Daily Market Outlook

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Consolidation

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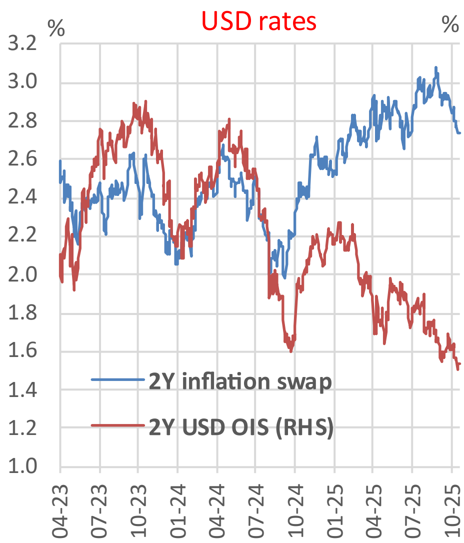

- **USD rates.** Long-end UST yield fell overnight despite the risk sentiment generally held up. September CPI is scheduled to be released on 24 October; consensus look for a 0.4%MoM in the headline and 0.3%MoM in core, while the YoY rate is expected to have ticked up to 3.1% versus 2.9% prior. If there is no upside surprise, market is likely to hold onto rate cut pricings. Fed funds futures last priced 50bps of cuts for the rest of the year, and 74bps of cuts for 2026. Inflation concerns appear to have eased, with short-end inflation swap having started to fall since mid-September, ending the divergence with OIS. That said, 10Y breakeven at 2.27% is sticky downward; 10Y real yield needs to fall for 10Y nominal yield to break decisively lower. There are USD13bn of 20Y coupon bond auction on Wednesday and USD26bn of 5Y TIPS auction on Thursday. Net bills settlement amounts to USD52bn this week. TGA balance was at USD905bn as of 17 October.

- **Gold. *Double-Top in Sight?*** Gold's attempt to hit above 4380 appeared to have run into some roadblocks for now. On technical charts, momentum remains bullish but RSI shows signs of easing lower from overbought conditions. On the tick chart, we observed a double-top formation, which can typically be associated with a bearish reversal though one can argue that it remains early to concur. Support at 4200, 4120 (23.6% fibo retracement of Aug run-up to Oct high) and 4001 (21 DMA). Resistance at 4380 levels (recent high). We had flagged on Fri that *gold's surge to record highs of over $4,300 and in record pace (up >15% MTD and over 30% since mid-Aug)) may have stretched short-term valuations and risk-reward. Sentiment and speculative positioning are starting to look elevated, and there is a risk that gold may potentially be vulnerable to consolidation if geopolitical tensions stabilise or yields rebound. That said, our medium-term view stays constructive. Nominal rates are likely to trend lower as the Fed eases, while central-bank and institutional demand remain solid. The diversification or hedge argument for gold — against geopolitical, fiscal, and currency risks — also stays intact.* Over the last 48 hours, there were a few developments including, signs that US-China relations may improve while White House economic advisor Kevin Hassett indicated that US government shutdown may be lifted soon. Positive developments on this front may lead to some moderation in price action but the constructive outlook still support a buy-on-dips approach.

- **USDJPY. *Parliament Votes.*** USDJPY inched higher in early week as eyes are on parliament vote this afternoon for choice of PM. There should be little to no surprise that LDP leader Takaichi is to be named the PM. LDP has found a coalition partner, Japan Innovation Party (JIP) making the coalition just 2 seats short of a simple majority of 233. JIP is also seen as a center-right political party that champions regulatory reform and decentralization of government power. The party previously spoke about achieving primary balance surplus within a realistic target period. Fiscal prudence should be reassuring for markets and JPY. Impact on USDJPY this episode will likely not be similar to the move seen post-LDP election as Takaichi's previous pro-stimulus stance may have to be compromised. Also, one less political uncertainty may potentially pave the way for BoJ to hike on 30 Oct, given that macro conditions allow for policy normalisation. Pair was last at 151 levels. Bullish momentum on daily chart faded but decline in RSI moderated. 2-way risks likely in the interim. Support at 150.35 (50% fibo), 149.67 (61.8% fibo), 148.50 (50 DMA). Resistance here at 151 (38.2% fibo retracement of the run-up), 151.90 (23.6% fib) and 152.50 levels. Elsewhere, we watch cabinet formation.

- **USDSGD. *Subdued.*** USDSGD traded in subdued range in absence of clear catalyst. RMB strength appears to be offset by JPY weakness while risk sentiments appear supported on prospects that Xi and Trump may meet next week and US government may also reopen soon. Pair was last at 1.2945 levels. Daily momentum is mild bearish while RSI flat. 2-way trades likely in the interim. Support at 1.2920 (21 DMA), 1.2870 (50 DMA). Resistance at 1.2950 (23.6% fibo retracement of 2025 high to low), 1.3010 levels. S$NEER remains steady post-MAS decision; last at 1.48% above model implied mid.

- **SGD rates**. SGD OIS were paid up 3-4bps this morning thus far. We continue to expect some upward normalisation in SGD OIS but the move may only come slowly as liquidity appears to have remained ample. First, SGD rates have shown a fair bit of decoupling from USD rates so far this year; upon materialization of additional Fed funds rate cuts, the spillover from USD rates onto SGD rates is not automatic. Second, for USD rates themselves, since a slew of rate cuts are already in the price, further downside to USD rates may be limited. Third, with S$NEER having moved away from the top end of the band, liquidity injection from FX operations does not appear imminent, although liquidity stays in the system until being mopped up. Fourth, short-end OIS at 1.2% level appears overly stimulative against the economic backdrop. MAS expect core inflation "to trough in the near term and rise gradually thereafter";

"output gap will remain positive in 2025 and come in around 0% next year" – i.e. at potential growth. There are 4W and 12W MAS bills auctions on Wednesday. As per latest implied SGD rates levels, 4W and 12W cut-offs are likely to come in the range of 1.40-1.46%.

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