

## Daily Market Outlook

3 October 2025

### Market implications of US shutdown

- USD rates.** USTs traded in ranges overnight in the absence of fresh catalyst. T-bills auctions were well received, especially the 8W bills sales which garnered a bid/cover ratio of 3.01x versus 2.65x, as investors tried to lock in the yield in view of the expected rate cuts down the road. Latest 8W cut-off was 10bp below 4W cut-off, versus 8bps at previous auctions. During previous incidents of government shutdown, market impact was modest in the form of safe-haven flows. The last US government shutdown started in December 2018 during Trump's first term, and that lasted for 35 days. 2Y UST yield and 10Y yield both fell by a cumulative 14bps (from 3 days ahead of shutdown to three days after reopening). But past reactions had not been regular. During the 2013 shutdown, for example, net change in 2Y yield was minimal. At present, the USD rates market is already dovish, with Fed funds futures pricing in additional 115bps of cuts for the rest of the cycle. 2Y UST yield at 3.53% is consistent with such Fed funds rates expectation. Further downside to USD rates may be limited upon materialisation of more Fed funds rate cuts. We continue to see the range for 2Y UST yield at 3.50-3.65% and for 10Y UST yield at 4.0-4.2%. The FOMC has always looked at the totality of data, including their own Beige Book which will be released on 16 October.

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Global Markets Research and Strategy

Past incidents of US Government Shutdown	Days	2Y UST yield (bps)			10Y UST yield (bps)			USDSGD (%)			DXY (%)		
		Ts-3 days*	During	Td+3 days*	Ts-3 days*	During	Td+3 days*	Ts-3 days*	During	Td+3 days*	Ts-3 days*	During	Td+3 days*
Dec 2018	35	-0.50	-3.26	-9.82	-2.73	-3.17	-8.10	0.26%	-1.49%	-0.44%	-0.15%	-1.20%	-0.47%
Jan 2018	3	5.05	-0.39	1.15	12.21	-0.92	-1.27	0.01%	-0.14%	-0.68%	0.20%	-0.19%	-1.12%
Sep 2013	16	-2.34	-0.21	-1.97	-1.80	3.88	-6.19	0.11%	-1.04%	-0.14%	-0.14%	0.23%	-0.96%
Dec 1995	21	-0.90	-20.80	6.70	3.50	-8.00	14.40	0.06%	0.54%	0.00%	-0.35%	0.20%	-0.18%
Nov 1995	5	-0.10	-7.90	6.70	2.70	-9.10	3.00	-0.04%	0.05%	-0.32%	0.06%	-0.08%	-0.27%
Average		0.24	-6.51	0.55	2.78	-3.46	0.37	0.08%	-0.42%	-0.32%	-0.08%	-0.21%	-0.60%

\*Ts represents the start date of government shutdown, Td represents the end date of government shutdown

Source: Bloomberg, OCBC Research

- **DXY. 2-Way Trades.** The US government shutdown adds another layer of data and market uncertainty. Past shutdowns have often coincided with demand for safe haven proxy including gold while the USD broadly traded softer though outcomes can vary with duration of shutdown. The last shutdown in 2018 crossing over to 2019 (during Trump presidency 1.0) was one of the longest (over 30days) in modern history. And during that period, gold was up nearly 4%. USDJPY, USDSGD was down 1.5%; DXY was down over 1%. With US government in shutdown since 1 Oct, most Federal data will be postponed at least till government reopens. As per BLS, the payrolls data (originally scheduled for today) is likely not going to be released. The COT CFTC positioning data is likely to be delayed as well and if the shutdown lasts longer, US retail sales and CPI data releases in the week after next will likely be affected. Nevertheless, private and Fed survey data will still be available (such as ISM survey, Uni of Michigan dataset, empire manufacturing, etc.) for markets and Fed policymakers to digest. Fedspeaks may also be another source of info for markets to rely on. We have Williams, Miran, Goolsbee and Jefferson for the rest of the week. At the same time, many major markets in Asia are closed today and early next week. China markets are already closed and will reopen on 9 Oct, Korean markets to close between today and 9 Oct, AU to close next Mon on 6 Oct, TW to close on 6 and 10 Oct and HK will be out on 7 Oct. Thin market liquidity in Asia and absence of data releases in US may well see subdued activity or even amplify price action on any shocks and surprises. DXY last seen at 97.90. Mild bullish momentum on daily chart shows signs of it fading but RSI is flat. 2-way trades likely. Resistance at 98.00/40 levels (50, 100 DMAs, 38.2% fibo retracement of May high to Sep low) and 99 levels (50% fibo). Support at 97.60 (21 DMA, 23.6% fibo), 97.20.
- **USDJPY. LDP Election Awaits.** LDP party will vote to select its leader on Sat. It is a full-spec vote, meaning that the election is conducted in its complete format. Each of the LDP's 295 Diet members will cast a vote, and another 295 votes will be determined based on ballots of rank-and-file members (about 1.1mio of them). If no candidate obtains an outright majority in the 1st round of the election, a runoff between the top 2 contenders will be held on the same day. Public polls suggest that the race is tight between Takaichi and Koizumi. But the survey of LDP lawmakers shows more than 80 members endorse Koizumi, 60 backed Hayashi (chief cabinet secretary) while around 40 supported Takaichi. Sanae Takaichi who favours stimulus measures and was vocal against BoJ hiking rates, had suggested that she wants to review the US trade deal especially the \$550 billion Japanese investment fund. Shinjiro Koizumi is an agriculture minister and was known as the "Rice man" - responsible for bringing down rice prices. He is the youngest candidate at 44yo and is getting support from LDP members seeking generational change. He has recently spoke about boosting wages and

productivity to counter rising prices. He acknowledges the Japan economy is in a transition phase from deflation to inflation and calls for wage growth to accelerate at a pace exceeding inflation, so consumption becomes a driver of growth. On monetary policy, Koizumi said he hoped the BoJ would work in lock step with the government to achieve stable prices and solid economic growth. We expect JPY weakness to reverse when political uncertainty fades and that BoJ to proceed with policy normalisation. Wage growth, broadening services inflation and upbeat economic activities in Japan should continue to support BoJ policy normalisation. The next meeting is on 30 Oct and another one in Dec. Markets are coming close to pricing in a hike at Dec meeting. We believe an earlier than expected hike in Oct meeting is plausible. Fed-BoJ policy divergence should underpin USDJPY's broader direction of movement to the downside. Near term, concerns of duration of US government shutdown provides another tailwind for JPY strength amid proxy demand for safe-haven plays but on the other hand, political uncertainty weigh on JPY. USDJPY saw upticks this morning on comments from BoJ Governor Ueda. He said that the BoJ will raise policy rate if its economic outlook is met and that it is necessary to watch global economics and tariff impact. He also expects wage-inflation cycle to be maintained and that price increases could last more than expected. USDJPY was last at 147.50 levels. Daily momentum is mild bearish but RSI rose. 2-way trades remained likely. Resistance at 147.80 (21, 50 DMAs), 148.20/30 levels (200 DMA, 23.6% fibo retracement of Apr low to Jul high). Support at 146.50/70 levels (100 DMA, 38.2% fibo) and 145.40 (50% fibo).

- USDSGD. 2-Way Trades.** USDSGD continued to trade subdued, in absence of catalyst. Pair last seen at 1.2880 levels. Mild bullish momentum on daily chart shows signs of it fading while RSI is flat. Compression of moving averages (21, 50 and 100 DMAs) observed. This is typically a precursor to a breakout trade, though directional play is only confirmed on breakout. Support at 1.2845/55 levels (21, 50, 100 DMAs). Resistance at 1.2950 (23.6% fibo retracement of 2025 high to low), 1.30 levels. S\$NEER last seen at 1.45% above model-implied mid (vs. 1.43% low on 30 Sep).
- IndoGBs.** Investors were seen lightening positions ahead of next week's conventional bond auction, which is the first auction of the quarter. Indicative target is IDR23trn with a potential to be upsized to IDR34.5trn. Our preference for 2Y IndoGB had panned out well over the past months, although we turned neutral earlier in September which missed the most recent rally. The IndoGB curve has steepened and 2Y IndoGB-UST yield differential are narrow near the low-end of the two-year range. Notwithstanding, 2Y IndoGB is likely to stay supported, given the favourable monetary policy backdrop, when SRBI rates and implied IDR rates have also

fallen. Investors may stay cautious towards the long end given some uncertainty on the fiscal front for now, but we remain of the view that the upsizes at auctions in Q3-2025, together with a few international transactions, will provide buffer to the overall funding positions. Funding raising through international bonds (including prefunding) amounted to IDR156trn equivalent as of 23 September. Still, some re-widening of IndoGB-UST yield differentials are probably required for foreign inflows to make a strong comeback. During September, foreign investors reduced holdings of IndoGBs (including bills) by IDR45.8trn. Demand from domestic investors, including both bank and non-bank investors, more than made up for the slack.

- **SGD rates.** SGD OIS were stable at open this morning, after falling by 3-5bps across on Thursday. Our rates forecasts have assumed some upward normalisation in SGD rates, and this view has partially panned out. SGD OIS are off the lows seen on 8 September, with pockets of liquidity tightness seen on some of the previous days. We maintain our upward bias to SGD rates despite our long-held call for additional Fed funds rate cuts over the coming months. First, SGD rates have shown a fair bit of decoupling from USD rates so far this year; 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 even upon materialisation of additional Fed funds rate cuts. That all being said, interim fluctuations in interest rates are normal, especially with SORA fixing failing to move higher on a more sustained basis.



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