# Daily Market Outlook

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## FOMC minutes; China reopens

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- **USD rates**. Market reaction to FOMC minutes was muted. Demand at overnight's 10Y coupon auction was fair; bid/cover ratio was lower at 2.48x versus 2.65x prior while indirect accepted was lower at 66.8% versus 83.1% prior. **FOMC minutes** carried both dovish and hawkish elements, as expected, plainly reflecting a split Committee amid economic and trade policy uncertainties. It cited "a shift in the balance of risks" as the reason for the rate cut decision at the September meeting. While "a few participants stated there was merit in keeping the federal funds rate unchanged at this [September] meeting or that they could have supported such a decision", the minutes also noted "most participants observed that it was appropriate to move the target range for the federal funds rate toward a more neutral setting". Current fed funds rate at 4.00-4.25% is still above the long-run median dot of 3.00% as depicted on the Fed's dot-plot. We maintain our long-held expectation for additional 50bps of cuts before year end, followed by another 25bp cut in Q1-2026. In the absence of key US data, however, risk to our forecast is that rate cuts may be paced out. On **QT**, the minutes noted that if balance sheet runoff were to continue at the current pace, bank reserves were expected "to be close to the USD2.8trn range by the end of Q1-2026". The Fed expects money market rates "to continue to increase over time relative to administered rates and to eventually pull the effective federal funds rate higher". Recent Fed commentaries point to an increased tolerance of transient upticks in front-end funding rates. Still, QT is unlikely to last beyond Q1-2026, with the decision to stop QT potentially being made earlier. Range for 2Y UST yield remains at 3.50-3.65%, and for 10Y UST at 4.10-4.20%.

- **USDCNH. *China Reopens.*** USDCNY fix was set at 7.1102, +47pips higher than it was last closed, given the move higher in USD. But the USDCNY fix was set much lower than Bloomberg consensus fix estimate of 7.1458. Alongside the catch-up rally in domestic equities (Shanghai Composite hit more than 1y high of above 3900 this morning), USDCNH traded lower. The move lower also helped to provide temporary cues for USD/AXJs to trade a touch softer this morning. USDCNH last at 7.1350 levels. Mild bullish momentum shows tentative signs of fading while RSI fell. Risks skewed to the downside. Interim support at 7.1270 (21 DMA), 7.11 levels.

Resistance at 7.1460 (50 DMA, 61.8% fibo retracement of 2024 low to 2025 high), 7.1640 levels. Further pullback lower in USDCNH would require equity sentiment to stay sustained, for now.

- **CNY rates.** Onshore China reopens today. PBoC conducted CNY612bn of OMO reverse repos this morning, net withdrawing CNY1.45trn of liquidity from the market amid heavy maturities which were in turn due to the liquidity injections before the holidays. Post-holidays liquidity withdrawal was in line with usual practices. Importantly, PBoC granted CNY1.1trn of 91-day outright reverse repo today (announced before the holidays), more than rolling over the CNY800bn of outright reverse repos with original maturity of 91-day that mature in the month. There is also CNY500trn of outright reverse repo of original maturity of 182-day maturing this month, where a rollover is expected. Repo-IRS were offered down 2bps thus far, reflecting a supportive liquidity environment. In offshore, CNH CCS were steady this morning, as Stock Connect flows have just started to come in, with small amounts. We continue to expect 1Y CNH CCS in the range of 1.45-1.55%.

- **USDJPY. *Consolidation.*** Rise in USDJPY slowed as markets take stock on political developments post-LDP election. LDP leader Takaichi has yet to reach an agreement with partner Komeito party on their future partnership. Komeito leader Saito said that the party won't vote for Takaichi if a coalition agreement is not in place. We had earlier indicated that a formal vote in parliament (on 15 Oct) is needed for Takaichi to be named a PM and it may not be as assured like in the past as the LDP-led coalition no longer commands a majority in either house and will likely require support from the smaller opposition parties. This also suggest that she may not be able to push through some of her policies as swiftly. Perception of Takaichi's stance had earlier led to the rise in USDJPY but there is still a lack of clarity at this point. Pair was last at 152.50 levels. Daily momentum is bullish while RSI shows tentative signs of turning from overbought conditions. A moderation in the pace of rise or some consolidation is likely. Resistance at 153.10, 154.40 (76.4% fibo retracement of 2025 high to low). Support at 151.60 (61.8% fibo), 150 levels.

- **USDSGD. *2-Way Trades.*** USDSGD slipped, tracking moves in USDCNH lower as China markets returned from golden week holidays. Pair last seen at 1.2950 levels. Mild bullish momentum on daily chart intact but RSI slipped. 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 here at 1.2950/70 levels (23.6% fibo retracement of 2025 high to low), 1.30 levels. Support at 1.2840/70 levels (21, 50, 100 DMAs). S$NEER stabilised; last at 1.5% above model implied mid. MAS policy decision is scheduled on 14 Oct, alongside the release of advance estimates of 3Q GDP. 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 has likely added to expectations that MAS may ease policy at its upcoming MPC but path of inflation outlook matters. 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.

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