

Three Take-Aways

- 1) **Softer inflation and patient Fed guidance have reduced October hike odds.**
- 2) **US manufacturing remained resilient, but higher input costs reinforced inflation concerns and the Fed's tightening bias.**
- 3) **Renewed Middle East tensions threaten to tighten energy supplies and sustain global inflation pressures.**

MACRO THEME: October Hike Odds Fade

- **Some Fed officials pushed back against expectations of an immediate follow-up hike.** Vice Chair Jefferson said policymakers need more time to assess incoming data and the impact of higher bond yields, while New York Fed President Williams saw "no need for urgency" after September's increase. Governor Bowman similarly indicated that further action this year is not pressing.

- **The dovish comments followed softer-than-expected August PCE data**, strengthening the case for patience. **Market pricing for a 25bp October hike has fallen** from above 60% before the release to below 30%.

- However, Fed officials have yet to reach a consensus. **Dallas Fed President Logan remained the hawkish outlier**, calling for at least 50bp of additional tightening.

- Overall, **the Fed is signalling a slower pace of tightening** rather than an end to the hiking cycle. October now appears likely to deliver a hold, while December remains live. **The repricing should ease pressure on front-end Treasury yields**, but above-target inflation and persistent supply-side risks may limit the scope for a sustained bond rally.

Factory Activity Remains Healthy, but Costs Climb

- The ISM manufacturing index edged down to **54.5 in September from 54.6**, slightly below market expectations, **but remained in expansion for a ninth consecutive month**. The modest headline decline largely reflected weaker inventories rather than softer underlying demand.

- **New orders rose to 55.3 from 53.7, while order backlogs jumped to 56.4 from 51.8, the highest since February.** Employment also strengthened to 52.7, providing an encouraging signal ahead of the September payroll report. Production eased to 56.7 after August's strong reading but remained comfortably expansionary. Meanwhile, low customer inventories leave scope for further orders if final demand holds up.

- The main concern was inflation. **Prices paid surged 6.8 points to 77.9, driven by tariffs, higher metal and energy costs, and continuing supply disruptions.** Supplier deliveries remained slow, while capital-equipment lead times lengthened further, highlighting persistent capacity constraints.

- Overall, **the data support a continued tightening bias**, but the timing of the next policy move will depend largely on how quickly higher factory costs feed through to consumer inflation.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(JP) Tankan Large Mfg Index (3Q)	24.0	25.0	22.0
(US) Initial Jobless Claims	197k	200k	197k
(US) ISM Manufacturing (Sep)	54.5	55.0	54.6
(KR) Trade Balance (Sep)	\$49.8b	\$38.9b	\$34.7b
(ID) CPI YoY (Sep)	3.3%	3.3%	2.9%
Today	Actual	Exp.	Prior
(SG) Purchasing Managers Index (Sep)		--	51.5
(KR) CPI/Core YoY (Sep)		2.9%/2.8%	3.1%/3.4%
(US) Change in Nonfarm Payrolls (Sep)		85k	162k
(US) Unemployment Rate (Sep)		4.1%	4.1%
(US) Average Hourly Earnings MoM (Sep)		0.3%	0.3%
(EZ) CPI/Core YoY (Sep P)		3.7%/2.5%	3.2%/2.4%
(JP) Job-To-Applicant Ratio / Jobless Rate (Aug)	1.18%/2.5%	1.18%/2.4%	1.18%/2.4%

Renewed Conflict Risks Tighten Global Energy Markets

- Trump warned that Iran must accept a deal or face existential consequences and said **an escalation in military strikes after the November midterm elections was possible.**

- Reports that Washington is reinforcing its regional presence in the Middle East with **an additional carrier group further raised the probability of renewed military action.**

- Near-term supply risks also intensified after **another tanker was struck by an unidentified projectile in the Strait of Hormuz.** The incident highlights persistent disruption risks along a waterway critical to global oil flows.

- The refined products market looks particularly vulnerable. **Chinese refiners suspended October fuel exports outside Hong Kong and Macau**, prioritising domestic inventories amid uncertainty over Middle Eastern crude supplies.

- **Washington also urged European governments to release emergency diesel reserves immediately**, while warning that a **US diesel export ban remained possible.** These developments risk tightening an already strained global diesel market and widening refining margins.

- Overall, the **renewed energy supply risks** could sustain inflation through higher fuel, freight and transport costs, **limiting central banks' policy flexibility.**

Yields (2Y: -9.6bp; 10Y: -4.4bp; 30Y: -1.6bp)

Equities (Nasdaq: +0.04%; S&P500: +0.2%; Dow: +0.04%)

FX (DXY: +0.6%)

Japan: A Solid Tankan with Softer Edges

- 3Q26 Tankan survey showed a resilient but increasingly uneven corporate backdrop. **The business conditions index for large manufacturers rose to +24 from +22.** Manufacturing strength was broad-based, led by production machinery, non-ferrous metals and petroleum products, while sentiment among automakers edged lower.

- By contrast, **the large non-manufacturing index declined to +35 from +37**, suggesting that **elevated energy costs and softer domestic demand are beginning to weigh on services.**

- **The divergence was less pronounced among smaller firms.** Small manufacturer sentiment improved to +14 from +9, while small non-manufacturers held steady at +15.

- **Forward looking indicators were more cautious.** Large manufacturers expect their index to ease to +21 in December, while large non-manufacturers see a sharper decline to +30.

- Firms also revised their assumed FY2026 USD/JPY rate to around 154.2, weaker than the June assumption of 152.6, reflecting **growing acceptance of persistent yen weakness.**

- Overall, the survey's forward looking indicators were less encouraging than the headline results, suggesting that **the current resilience in corporate activity may become harder to sustain toward year-end.**

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	158.09	157.93	+0.43%	155.00 - 160.00
EURUSD	1.1244	1.1248	▼0.76%	1.1200 - 1.1500
GBPUSD	1.3197	1.3197	▼0.51%	1.3100 - 1.3500
AUDUSD	0.6931	0.6928	▼0.23%	0.6900 - 0.7100
DXY	102.1	--	+0.64%	99.5 - 102.5
USDCNY	6.7060	--	+0.00%	6.6800 - 6.7500
USDCNH	6.7142	6.7147	+0.08%	6.6700 - 6.7500
USDHKD	7.8459	7.8463	▼0.01%	7.8200 - 7.8500
USDSGD	1.2805	1.2803	+0.26%	1.2650 - 1.2810
USDKRW	1363	1361	+0.00%	1350 - 1380
USDTWD	31.86	--	+0.05%	31.50 - 32.20
USDINR	96.32	--	+0.52%	95.20 - 96.50
USDIDR	17950	--	+0.45%	17680 - 18000
USDMYR	4.086	4.086	+0.15%	4.050 - 4.110
USDPHP	62.79	--	+0.24%	62.50 - 63.20
USDTHB	33.70	33.66	+0.43%	33.1 - 34.0
USDVND	25974	25974	+0.04%	25800 - 26200

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.793	5.243	-9.6	-4.4
JGB (JP)	1.937	3.111	0.2	6.2
Bunds (GE)	3.061	3.507	-14.2	-7.8
Gilts (UK)	4.802	5.397	-8.3	-2.6
AGB (AU)	4.986	5.402	3.4	5.3
SGS (SG)	1.970	2.473	-0.2	1.9
CGB (CN)	1.239	1.674	0.0	0.0
KGB (KR)	3.977	4.442	0.0	4.2
SDL (IN)	6.539	7.213	0.0	2.5

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	7666.45	14.91	+0.19%
Nasdaq (US)	26871.6	10.54	+0.04%
DJIA (US)	50926.56	20.51	+0.04%
N225 (JP)	68956.72	2203.00	+3.30%
STOXX50 (EU)	6175.45	-93.57	▼1.49%

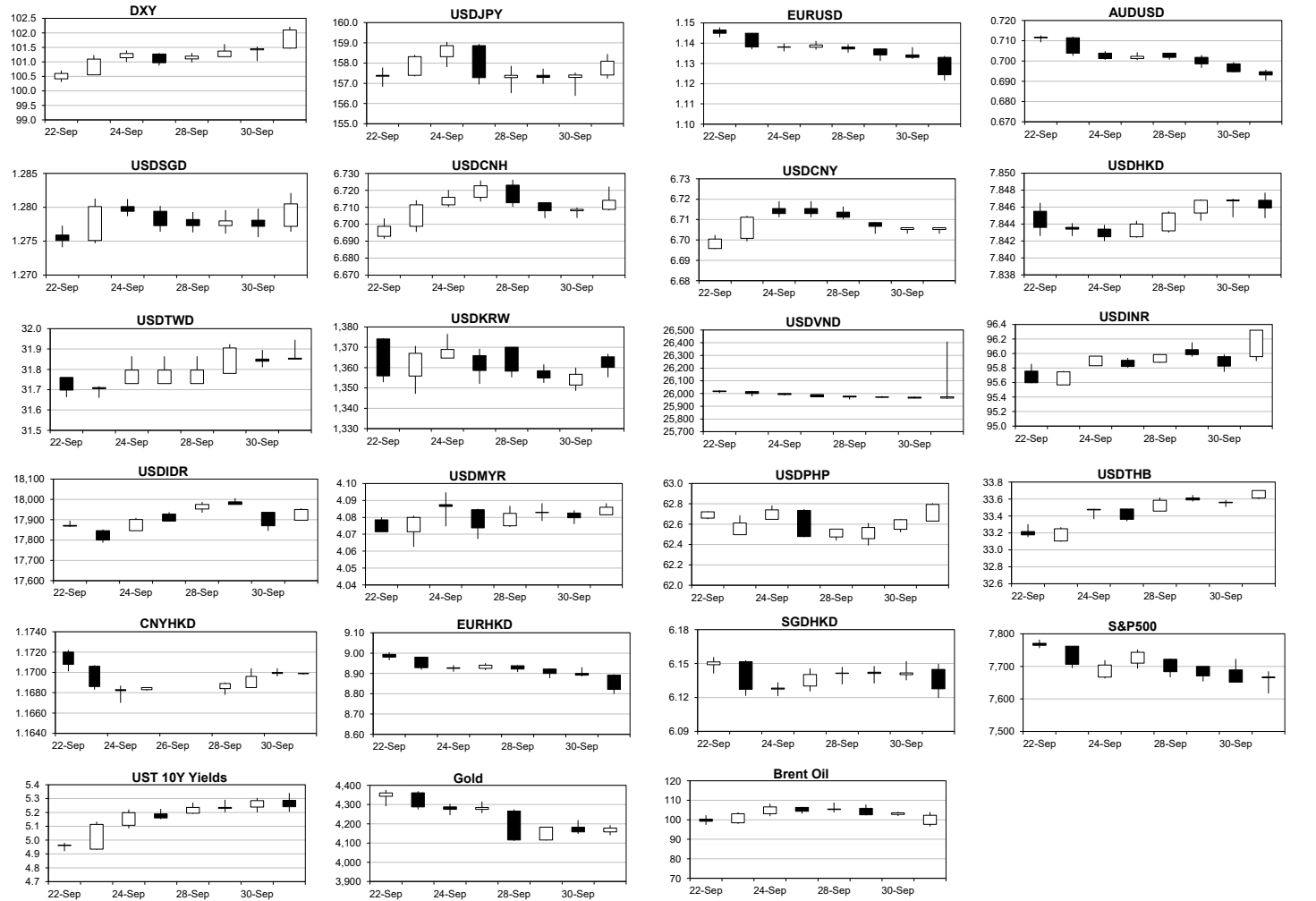
Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	14,281.54	-171.50	▼1.19%
IRON ORE (CN)	92.34	-4.46	▼4.40%
GOLD	4,177.66	20.25	+0.49%
SILVER	60.99	-0.06	▼1.95%
OIL (BRENT)	102.31	-1.22	▼1.18%
OIL (WTI)	92.87	2.45	+2.71%
NATURAL GAS	2.97	0.57	+0.94%

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	177.75	177.63	▼0.34%
GBP/JPY	208.637	208.415	▼0.08%
JPY/SGD (100yen)	0.81	0.8107	▼0.22%
JPY/HKD (100yen)	4.9634	4.9683	▼0.45%
CNH/JPY	23.613	23.544	+0.71%
CNH/HKD	1.1699	1.1699	+0.00%
EUR/GBP	0.852	0.85228	▼0.25%
AUD/NZD	1.2363	1.237	+0.27%
EUR/CNH	7.5505	7.5533	▼0.69%
GBP/CNH	8.8603	8.8616	▼0.43%
CNY/HKD	1.1699	1.1699	+0.00%
EUR/HKD	8.8213	8.8252	▼0.79%
SGD/HKD	6.1277	6.1286	▼0.23%

*Open is as at 8am HKT/SGT.

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5633.2	-95.21	▼1.66%
STI (SG)	5667.67	-8.21	▼0.14%
SHCOMP (CN)	3842.195	0.00	+0.00%
SZCOMP (CN)	2404.476	0.00	+0.00%
HSI (HK)	24613.27	0.00	+0.00%
SENSEX (IN)	71909.7	-570.59	▼0.79%
JSE (ID)	6009.502	-61.64	▼1.02%
KLSE (MY)	1630.36	-20.81	▼1.26%
PSE (PH)	5629.47	-50.01	▼0.88%
SET (TH)	1563.91	4.90	+0.31%
VNINDEX (VN)	1749.3	-0.01	▼1.09%

CHARTS



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