Daily Market Outlook

7 October 2025

Global steepening moves; EUR dip

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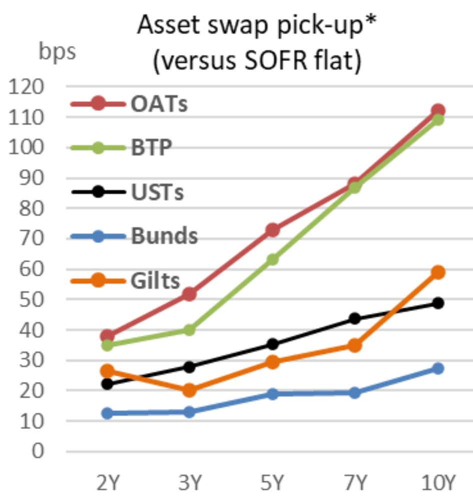
- **DM rates**. The UST curve bearish steepened overnight, probably taking cue from the JGB and OAT markets. Pick-up at long-end JGBs is still not better than that at USTs; nevertheless, the pick-up has improved over the past months and long-end JGBs are viable alternatives for portfolio diversification. This might explain the spillover onto UST market in terms of the steepening move. US releases to watch include August consumer credit, October University of Michigan survey, and FOMC minutes this week. On FOMC minutes, with the median dots being a mild dovish surprise, investors will be keen to read the rationale of different members. There are also USD58bn of 3Y, USD39bn of 10Y and USD22bn of 30Y coupon bond auctions this week. In EUR rates, OATs were sold off amid domestic politics as PM Lecornu resigned. Nevertheless, OAT yields retraced mildly lower from session highs, to end Monday 1-7bps higher in a steepening manner. Investors may want to stay defensive and prefer shorter duration on the OAT curve, where 3Y and 5Y OATs provide wider pick-up than BTPs. At the longer end, swap spreads (OIS – OAT yields) fell, with 10Y last at -105bps and 30Y at -156bps; these spreads may still go more negative, reflecting the risk premium required by investors.

- **JPY rates**. 30Y JGB yield broke above the previous high and opened a tad higher this morning. Takaichi has mentioned she would ensure her active fiscal policy is "responsible", but fiscal uncertainty may keep the risk premium on the high side. That said, 30Y bond/swap spread at -71bps may start to look supportive of the bond. At the front-end, our base case remains for a 25bp hike in the BoJ Target Rate before year end. Honda, an adviser to Takaichi, was quoted as saying "A rate hike in October is probably difficult…but I don't see a problem if it's raised by 25bps in December". This supports our call for a 25bp hike by year end, but we instead continue to see October as a good opportunity for the BoJ to deliver. Recently, BoJ still referred to their plan to hike with regular intervals and mentioned at the September meeting that "it has been more than six months since the last rate hike". The hike has already been delayed while CPI forecast is lower for fiscal 2026. JPY OIS last priced 5bps of hike at October meeting, and 14bps of hike before year-end. There are slew of data releases to watch before October meeting, including August labour cash earnings, September PPI and CPI.



Source: Bloomberg, OCBC Research

*6 October

- **EURUSD. *Political Noises to Undermine.*** EUR slipped yesterday on news that French PM Lecornu resigned after less than 1 month on the role. This is the 3rd PM after Bayrou and Barnier to leave office, since Dec-2024. But post-resignation, President Macron tasked Lecornu 48 hours to work on a plan for the "stability for the country". This feels like Macron is "buying time" and by Wed, Macron has to make a choice to either appoint another PM, dissolve the National Assembly or tender his resignation (which is of low probability at this point). Additionally, the Netherlands will hold General Elections on October 29. These political developments may still pose downward risk on the EUR in the near term. However, the broader fundamental outlook remains supportive of the euro, suggesting a buy-on-dips approach. Pair was last at 1.17 levels. Daily momentum is mild bearish but decline in RSI moderated. 2-way trades still likely. Resistance at 1.1745 (21 DMA), 1.1810 and 1,1920 levels (2025 high). Support at 1.1680 (50 DMA), 1.1640 levels (100 DMA, 23.6% fibo retracement of Mar low to Sep high), 1.16 (100 DMA).

- **DXY. *2-Way Trades.*** USD traded subdued overnight in absence of key data. On Fedspeaks, Schmid said officials need to keep pressing against inflation, which has remained stubbornly high. He reiterated that rates are only "slightly restrictive," which he said is appropriate. He also suggested the Fed may not need to lower rates again in the near term, with inflation still running too high. Focus tonight on Bostic, Bowman, Miran and Kashkari. DXY last seen at 98.20 levels. Mild bullish momentum on daily chart intact while RSI rose. 2-way trades likely. Resistance at 98.40 levels (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. *Keeping Watch on MoF Rhetoric.*** USDJPY stays better bid, as market partially pare back Oct hike expectations. Etsuro Honda, who advises PM-to-be Takaichi said that a rate hike in Oct is probably difficult. But he did say that he doesn't see a problem if it's raised by 25bp in Dec, depending on the macroeconomic environment. Going forward, we need to monitor how her proposed policies may be executed and if they will be toned down or if BoJ policy bias may be affected. A pushback against her proposed policies may help to moderate the pace of the upmove or even see the pair turn lower. Elsewhere, it is also worth keeping a look out on cabinet reshuffling, budget and trade policy. In particular, she earlier indicated that she wanted to review the US trade deal especially the $550 billion Japanese investment fund. Given the uncertainties, USDJPY may still trade with a bid tone in the interim unless USD falls in a significant way or if the BoJ signals a rate hike earlier. Elsewhere, MoF rhetoric is also a key consideration, with regards to the volatility and level of USDJPY. To some extent, 150 may have been an unspoken *line in the sand* for topside resistance, but this may have been shifted out. This morning, Finance Minister Kato said he will closely watch any excessive moves in FX market but his comments do not appear to come across as worrisome, at this point. Pair was last at 150.40 levels. Daily momentum turned mild bullish while RSI rose. Golden cross appears to be in the making, where 50 DMA cuts 200 DMA to the upside. Risks skewed to the upside in the interim. Resistance at 150.90 levels (Jul high), 151.70 (61.8% fibo retracement of 2025 high to low) and 152.50 levels. Support at 148.30 (200 DMA), 147.80 (21, 50 DMAs) and 146.50 (100 DMA).

- **USDSGD.** ***MAS Policy Decision on 14 Oct.*** It is likely a close call for upcoming MAS policy decision: between flattening the slope and keeping policy stance on hold. Softer core CPI print for Singapore at 0.3% y/y for Aug likely added to expectations that MAS may ease policy at its upcoming MPC in Oct but subdued price pressure is also well within expectations of MAS. Path of inflation outlook matters, and our house view has inflation forecast skewed higher towards 1% for 2026 while growth still holds up overall. The door for MAS to ease remains open should growth-inflation dynamics worsen more than expected. But for now, we expect MAS to preserve policy ammunition and maintain current policy stance – which is still a slight appreciating bias. S$NEER last seen at 1.41% above model-implied mid.

- **IndoGBs**. Q4 gross issuance target has been announced at 180trn. With 6 conventional and 5 sukuk auctions in the quarter, the quarterly target is consistent with auction sizes of IDR23trn for conventional bonds and IDR9trn for sukuk. We continue to expect upsizes when the bond market condition is favourable, to prepare for bond financing requirement next year. As for today's conventional bond auction, indicative target is IDR23trn with the potential to be upsized to 34.5trn, comprising the reopening of FR109 (2031 bond), FR108 (2036 bond), FR106 (2040 bond), FR107 (2045 bond), FR102 (2054 bond), FR105 (2064 bond), and bills. The IndoGB curve has steepened materially over the past months, and 2Y IndoGB-UST yield differential are narrow at the low-end of the two-year range. Notwithstanding, 2Y IndoGB is likely to stay supported, given the favourable monetary policy backdrop, while SRBI rates and implied IDR rates have also fallen. For foreign inflows to make a strong comeback, however, some re-widening of IndoGB-UST yield differentials are probably required.

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