – markets including our Economist are looking for upward revision.

- **SGD rates**. SGD OIS have been trading within tight ranges over the past days. Short-end SGS outperformed on the curve, steepening the 2s10s segment further. The steepening momentum may slow from here as investors may start to see relative value at longer tenors. First, the next supply of long end bonds is in March with the 30Y Green SGS (Infra) and in April with the 10Y SGS (MD). Second, while SGD liquidity has remained ample, additional liquidity injection does not appear imminent. Third, asset swap wise, pick-up is very narrow at 2Y SGS. Although pick-up at 10Y SGS is also below one-year average, it nevertheless is at around SOFR+35bps. At the front end, today brings the usual 6M T-bills auction. The 6M implied SGD rate has edged lower over the past couple of weeks, pointing to a lower cut-off today. We expect the 6M T-bills cut-off to come in the range of 1.30-1.35%.

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