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Daily Market Outlook

Europe's Currency Challenge

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- ***Europe's Currency Challenge**: A more credible and independent Fed supports a firmer USD outlook. As US policy risks fade, markets are likely to focus on vulnerabilities in Europe and the UK, where energy costs, fiscal concerns and rising yields remain key headwinds.*

- ***AUD-NZD Divergence**: AUD remains underpinned by a hawkish RBA repricing and stronger terms of trade. While higher oil prices have favoured the AUD over the NZD, firmer RBNZ inflation concerns could help stall further AUDNZD gains.*

- ***KRW outperformance relative to Asian peers**. Sustained price action below 21DMA may reinforce further downside pressure on USDKRW. Note that South Korea markets will be closed on Thu-Fri. for Chuseok holidays.*

- ***Singapore core CPI release is the final one before next MAS MPC.** An in-line print, alongside softer labour conditions, would raise the bar for a third straight MAS tightening and reinforce the case for an October hold.*

- ***Focus on BI today.** A hold is widely expected, with markets watching its assessment of recent IDR weakness and commitment to IDR stability.*

Europe's Currency Challenge: The Fed's recent rate hikes reinforce its policy independence, raising the bar for a revival of the USD debasement narrative and helping to reduce the USD risk premium. With lingering hawkish Fed risks still in play, we continue to expect modest USD strength through year-end. As confidence in Fed credibility improves, FX markets are likely to shift their focus toward vulnerabilities outside the US.

European currencies, particularly the EUR and GBP, face mounting challenges. Although Brent crude has slipped back below USD100/bbl on hopes of US-Iran diplomacy and news that Saudi Arabia is restarting its East-West pipeline, energy prices remain elevated. For the EUR, high energy costs could become an increasing concern as gas inventories remain low with winter approaching. Rising French bond yields, driven by a hawkish ECB and growing budget concerns, also pose a risk. The French-German government bond yield spread widened after France announced additional support measures for households and businesses facing higher energy costs.

The GBP faces many of the same challenges. While strong M&A inflows have helped support the currency, fiscal concerns ahead of the UK budget on 28 October could become a growing headwind. Gilt yields remain elevated, and the new Chancellor faces difficult trade-offs as the latest energy shock pushes up both inflation and interest rates, eroding the UK's fiscal headroom.

AUD-NZD Divergence: The AUD continues to stand out on a carry basis as markets reassess the RBA's rate outlook in a more hawkish direction. This has helped keep the AUD supported despite ongoing USD strength. Market pricing has shifted meaningfully in recent weeks following upside surprises in both 2Q26 GDP growth and July CPI. OIS markets now assign around a 85% probability that the RBA will raise the cash rate to 4.60% from 4.35% next week, with a cumulative 39bp of further tightening priced in by end-2026.

While the housing market downturn is expected to weigh on economic growth at the margin, labour market conditions remain relatively tight. RBA Governor Bullock reiterated that the central bank remains focused on reducing inflation and estimates that unemployment may need to rise to 4.5%-5.0% to achieve that objective, although she stressed there is no specific unemployment target.

In contrast, the NZD has not benefited from the same terms-of-trade boost that has supported the AUD. Higher oil prices, driven by the renewed escalation in the US-Iran conflict, helped lift AUDNZD to nearly 1.25 from around 1.20 in late August. That said, hawkish comments from RBNZ Governor Breman may help limit further NZD weakness. Her warning that near-term inflation could run higher than previously expected suggests the market may need to scale up expectations of future policy tightening, reducing downward pressure on the currency.

USDKRW. Bearish engulfing plays out. KRW outperformed other Asian FX. Lower oil, easing US Treasury yields, improved tech sentiment and chatters of exporter sell flows ahead of Chuseok holidays (Thu- Fri) supported KRW. Strong export data, led by semiconductor shipments, also provided a favourable domestic backdrop. Foreign equity flows, however, remained broadly flat, with Bloomberg’s consolidated KOSPI/KOSDAQ measure showing a small USD3.1mn net outflow. A more sustained return of foreign equity inflows would add conviction to further KRW gains. Elsewhere on BoK-speak, board member Chang Yong-sung said the timing and pace of further rate hikes would depend on inflation, growth and financial-stability conditions, broadly reinforcing the BoK's data-dependent approach to further tightening.

USDKRW last closed at 1355 levels. The move also gives follow-through to the bearish engulfing signal highlighted in yesterday's *Daily Market Outlook* publication. Bullish momentum on daily chart shows signs of fading while RSI fell further from overbought conditions. Near term, sustained price action below 1363 (21 DMA) may keep the pressure on the pair, with 1348, 1334 the next levels to watch. Resistance at 1362, 1375 levels.

USDSGD. Eyes on CPI release today (1pm SGT). Attention now turns to today's CPI release, the final print before next MAS meeting in mid-Oct. After MAS tightened policy in both April and July, we think the bar for a third consecutive tightening has risen. Labour conditions have softened at the margin, with slower resident employment growth, higher retrenchments and somewhat softer wage intentions, which should also reduce the urgency for another tightening. This is particularly the case if core inflation remains broadly consistent with MAS' projected path and that the recent pullback in energy prices is sustained. An inflation print around expectations would therefore strengthen the case for keeping policy unchanged in October. A firmer-than-expected core print, especially if price pressures broaden beyond energy-related components, would keep another slight steepening of the S$NEER slope firmly in play. For SGD, this should leave the currency relatively supported even if MAS ultimately holds, as the existing policy stance still embeds an appreciating S$NEER path.

USDSGD last seen at 1.2750 levels. Bullish momentum eased slightly with RSI easing away from near overbought conditions. Support at 1.2740 (61.8% fibo retracement of 2026 low to high), 1.2710 (21 DMA). Resistance at 1.2780/90 levels (50, 200 DMAs, 50% fibo), 1.2810 (100 DMA).

IDR. BI today. Focus turns to BI's policy decision today, with the meeting coming against recent pressure on the IDR despite some easing in oil and the external backdrop. The policy rate is widely expected to remain unchanged at 5.75%, leaving BI's assessment of the currency and its policy response in focus. BI has continued to emphasise stability, backed by intervention across offshore NDF, domestic spot and DNDF markets. With IDR having weakened more recently after appreciating into mid-September, any reinforcement of its commitment to IDR stability will be closely watched. Near term, BI's FX stance, US Treasury yields and oil should remain key for IDR direction.

USDIDR last closed at 17872. Bullish momentum on daily chart intact but RSI rose into overbought conditions. Cautious on risk of snapback or if this gap higher represents a breakaway. Monitor price action. Next resistance at 17950, 18000 levels. Support at 17840 (50 DMA, 23.6% fibo retracement of 2026 low to high), 17780 (100 DMA) and 17690 (21 DMA).

Technical Levels Table

	EURUSD	USDJPY	GBPUSD	USDCHF	AUDUSD	NZDUSD	USDCAD	XAUUSD	USDSGD	USDPHP	USDINR
Resistance 3	1.1550	159.23	1.3482	0.8287	0.7179	0.5834	1.4176	4511	1.2819	62.84	96.22
Resistance 2	1.1501	158.28	1.3417	0.8246	0.7145	0.5779	1.4117	4427	1.2787	62.77	95.95
Resistance 1	1.1475	157.84	1.3381	0.8225	0.7130	0.5753	1.4090	4394	1.2769	62.74	95.77
Spot	1.1448	157.47	1.3344	0.8209	0.7112	0.5724	1.4066	4362	1.2751	62.72	95.59
Support 1	1.1426	156.89	1.3316	0.8184	0.7096	0.5698	1.4031	4310	1.2737	62.67	95.50
Support 2	1.1403	156.38	1.3287	0.8164	0.7077	0.5669	1.3999	4259	1.2723	62.63	95.41
Support 3	1.1354	155.43	1.3222	0.8123	0.7043	0.5614	1.3940	4174	1.2691	62.56	95.14
Bollinger Band											
Bollinger Upper	1.1700	160.84	1.3634	0.8270	0.7237	0.5971	1.4078	4526	1.2792	63.15	96.31
Bollinger Lower	1.1425	152.24	1.3322	0.8023	0.7079	0.5664	1.3727	4232	1.2631	61.93	94.36

Source: Bloomberg, OCBC Group Research. Potential resistance and support levels are identified based on pivot points

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