Daily Market Outlook

6 October 2025

JGB curve steepens; JPY on softer footing

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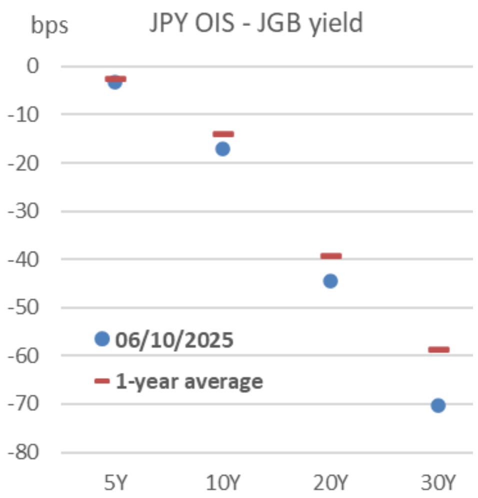
- **USD rates**. USTs cheapened on Friday as safe-haven flows ebbed while September ISM services came in mixed. Long-end yields edged higher at Asia open, probably taking cue from the JGB market. US ISM services index unexpectedly dipped to 50-point versus 52-point prior, with a weakening in business activity and new orders. Employment remained as a drag but not as much as in the previous month while price paid was higher at 69.4-point, illustrating the tough balancing act given the Fed's dual mandates. UST yields nevertheless have remained in expected ranges, while Fed funds futures still priced a high chance (91%) of two 25bp cuts before year end. Most of the important data will be delayed if tonight's vote fails to pass the stopgap funding bill again, but there are still releases to watch, including August consumer credit, October University of Michigan survey, and FOMC minutes this week. There are also USD58bn of 3Y, USD39bn of 10Y and USD22bn of 30Y coupon bond auctions this week. Overall, in the absence of key data, investors may adopt a cautious approach in positioning, and USTs are likely to consolidate. Range for 2Y UST yield is seen at 3.5-3.65% and for 10Y UST yield at 4.05-4.25%.

- **JPY rates**. Market pared back rate hike expectation after weekend's election. JPY OIS last priced 11bps of hike by year end, from as much as 21bps priced at one point last week. Perceived lower chance of a hike before year end, together with Takaichi's stimulus stance, is exerting a steepening pressure on the JGB curve as initial market reaction. 30Y bond/swap spread (JPY OIS – JGB yield) fell to -72bps this morning, which is starting to look supportive of the bond. Still, this compared to 30Y UST swap spread at -80bps, while asset swap pick-up was at around SOFR+58bps at 30Y JGB; if full FX hedge is required, long-end JGB may just appear fair – but not particularly appealing - to foreign investors. Earlier last week, BoJ has released Q4 JGB purchase schedule. BoJ reduced the purchase sizes of JGBs for tenors >1Y to 25Y but maintained purchase size of JGBs of tenor beyond 25Y. Any support from this schedule to long-end JGBs is however seen as marginal. To recap, September Tokyo CPI printed softer than expected, at 2.5% across headline, core and core core readings. Our base-case has been for a 25bp hike in the BoJ Target rate before year-end. There are slew of data releases to watch before October meeting, including August labour cash earnings, September PPI and CPI.



- **USDJPY. *Watching the 150 Line in the Sand.*** Sanae Takaichi was elected as the leader at the LDP election on 4 Oct, in a run-off vote after none of the 5 candidates won a majority in the first round. She is expected to be appointed the next PM after the vote in parliament, scheduled on 15 Oct. While LDP remains the largest party in parliament, the LDP-led coalition no longer holds majorities, and will require support from opposition party. She was vocal against BoJ hiking rates last year, and on winning the race over the weekend, she made it clear that the government will take the lead in setting fiscal and monetary policy, and that her priority is to reflate demand and the broader economy. There are concerns that her appointment could delay BoJ policy normalization, and that BoJ may again hold rates steady at the 30 Oct BoJ meeting. The concern may be valid but at the same time, the macro-economic conditions today vs. the macro conditions during former PM Abe's era are different. During those days, Japan was fighting deflation but today, we have already seen inflation above 2% target for more than several months. A gradual pace of BoJ normalisation is still plausible given that rate remains relatively low. But going forward, we need to monitor how her proposed policies can be executed and if they will be toned down or if BoJ policy bias may be affected. Short USDJPY trade saw some unwinding this morning. Pair gapped higher; last at 149.75 levels. Daily momentum turned flat while RSI rose. Risks skewed to the upside in the interim. Resistance at 150, 150.90 levels (Jul high). Support at 148.30 (200 DMA, 23.6% fibo retracement of Apr low to Jul high), 147.80 (21, 50 DMAs) and 146.70 (38.2% fibo). Given the uncertainties, USDJPY may drift higher in the interim unless USD is down in a significant way.

- **DXY. *2-Way Trades.*** There are still no Federal data releases due to US government shutdown. This puts emphasis on private sector data and Fedspeaks. This week, there is a handful of Fedspeaks including Miran (Tue), Powell (Thu). On Fedspeaks last week, Miran again pressed for aggressive rate cut trajectory, citing the impact of Trump administration's economic policies. Last Fri, ISM services came in softer than expected. Business activity, new orders all fell while employment component remains in contractionary territory. Last week's ADP private payroll also suggested that labour market continued to cool. JOLTS report revealed there are more unemployed people than there are job vacancies. These data reinforce the bias for Fed to continue cutting rates. In addition, a senior White House official said that the Trump administration will likely start mass layoffs of federal workers if Trump decides negotiations with congressional Democrats to end a partial government shutdown are "absolutely going nowhere". Fed's easing bias, alongside weak labour market and political stand-off suggest that USD should remain on a moderately soft path. DXY last seen at 98 levels. Mild bullish momentum on daily chart intact while RSI rose. 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. There is no scheduled data release for today.

- **USDSGD. *2-Way Trades.*** USDSGD was a touch firmer this morning, tracking the modest bounce in USD and the gap higher in USDJPY. Pair last seen at 1.2920 levels. Mild bullish momentum on daily chart intact while RSI rose. 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. Resistance at 1.2950 (23.6% fibo retracement of 2025 high to low), 1.30 levels. Support at 1.2845/55 levels (21, 50, 100 DMAs). S$NEER resuming easing slightly; last seen at 1.41% above model-implied mid.

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