

Daily Market Outlook

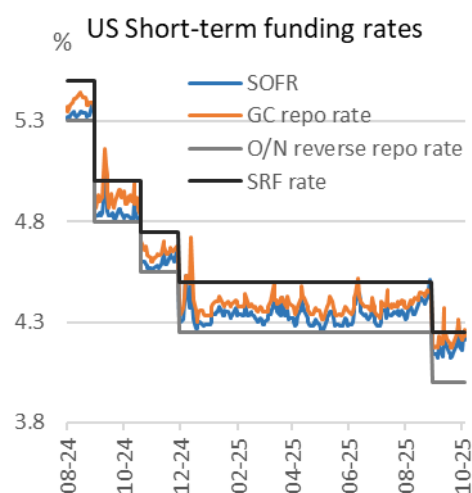
27 October 2025

CPI gives greenlight; QT timeline is another focus

- USD rates.** Bond futures edged lower this morning on positive trade development, with Bessent on Sunday saying the 100% tariff is “effectively off the table” and he expected China to make substantial soybean purchases and defer rare earth curbs. On Friday, USTs ended the day little changed with the initial dips in yields upon the softer-than-expected CPI prints being transient. September headline CPI rose 0.3%MoM (consensus and August reading 0.4%), with the increase in the index for gasoline being the largest contributor. Core CPI rose by 0.2% (consensus and August reading 0.3%). The indexes for motor vehicle insurance, used cars and trucks, and communication were among the few major indexes that fell in September. The CPI outcome gives the greenlight for the FOMC to deliver a 25bp rate cut this week, but this is already in the price which was probably one of the reasons for the muted market reaction, the other being the resilient October PMIs. Fed funds futures last priced 49bps of additional rate cuts for the remainder of the year, and 67bps of cuts for 2026. Our base-case remains for one 25bp Fed funds rate cut each in October (this week), December and Q1-2026. Given the dovish market pricings, should there be any hawkish elements – e.g. pushback on back-to-back rate cuts, short end yields would be subject to mild upward correction. At the 10Y, we continue to see breakeven in 2.3-2.4% range as fair and expect a range in 10Y nominal yield of 3.95-4.10%.

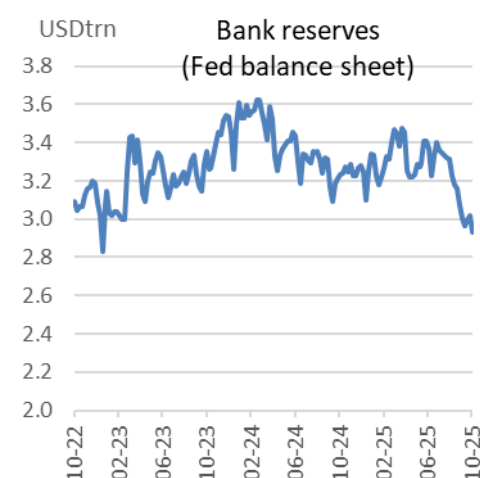
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Source: Bloomberg, OCBC Research

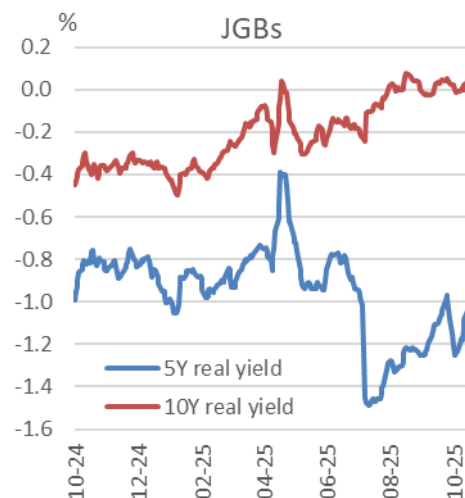
- Another focus is the **timeline for ending QT**. The Fed has earlier estimated, if QT were to continue at the current pace, bank reserves would fall to USD2.8trn by end Q1-2026. QT is likely to end before that, in our view. At the front end, GC repo rate rose to 4.26% while TGCR (tri-party GC rate) rose to 4.21% last Thursday. Although according to NY Fed’s October update on RDE (reserve demand elasticity), “reserves remain abundant”, we hold the view that, at current bank reserves level (USD2.93trn as of 22 October), front-end funding rates will become more sensitive to any interim increase in liquidity demand, not least because liquidity is unlikely to be evenly distributed among market participants. QT pace via US Treasury market securities has already been slow to USD5bn per month, and its impact on Treasury refunding is being reflected. Monthly cap for MBS run-off is at USD35bn, but the actual has been averaging around USD17bn per month over recent months. Expectation is for some reinvestment (from MBS run-off) into US



Source: Bloomberg, OCBC Research

Treasury securities – likely in T-bills – should overall QT pace be slowed further or QT be entirely ended.

- JPY rates.** Consensus looks for a status quo decision from the BoJ this week, while we continue to see this meeting as a live one for a potential 25bp hike. September CPI report was mixed. Headline and core CPI (ex-fresh food) printed higher than expected, both at 2.9%YoY, while core core CPI (ex-fresh food and ex-energy) was a tad softer at 3.0% and underlying inflation (ex-food and ex-energy) dipped to 1.3%YoY. Still, economic fundamentals justify continued monetary policy normalization. First, prospect remains for sustained wage growth to be at least partially passed through onto price levels. Rengo (the Japanese Trade Union Confederation) said it plans to ask for wage increase of around 5% or more in 2026 *shunto* (spring wage negotiations). Meanwhile, enterprises' inflation outlook has stayed firmly above the 2% level, as per *Tankan* survey. Second, real rates are very low (and negative at short and mid tenors); 5Y real yield last traded at -1.034% and 10Y at 0.068%. Risk is there is a further delay in this expected hike to the December meeting. JPY OIS last priced a 44% chance of a 25bp hike by year end.



Source: Bloomberg, OCBC Research



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