Daily Market Outlook

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Fed Cut; KRW Recovery in sight

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- **USD rates.** UST yields rose by 10bps across 2Y to 10Y tenors, as Powell commented "a further reduction in the policy rate at the December meeting is not a foregone conclusion, far from it". Fed funds futures pared back rate cut expectation, now seeing a 67% chance of a 25bp cut at December meeting, versus almost being fully priced prior. Rate cuts priced for 2026 remained at 68bps. A split Committee is not a surprise, as that has been reflected in the September dot-plot. Our base-case remains for a 25bp cut in December and a 25bp cut in Q1-2026; thereafter, any additional cut will probably require inflation move near the 2% mark. As such, market pricings have looked dovish to us and we had cautioned that there could be upward correction in short-end yields. Meanwhile, the FOMC has decided to end QT effective 1 December. All principal payments (redemption) from the Fed's holdings of Treasury securities will be rolled over. Principal payment from the Fed's holdings of agency securities (mostly MBS) will be reinvested into Treasury bills. Currently, balance sheet run-off via US Treasury market securities is USD5bn per month, and run-off via MBS has been mostly in the range of USD15-17bn per month over recent months. The latest decision is likely to lead to purchases of T-bills amounting to USD180-200bn per year, and a reduction of USD240-260bn per year from treasury refunding needs facing the market. 2Y and 10Y UST yields are back to around our year-end target of 3.60% and 4.10%.

- **DXY. *Sell Rallies.*** USD rose post-FOMC decision, alongside the rise in UST yields. But DXY eased slightly this morning. To be fair, Fed Chair Powell did not make a case for no cut in Dec but only to flag out some uncertainties, partly to rein in expectations. The post-decision knee-jerk reaction was more a case of unwinding some dovish expectations. Our house view continues to expect Fed to deliver another 25bp cut at the Dec FOMC. Focus is expected to shift to Trump-Xi meeting today in Busan (which has already started as we write). President Xi told Trump that China and US can work together to accomplish more. An extended truce and/or agreement to lower tariffs should be supportive of RMB, risk-proxy FX including AUD while USD may trade on the backfoot. On US, focus will also be on when the government shutdown is lifted and the subsequent release of US data. DXY last at 99. Daily momentum is flat while RSI rose. 2-way trades likely to persist. 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), 100.50 levels (200 DMA). Over the forecast horizon into 2026, we continue to expect USD to trade moderately softer as Fed resumes easing while US exceptionalism fade.

- **USDKRW. *Bias for Downside Play.*** USDKRW eased away from recent highs following the meeting between South Korea President Lee and Trump. To take stock, KRW has been largely under pressure this year, falling to 5-month low vs USD, despite KOSPI outperformance (up 70% YTD). A few reasons ranging from anticipation of BOK cuts, sluggish growth in Korea and also the persistent uncertainty on trade between Korea and US were some of the factors weigh on KRW but we think some of this negativity is starting to fade and this may bode well for KRW recovery. For instance, Lee and Trump announced a deal. US tariffs on KR autos and parts will be reduced to 15% from 25%, putting Korean automakers on equal footing with their Japanese and European auto rivals. The agreement also includes a US$350 billion investment pledge from South Korea, with $200 billion in cash and equity investment and $150 billion for supporting and guaranteeing loans to Korean firms in the shipbuilding sector. These details help to offer clarity on the investment fund's structure. Meanwhile 3Q GDP report released on Tue surprised to the upside, led by domestic demand due to cash handouts and asset market outperformance. Although construction activity contracted, the rate of contraction showed some signs of easing. Facility investment continues to show good recovery while exports rebounded. So in a way, if USD and US rates continue to trend lower, alongside a firmer RMB, then it is likely a top in USDKRW may have been formed. We are of the view that KRW should see recovery. Bias for downward play in USDKRW from here. Spot last seen at 1421 levels. Daily momentum turned slight bearish while RSI fell. Bias for downside play but watch key support at 1420 (21 DMA), 1413 (200 DMA). Decisive break below puts next support at 1403.50 (50 DMA), 1390 (100 DMA). Suggest short on the pair (spot ref at 1421). SL above 1445 with TP at 1370. Elsewhere, we are also bias for long KRW vs. short TWD trade.

- **Gold. *Consolidation.*** Recent correction in prices of gold may have been sharp, but this also corresponds to the equally sharp rally we've seen. And the correction is timely, on signs of trade diplomacy between US and key partners including China helping to temper geopolitical risk premia while yields jumped overnight on Powell's cautious tone. Nevertheless, the sharp pullback serves to restore healthier positioning and valuations. But given the breach of several key supports, we prefer to respect price action. If gold manages to consolidate in this range of 3920 - 4020, then it may set the stage for base-building before the next leg higher. But failure to hold here, could imply another flush out of longs in the interim. Gold last seen at 3925 levels. Bearish momentum on daily chart intact while RSI fell, though decline in slowing. Next support at 3845 (50% fibo retracement of Aug low to Oct high), 3806 (50 DMA). Resistance at 3971 (38.2% fibo), 4065 (21 DMA).

- **USDSGD.** ***Range.*** USDSGD still trades in subdued and familiar ranges, in absence of a clear catalyst. Pair was last at 1.2960 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 eased slightly; last at 1.32% above model implied mid.

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