

**MARKET SUMMARY**

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	144.36	144.76	+0.28	+1.65
EUR	1.0918	1.0865	▼0.0048	▼0.0091
AUD	0.6624	0.6616	+0.0016	▼0.0140
SGD	1.3533	1.3565	+0.0037	+0.0115
CNY	7.2393	7.2475	+0.0082	+0.0681
INR	82.06	82.06	+0.00	+0.11
IDR	14993	14993	+0	+53
MYR	4.6718	4.6722	+0.0000	+0.0175
PHP	55.34	55.33	+0.00	▼0.31
THB	35.62	35.62	+0.01	+0.58

\*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.838%	+13.1 bp	+4.4 bp
JPY (10YR)	0.391%	+0.2 bp	+1.2 bp
EUR* (10YR)	2.416%	+10.1 bp	▼7.8 bp
AUD (5YR)	3.837%	+5.2 bp	▼6.4 bp
SGD (5YR)	3.074%	+0.0 bp	▼0.6 bp
CNY (5YR)	2.440%	▼1.5 bp	▼2.6 bp
INR (5YR)	7.018%	+0.0 bp	▼1.6 bp
IDR (5YR)	5.911%	+0.0 bp	▼4.0 bp
MYR (5YR)	3.585%	+0.0 bp	+2.2 bp
PHP (5YR)	6.004%	+1.2 bp	+9.7 bp
THB (5YR)	2.314%	▼0.7 bp	▼2.9 bp

\* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	34,122.42	+0.80%	+0.52%
N225 (JP)	33,234.14	+0.12%	▼0.09%
STOXX 50 (EU)	4,354.69	+0.23%	+1.17%
ASX (AU)	4,064.45	▼0.44%	▼0.41%
STI (SG)	3,207.28	+0.00%	▼0.47%
SHCOMP (CN)	3,182.38	▼0.22%	▼0.49%
SENSEX (IN)	63,915.42	+0.00%	+1.07%
JSE (ID)	6,661.88	+0.00%	+0.14%
KLSE (MY)	1,388.37	+0.00%	▼0.45%
PSE (PH)	6,511.49	+0.13%	+1.66%
SET (TH)	1,479.57	+0.86%	▼1.97%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	259.08	▲0.06%	▲2.50%
COPPER (LME)	8,177.00	▲1.00%	▲4.69%
IRON ORE (CN)	112.66	▲0.11%	▲0.22%
GOLD	1,908.20	+0.05%	▲0.30%
OIL (WTI)	69.86	+0.43%	+0.50%

**Three Take-aways:**

- 1) Headline PCE relief buoyed sentiments; services ought to caution against complacency.
- 2) Soaring equities and weaker USD reflect stronger risk appetite; UST yields warns of pre-mature relief.
- 3) Despite headline CPI decline, the RBA may not be out of hawkish fuel at tomorrow's meeting.

**Relief or Complacency?**

- Last Friday's PCE deflator at 3.8% YoY was aligned with consensus while on a core basis, the price increase printing at 4.6% was **below market expectations**. The **goods-services divergence** was evident as prices of goods rose 1.1% while prices of services was up 5.3%.

- Admittedly, amid **improving consumer sentiments** reflected in the UNI of Michigan survey, US equities were also inevitably buoyed by the favourable headline/core PCE deflator prints which allayed fears of tighter policy triggered by lower jobless claims earlier.

- As for US Treasuries, overall reactions were understandably muted given that **yields had already surged** the previous day. That said, the 3.6 bp rise on 2Y UST yields reminds that the PCE deflator print is far from **swaying policy** and yet does not bare **full resemblance** to "risk on" sentiments.

- **Services** also feature prominently in the Eurozone CPI release as core inflation edged higher to 5.4%. Nonetheless, **headline inflation dropping below expectation to 5.5%** assisted Euro Stoxx gains.

- The **fade of USD's haven allure** was evident in its **broad decline** against all G10 peers and reflecting so the USD/JPY slipped back below mid-144 despite higher UST yields. EUR is back above 1.09 while AUD heads back to mid-65 cents. Elsewhere, USD/SGD fell towards 1.35.

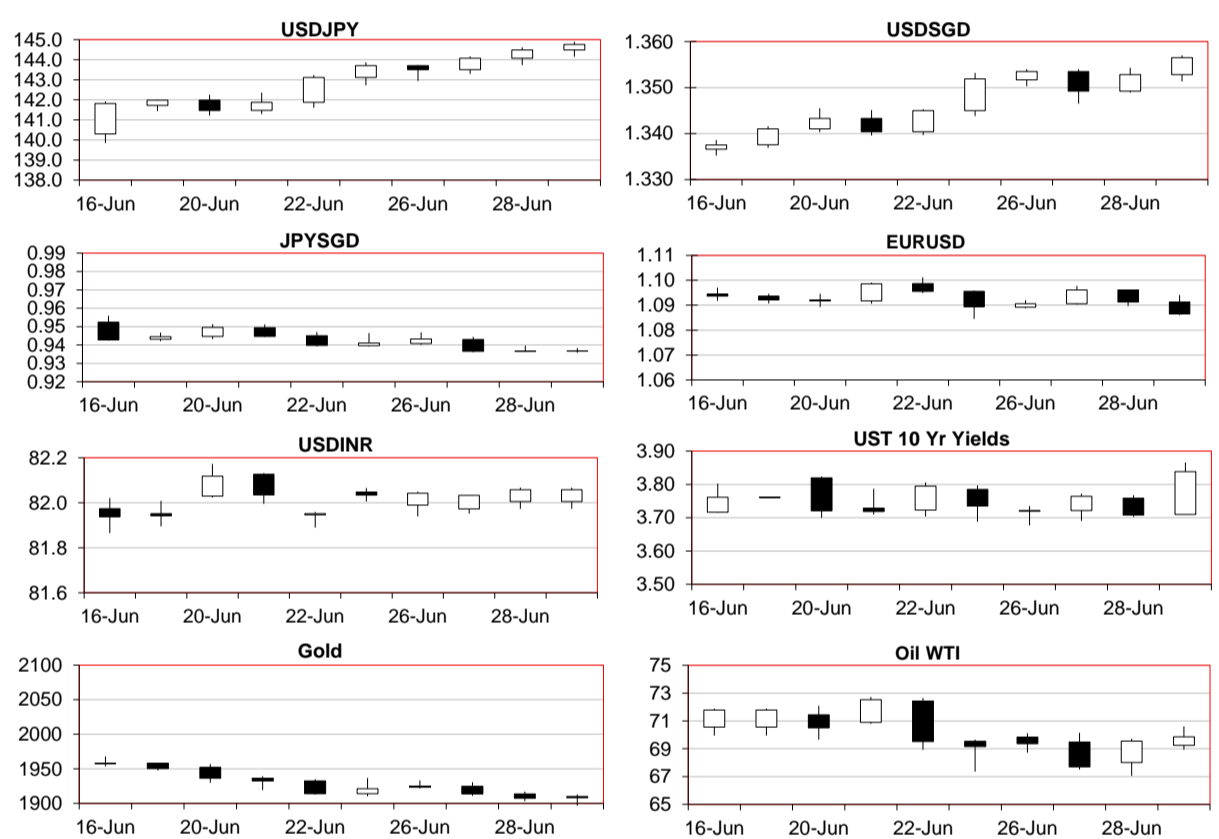
**RBA: Of Fuel and Pit Stops**

- The question for the RBA will surround the policy implications of a **sharper than expected decline in May's headline inflation to 5.6% from 6.8% in April**.

- **It would be hard not to notice that the key driver behind the decline was an 8% YoY decline on fuel costs**. As such, inflation measures excluding volatile items (fruit and vegetables, fuel) and holiday travel stood rather firm at 6.4% YoY (down marginally from 6.5% in April).

**OVERNIGHT RESULTS**

(CH) Mfg/Non-manufacturing PMI (Jun): 49.0/ 53.2 (Mkt: 49.0/53.2; May: 48.8/54.5) | (US) U. of Mich. Sentiment (Jun F): 64.4 (Mkt: 63.9; May P: 63.9) | (US) MNI Chicago PMI (Jun): 51.5 (Mkt: 44.0; May: 40.4) | (US) PCE Deflator/Core YoY (May): 3.8%/4.6% (Mkt: 3.8%/4.7%; Apr: 4.7%/4.4%) | (EZ) CPI/Core YoY (Jun): 5.5%/5.4% (Mkt: 5.6%/5.5%; May: -/5.3%) | (EZ) Unemployment Rate (May): 6.5% (Mkt: 6.5%; Apr: 6.5%)

**Past Two Weeks Movement \***

**TODAY'S COMMENTS & FORECAST**
**Open**

USD/JPY	144.80	EUR/USD	1.0868
USD/SGD	1.3563	USD/THB	35.65
JPY/SGD	0.9367	USD/MYR	4.671

**Forecast**

USD/JPY	143.10 - 145.00
EUR/USD	1.0800 - 1.0940
AUD/USD	0.6620 - 0.6730
USD/SGD	1.3500 - 1.3655
JPY/SGD	0.9310 - 0.9542
USD/CNH	7.2500 - 7.2800
USD/INR	81.90 - 82.25
USD/IDR	14950 - 15070
USD/MYR	4.650 - 4.700
USD/PHP	55.10 - 55.65
USD/THB	35.40 - 35.70

**Today's Direction**

	Bull	Bear
USD/SGD	6	1
USD/JPY	6	1

- Apart from these historical data, the RBA's concern will be inevitably a forward looking one to determine if the lower transportation cost will pass on to dent upside in price pressures.

- The likely answer is that **the passthrough impact on businesses will be insufficient** considering continued labour cost concerns and impending electricity tariff increases.

- In fact, aside from statistical base effects, **further fuel price declines are in doubt**.

- Furthermore, the **Australian household's purchasing power looks resilient** with retail sales **staying buoyed** on food and food services such as cafes, restaurant and takeaway food services on top of discretionary occasional promotional retail events.

- Thus far, RBA's hawkish tones and out of consensus hikes have shifted the markets perceptions of their rate hike path. Specifically, markets are pricing in another 40bps of hikes in H2 2023 compared to expecting (as at early May) prolonged rate hold followed by rate cuts at the end of 2023. This inflation print alone will not and should not revert expectations for policy easing.

- As for the **policy calculus**, the RBA Minutes' **documented fears of price and wage setting behaviours** based on recent inflationary trends have certainly not faded in this short span. If anything, these fears continue to be backed by **tight labour market conditions displaying strong employment gains**.

- That said, the Minutes' allusion to reconsider pausing at subsequent meetings is now on the cards. **On balance, we think that the RBA may not have ran out of hawkish fuel at their 4 July meeting despite the looming sight of a pit stop ahead.**

**FX Daily Outlook**

- EUR/USD: Caution against extrapolating 1.09 consolidation towards 1.10 rally.

- USD/JPY: Sub-144 slippages are not straight forward given higher UST yields.

- USD/SGD: 1.35 backstop looks retained as stabilising CNY is far from a pivot in weakness.

- AUD/USD: RBA uncertainty may lean to buoy above 66 cents.

**TODAY'S EVENTS**

(JP) Tankan Large Mfg Index/Outlook (2Q): 5.0/ 9.0 (Mkt: 3.0/4.0; 1Q:1.0/3.0)

(JP) Tankan Large All Industry Capex (2Q) 13.4% (Mkt: 10.0%; 1Q: 3.2%) | (EZ) Mfg PMI (Jun F) (Jun P: 43.6)

(CH) Caixin China PMI Mfg (Jun): (Mkt: 50.0; May: 50.9) | (SG) Purchasing Managers/Elect. Sector Index (Jun) (May: 49.5/49.1)

(AU) Building Approvals MoM (May): (Apr: -8.1%) | (ID) CPI/Core YoY (Jun) (Mkt: 3.7%/2.7%; May: 4.0%/2.7%) |

(TH) Business Sentiment Index (Jun): (May: 49.7) | (US) ISM Manufacturing (Jun): (Mkt: 47.1; May: 46.9)

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