GLOBAL MARKETS RESEARCH

Daily Market Outlook

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Dovish Fedspeaks

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- **USD rates.** UST curve bullish flattened on Monday, and market added further to December rate cut expectation with Fed funds futures pricing a 77% chance of a 25bp cut. Waller opined that he is "advocating for a rate cut at the next meeting", adding that there may be "more of a meeting-by-meeting approach once you get to January". This is in line with our base case, that the FOMC has the leeway to cut for a third time this year, as rates stay overly restrictive, although there is a risk of a delay of this expected rate cut into 2026. Thereafter, the pace of rate cuts is likely to be more gradual, and we have pencilled in only one 25bp cut in Q1-2026 for now. The 2Y coupon bond auction on Monday was well received, with bid/cover ratio a tad higher at 2.68x versus 2.59x prior and indirect accepted higher at 58.1% versus 53.7% prior. 10Y breakeven was last at 2.23% with further downside appearing limited; for 10Y UST yield to fall materially from here, a lower real yield is probably needed. Tonight brings September PPI releases; consensus look for a stable 2.6%YoY print. There are auctions of 2Y FRN and 5Y Note tonight. TGA balance last fell to USD892bn, in line with expectation.

- **DXY. *PPI, Retail Sales Tonight.*** USD hovers near recent high but failed to make much headway. Uncertainty over Dec meeting outcome continues to swing sentiments. Overnight, Waller and Daly supporting Dec cut, further helped to boost Dec rate cut probability back to 77%. Despite the swings, the quantum of cut from now till end-2026 remained relatively steady at around 90bps cumulative of cuts. "Noise" from Fedspeaks should diminish as there is no more scheduled Fedspeaks this week while Fed communications enter a blackout starting this Sat. DXY last seen at 100.10 levels. Technical price action (spinning top) indicates indecision and also signaled some weakness in the recent USD rebound (likely in anticipation of catalyst). 2-way trades are likely to persist in the interim. Support at 99.50/70 levels (21 DMA, 61.8% fibo), 99.10 (50% fibo retracement of May high to Sep low). Resistance at 100.6 (76.4% fibo).

- **USDJPY. *Breather.*** The recent rise in USDJPY continues to slow. Japan's growth minister Minoru Kiuchi said the government is watching currency movements, including speculative activity, with a high sense of urgency. Last Fri, Finance Minister Katayama

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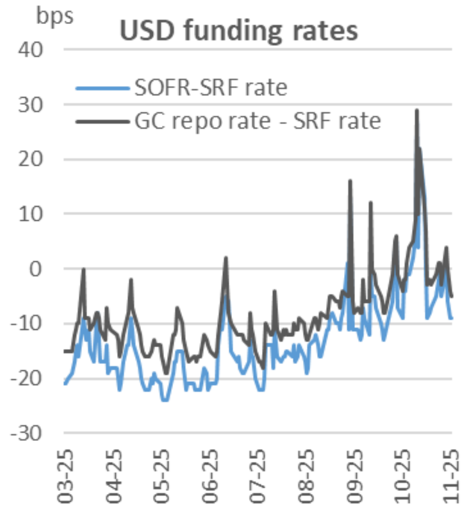
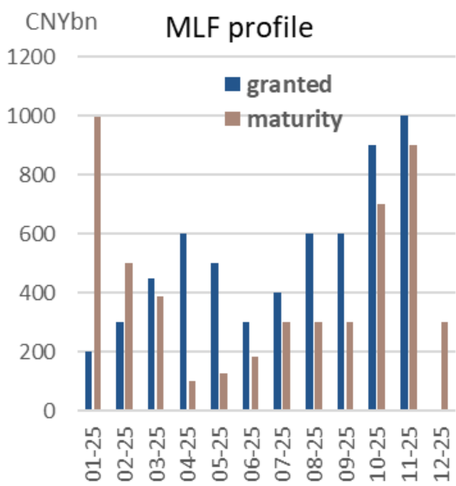


Source: Bloomberg, OCBC Research

told a news conference that officials are concerned that JPY depreciation is extremely one-sided and rapid. Intervention rhetoric is getting louder and more frequent. We believe the risk on *leaning against the wind* is real if we do see another sharp weakening in the JPY towards the 158-160 zone. But for USDJPY to reverse trend and trade lower meaningfully would require policymakers to demonstrate fiscal discipline to restore credibility while the BOJ also need to resume policy normalisation. A softer USD should also help. *Leaning against the wind* activity is not likely to reverse the JPY's broader depreciation trend though it may moderate the pace of decline. Pair was last seen at 156.70 levels. Daily momentum is mild bullish while RSI fell from overbought conditions. Support at 154.40/50 levels (21 DMA, 76.4% fibo), 151.60 (61.8% fibo retracement of 2025 high to low, 50 DMA). Resistance at 158, 158.87 (previous high in 2025) and 160 levels.

- **USDSGD.** ***Dip Maybe Shallow?*** Recent release of GDP and CPI reports validated MAS policy stance to stay on hold. October headline and core CPI rose to 1.2%. Last Fri, Singapore's 3Q25 GDP was revised up more than expected to 4.2% YoY. With upgrades seen across the board for manufacturing, construction and services sectors. While there is room for MAS to ease should growth-inflation dynamics worsen but given expectations for inflation to trough and rise gradually, alongside growth still holding up, the risks are probably balanced and do not require MAS to ease next. We believe MAS can continue to maintain policy hold at the Jan 2026 MPC. Recent rise in USDSGD showed tentative signs of exhaustion. Pair last at 1.3040 levels. Daily momentum turned flat while RSI shows tentative signs of turning lower. Double-top pattern appears to be in the making, but it remains early to concur. Potentially, this may be a setup for a bearish reversal in the short term but more broadly, a cup-and-handle pattern appears to be forming. This can be a bullish setup for the medium term. We continue to monitor price action. 2-way trades likely in the interim. Resistance at 1.3090/1.31 levels (38.2% fibo). Support at 1.3025 (21 DMA), 1.30 levels (200 DMAs), 1.2950/60 levels (50 DMA, 23.6% fibo retracement of 2025 high to low). S$NEER last around 1.3% above model implied mid.

- **CNY rates**. PBoC will grant CNY1000bn of MLF this morning, more than rolling over the CNY900bn of MLF that matured, marking the ninth month of net injection. In the month, there have been net injections of CNY600bn of medium-term liquidity (including RMB500bn via outright reverse repos), which help buffer ongoing LGB issuances. Meanwhile, an outright interest rate cut may not happen imminently. On balance, short-end repo-IRS are likely to stay in ranges and floored at 1.50% for now. In offshore, Monday's auction of PBoC bills were well received. The 3M PBoC bills cut off at 1.60% and 12M PBoC bills cut off at 1.54%. Demand for the 12M



Source: Bloomberg, OCBC Research

bill was stronger with bid/cover ratio at 3.26x, probably as investors judged that a 1.54% yield still compares favourably with onshore 2Y bond yield of 1.42%. These offshore PBoC bills issuances represented roll-over hence did not have a material impact on CNH liquidity. Near-term range for 1Y CNH CCS is seen at 1.50-1.60%.

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