GLOBAL MARKETS RESEARCH

Daily Market Outlook

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Hot Australia CPI; FOMC Tonight

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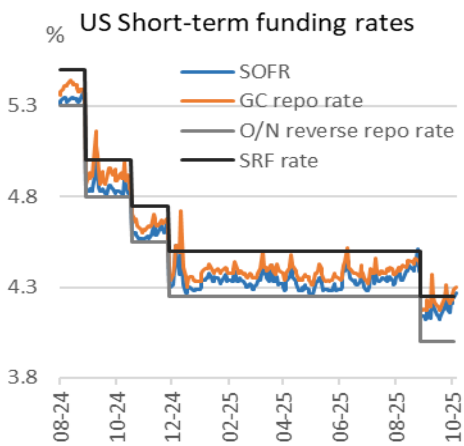
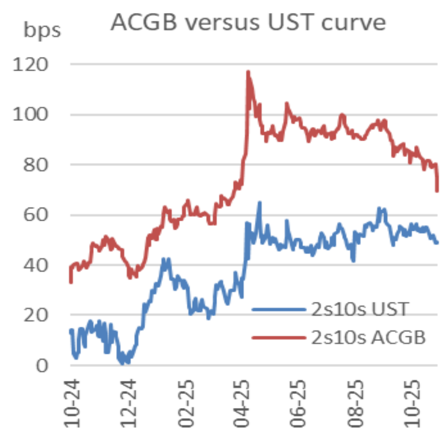
Global Markets Research and Strategy

- **USD rates.** USTs traded in ranges overnight with yields ending the day little changed, as market awaited FOMC decision. Fed funds futures last priced 48bps of cuts for the remainder of this year and 68bps 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 or on aggressive 2026 rate cuts, short end yields would be subject to mild upward correction. Investors also wait for guidance on QT timeline. SOFR rose to 4.27% while GC repo rate rose to 4.30% on Monday, both being higher than SRF rate at 4.25%. 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. Should overall QT pace be slowed further or QT be entirely ended, expectation is for some reinvestment (as some MBS run-off is expected to continue) into US Treasury securities – likely in T-bills.



Source: Bloomberg, OCBC Research

- **AUD rates**. Bank bills futures fell (implied rates 10-12bps higher thus far) upon the Q3 and September CPI prints which were higher than expected and higher than previous readings across measures. Trimmed mean rose by 1.0%QoQ while Q2's reading was revised up to 0.7%QoQ from 0.6% prior; year-on-year, trimmed mean inflation was at 3.0% in Q3 versus the 2.7% in Q2. The outcome underlines our long-held view that the rate cutting cycle in Australia is likely to be shallow. We maintain our view that there is likely only one final 25bp cut in the cycle; we have earlier pencilled in this cut in this quarter (December) but now the risk is for a delay to H1-2026. ACGB curve bearish flattened this morning, but the flattening momentum may fade. First, Cash Rate Futures pared rate cut pricings to 6.5bps before year end, or a total of 27bps of cut between now and the expected end of the cycle, which looks roughly fair. Second, while the ACGB curve remains steeper than the UST curve, it has become less so, while we are neutral UST curve. Third, at the longer end, there may be a mild upward bias to



Source: Bloomberg, OCBC Research

breakeven, with 10Y and 20Y breakeven at 2.32-2.37% level versus inflation target of 2.0-3.0%.

- **AUD. *Better Bid.*** AUD extended its run-up, helped by a firmer AU CPI print for 3Q while prospects of better US-China relations, firmer RMB and pro-risk appetite remain supportive of AUD. Pair was last at 0.66 levels. Daily momentum turned bullish while RSI rose. Bias remains for upside play. Resistance at 0.6620/30 levels before 0.67. Support at 0.6550/60 levels 21, 50 DMAs), 0.65 levels. We have long argued that a resilient RMB and RBA nearing end of rate cut cycle can also be supportive of AUD. Bias remains for AUD to trend gradually higher as USD softness is likely to return and markets re-focus on Fed cut in the months ahead.

- **DXY*. FOMC Tonight.*** USD continued to ease slightly from recent highs. Softer CPI print alongside news of US large corporates cutting jobs continued to reinforce Fed's easing cycle. Also, prospects of trade diplomacy between US and China is also another factor supportive of risk sentiment, RMB and a softer USD. Near term, FOMC is in focus (2am SGT). A 25bp cut is fairly priced and we continue to look for another back-to-back cut in Dec and another cut in 2026. The meeting between Xi and Trump in Korea on Thu is also on the radar. DXY last at 98.76. Daily momentum is flat while RSI rose. 2-way trades likely to dominate. Support at 98.40 (38.2% fibo) and 98 levels (50, 100 DMAs) and 97.60 (23.6% fibo). Resistance at 99.10 levels (50% fibo retracement of May high to Sep low), 99.80 (61.8% fibo), 100.80 levels (200 DMA).

- **USDJPY. *Bias for Downside Play.*** USDJPY continued to trade lower on comments from MoF officials that they are watching JPY closely and on comments from US Treasury Secretary Scott Bessent. He called on Japan's new government to give BoJ the space to combat inflation. Meanwhile, a softer USDCNY also weighed on USDJPY. Focus still on BoJ meeting outcome tomorrow. Markets are not pricing in any hike until sometime in March next year. Although it is an outside chance, we believe conditions remain intact for policy normalization to take place. Elsewhere, we watch the language and tone for forward guidance. Pair was last at 152.10 levels. Bullish momentum on daily chart faded while RSI fell. Double top formed – typically associated with bearish reversal. We watch price action for confirmation. Support at 151.15 (21 DMA), 150.10 (23.6% fibo retracement of Apr low to Oct high) and 149.20. Resistance at 153.30 (double top). Fed-BoJ policy divergence should help underpin the direction of travel to the downside.

- **USDCNH. *Guided Lower by Fix.*** USDCNY continued to trade with a heavy bias, guided lower by PBOC fix – now under 7.09. The Bloomberg consensus for fix to PBOC fix has also narrowed to 1month low – implying that market expectations have started to align more with the fix guidance. The shift from defensive stability to guided appreciation is likely a theme that should continue. USDCNH was last at 7.0980. Bearish momentum on daily chart intact but RSI shows tentative signs of turning from near oversold conditions. Support at 7.0850, 7.08 levels. Resistance at 7.10, 7.12 levels. Meanwhile, stronger RMB can help anchor relative strength in some Asian FX, including MYR, SGD.

- **USDSGD. *Range.*** USDSGD drifted lower, taking cues from a softer USD and firmer JPY, RMB. But price action remains fairly subdued. Pair was last at 1.2950 levels. Daily momentum is showing tentative signs of turning mild bearish while decline in RSI moderated rose. 2-way risks likely. Support at 1.2930/50 levels (23.6% fibo retracement of 2025 high to low, 21 DMA), 1.2890 (50 DMA). Resistance at 1.3010, 1.3050 (200 DMA). S$NEER remains steady post-MAS decision; last at 1.45% above model implied mid.

- **IndoGBs**. IndoGBs traded softer on Tuesday despite the solid auction. The sukuk auction on Tuesday garnered incoming bid amount of IDR51.4trn, while IDR10trn of bonds were awarded representing an upsize from the indicative target of IDR7trn. We continue to expect upsizes when the bond market condition is favourable. If auctions for the remaining of the year are upsized to similar amounts, then gross issuance in the quarter will reach IDR218trn versus target of IDR180trn. 10Y IndoGB-UST yield spread has stayed at the low end of a 2-year range. Month to date (as of 27 October), foreign investors reduced holdings by IDR25trn, while banks increased holdings by 17trn; outstanding IndoGBs (including bills) edged lower.

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