

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	144.82	144.68	+0.37	+1.17
EUR	1.0874	1.0912	+0.0003	+0.0006
AUD	0.6643	0.6673	+0.0009	▼0.0002
SGD	1.3531	1.3512	▼0.0012	▼0.0023
CNY	7.2528	7.2468	▼0.0069	+0.0067
INR	81.92	81.96	▼0.08	▼0.09
IDR	15028	15025	+32	+10
MYR	4.6757	4.6665	+0.0000	▼0.0085
PHP	55.31	55.31	+0.11	▼0.39
THB	35.19	35.23	▼0.23	+0.03

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.855%	+1.8 bp	+13.3 bp
JPY (10YR)	0.405%	+0.4 bp	+4.4 bp
EUR* (10YR)	2.437%	+4.5 bp	+12.8 bp
AUD (5YR)	3.895%	▼6.0 bp	+2.7 bp
SGD (5YR)	3.096%	▼2.2 bp	+3.6 bp
CNY (5YR)	2.423%	+1.5 bp	▼4.3 bp
INR (5YR)	7.091%	+1.0 bp	+7.5 bp
IDR (5YR)	5.892%	▼1.9 bp	▼4.4 bp
MYR (5YR)	3.604%	▼0.5 bp	+0.3 bp
PHP (5YR)	6.073%	+1.9 bp	+13.1 bp
THB (5YR)	2.313%	▼0.1 bp	▼0.6 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	34,418.47	+0.03%	+2.09%
N225 (JP)	33,753.33	+1.70%	+3.22%
STOXX 50 (EU)	4,398.15	▼0.02%	+2.75%
ASX (AU)	4,097.65	+0.03%	+1.26%
STI (SG)	3,207.10	+0.04%	+0.55%
SHCOMP (CN)	3,243.98	+1.31%	+2.96%
SENSEX (IN)	65,205.05	+0.75%	+3.55%
JSE (ID)	6,696.72	+0.52%	+0.48%
KLSE (MY)	1,395.89	+1.40%	+0.43%
PSE (PH)	6,508.21	+0.62%	▼0.23%
SET (TH)	1,506.84	+0.25%	+1.45%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	260.90	▲0.42%	▲0.97%
COPPER (LME)	8,397.00	+0.90%	▲0.30%
IRON ORE (CN)	110.05	▲2.24%	▲2.03%
GOLD	1,921.64	+0.12%	▲0.08%
OIL (WTI)	69.79	▼1.20%	+0.61%

Three Take-aways:

- 1) US ISM manufacturing signals weak orders and falling employment demand.
- 2) Extension of Saudi production cuts are more restrains of oil prices slips rather than price boosters.
- 3) EM-Asia FX may be subject to more sell-off on further CNH stress.

Manufacturing Restrains

- Amid recent tendencies to partake in relief of various form (from even tighter policy or more resilient market), **US ISM manufacturing** has perhaps **injected a dose of restrain** against complacent sentiment. Specifically, within the ISM report, employment sank into **contractionary territory** while new orders showed an improvement, it remains entrenched below 50.

- Consequently, US equities rally showed restrain with the Dow staying flat while the S&P 500 and Nasdaq went up 0.1%. Meanwhile, the **bear steepening** of yield curve continued as UST 2Y yields led with a 4.0bps gain while 10Y yields rose 1.8bp.

- Nonetheless, **straight forward extrapolation of ISM pessimism** to the end of week NFP also ought to be **restrained** given that services activity may provide partial offsets.

- Meanwhile, the USD ended mixed against G10 peers. While OPEC+ **extension** of unilateral cuts by Saudi provided assistance for commodity currencies, Brent crude's 1.0% decline is telling of demand worries with these **production cuts turning out to be more of restraining the extent of slipping energy prices rather than price boosters**.

- For USD/JPY, it remains inevitably elevated hovering around mid-144. Similarly, EUR floats above 1.09. In EM-Asia, USD/SGD slipped closer to 1.35 alongside PBoC's lean against CNH depreciation.

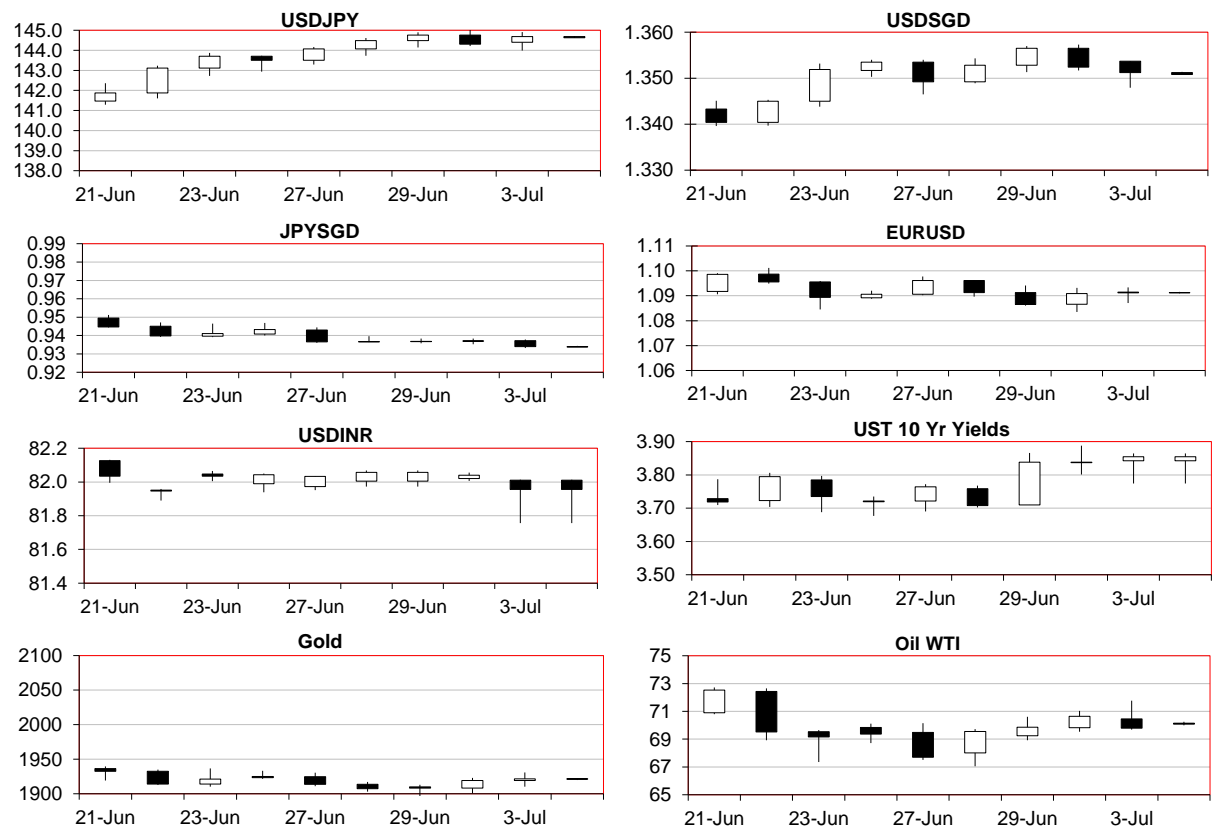
- Down Under, AUD's position around mid-66 cents may rupture into 2 way volatility as hawkish leanings in July tussles with the likelihood of a pit stop in August.

EM-Asia FX: Beware CNH Drag

- Recent CNH under-performance is remarkable. Admittedly, for its depth; 4-5% against the USD since mid-May. But arguably, more for its dampened effect on EM Asia FX as a whole; which is *fairly visible in the sharp upswing in AXJ/CNH* (consistent with AXJ out-performing CNH).

OVERNIGHT RESULTS

(CH) Caixin China PMI Mfg (Jun): 50.5 (Mkt: 50.0; May: 50.9) | (SG) Purchasing Managers/Elect. Sector Index (Jun): 49.7/49.0 (May: 49.5/49.1) | (AU) Building Approvals MoM (May): 20.6% (Mkt: 3.0%; Apr: -8.1%) | (ID) CPI/Core YoY (Jun): 3.5%/2.6% (Mkt: 3.6%/2.6%; May: 4.0%/2.7%) | (TH) Business Sentiment Index (Jun): 51.0 (May: 49.7) | (US) ISM Manufacturing (Jun): 46.0 (Mkt: 47.1; May: 46.9)

Past Two Weeks Movement

TODAY'S COMMENTS & FORECAST
Open

USD/JPY	144.59	EUR/USD	1.0913
USD/SGD	1.3508	USD/THB	35.04
JPY/SGD	0.9342	USD/MYR	4.660

Forecast

USD/JPY	143.70 - 145.00
EUR/USD	1.0830 - 1.0940
AUD/USD	0.6620 - 0.6730
USD/SGD	1.3480 - 1.3655
JPY/SGD	0.9297 - 0.9502
USD/CNH	7.2400 - 7.2800
USD/INR	81.80 - 82.15
USD/IDR	14950 - 15070
USD/MYR	4.650 - 4.700
USD/PHP	55.10 - 55.65
USD/THB	35.00 - 35.35

Today's Direction

	Bull	:	Bear
USD/SGD	2	:	5
USD/JPY	2	:	5

- That's to say, the sway of CNH sell-off on other Asia FX (as well as AUD) have been far more muted than historically high (positive) correlations would have otherwise suggested.

- Specifically, the *(positive) correlation between CNH moves and Asia FX* (including AUD) has been **significant and consistent**; to the order of *some 68%* since 2018, and with tendency for reversion from dips. What's more, *with over 70% sensitivity (of AXJ to CNH)*, CNH impact is **material**.

- Admittedly, there are one-off and cyclical China-specific triggers and pressures at work undermining the CNH currently, accounting for relative AXJ out-performance vis-à-vis the CNH.

- Nonetheless, **inextricable and enlarged supply-chain and investment linkages** between China and the rest of Asia, which dwarfs almost all other bi-lateral commercial linkages, **underpin the intertwined fates of the CNH and other EM Asia currencies**.

- Broader point being, the **buffer that EM Asia FX have against drag from CNY** pressures is likely **temporary and partial dampener**, not a durable departure from **entrenched positive correlation**. Point being, any **weakening in correlations** between CNH and other AXJ currencies have been **brief**, and **crucially**, the **reasserted CNH impact on other AXJ has been significant**.

- What's more, this suggests is that it is reckless to assume the same degree of buffer on further bouts of CNH pressures. *In fact, it is too presumptuous to even have confidence that current AXJ out-performance against CNH will be retained* should sentiments sour.

- Upshot being, if CNH soft spots show further signs of stress, accentuated by greater pressures for capital outflows, it will lay bare **dangers of more generalized and sympathetic AXJ sell-off**.

FX Daily Outlook

- EUR/USD: 1.09 consolidation to continue amid US holidays.
- USD/JPY: Buoyancy still pare for the course but outsized volatility to be watched.
- USD/SGD: PBoC leaning may tempt shallow sub-1.35 slips but durability in doubt.
- AUD/USD: RBA hawks backstop 66 cents but looming August stop restrains mid-67 cents.

TODAY'S EVENTS

(KR) CPI YoY (Jun): 2.7% (Mkt: 2.8%; May: 3.3%)

Central Banks: RBA Cash Rate Target

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