

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	144.48	144.66	+0.19	+0.18
EUR	1.0888	1.0854	▼0.0025	▼0.0059
AUD	0.6682	0.6655	▼0.0037	+0.0055
SGD	1.3520	1.3534	+0.0014	+0.0006
CNY	7.2429	7.2505	+0.0343	+0.0112
INR	82.17	82.22	+0.20	+0.17
IDR	15023	15015	+22	+22
MYR	4.6515	4.6520	+0.0018	▼0.0202
PHP	55.39	55.40	+0.16	+0.07
THB	34.87	34.89	+0.00	▼0.73

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.932%	+7.7 bp	+22.4 bp
JPY (10YR)	0.392%	+0.6 bp	+0.3 bp
EUR* (10YR)	2.478%	+2.5 bp	+16.3 bp
AUD (5YR)	3.927%	▼0.2 bp	+14.2 bp
SGD (5YR)	3.090%	▼0.4 bp	+1.6 bp
CNY (5YR)	2.417%	▼0.9 bp	▼3.8 bp
INR (5YR)	7.066%	▼1.5 bp	+4.8 bp
IDR (5YR)	5.898%	▼0.5 bp	▼1.3 bp
MYR (5YR)	3.661%	+3.3 bp	+7.6 bp
PHP (5YR)	6.145%	+4.1 bp	+15.3 bp
THB (5YR)	2.298%	▼0.1 bp	▼2.3 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	34,288.64	▼0.38%	+1.29%
N225 (JP)	33,338.70	▼0.25%	+0.44%
STOXX 50 (EU)	4,350.71	▼0.92%	+0.14%
ASX (AU)	4,055.33	▼0.98%	▼0.66%
STI (SG)	3,185.38	▼0.57%	▼0.68%
SHCOMP (CN)	3,222.95	▼0.69%	+1.05%
SENSEX (IN)	65,446.04	▼0.05%	+2.39%
JSE (ID)	6,718.98	+0.56%	+0.86%
KLSE (MY)	1,389.90	▼0.19%	+0.11%
PSE (PH)	6,512.39	▼0.03%	+0.15%
SET (TH)	1,508.87	▼0.42%	+2.86%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	262.80	+0.73%	+1.38%
COPPER (LME)	8,304.00	▲0.50%	+0.54%
IRON ORE (CN)	111.19	+0.68%	▲1.41%
GOLD	1,915.30	▲0.53%	+0.42%
OIL (WTI)	71.79	+2.87%	+3.21%

Three Take-aways:

- 1) FOMC minutes affirms a July hike and dampens risk sentiments.
- 2) Higher UST yields from cross Atlantic spillovers as UK gilts awakens threat of higher borrowing costs.
- 3) Case for BNM to hold rates is far from solid given MYR depreciation concerns amid stable growth.

Revelations

- FOMC minutes stating that "Almost all participants noted that... additional increases in the target federal funds rate during 2023 would be appropriate" is an **important point but not a revelation** given that the **signals were already present** via the Dot Plot.
- Reflecting the **already baked in expectations**, UST 2Y yields edged up 0.9bps.
- Meanwhile, UST 10Y yields ascended 7.7bps is **certainly not a nod for "risk on"**. It is more of the **cross Atlantic spillover** from soaring Gilt yields (10Y: +8.1bp).
- While BoE's rate hikes imply that **soaring borrowing costs should not be a huge revelation**, the **awakening also stems from the interactions from a lack of central bank buying**.
- Reflecting subdued sentiments, US equities slipped with the Dow lower by 0.4% while S&P500 and Nasdaq edged down 0.2%. In FX, USD gained ground against nearly all G10 peers in an environment of higher UST yields and subdued sentiments. Remarkably, USD/JPY staying flat may point to seeping caution surrounding MoF intervention.
- EUR weakened towards mid-1.08 alongside another downward revision for services PMI. Asia was also not spared with **China's Caixin services PMI revealing to be an utter disappointment**.
- Along CNH weakness, USD/SGD rose back above 1.35 while AUD fell to mid-66 cents.

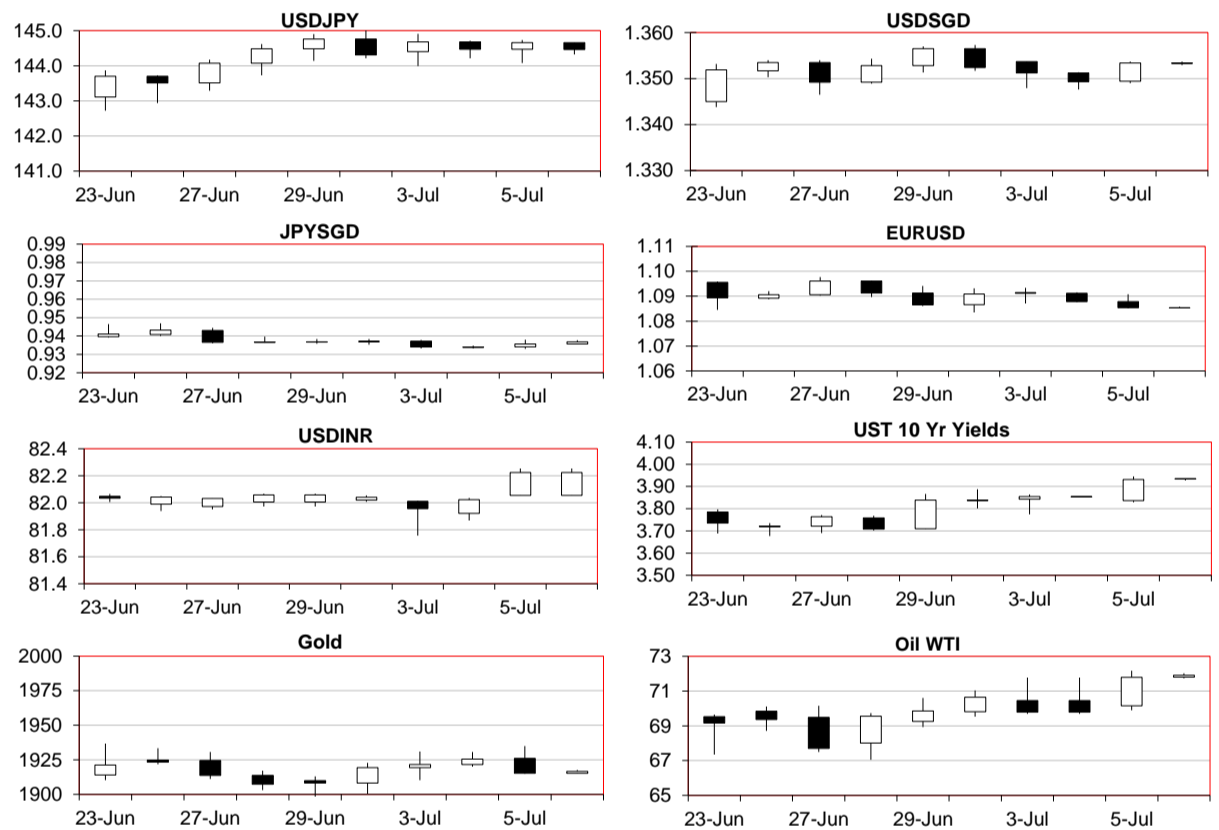
BNM's Tight Call: Slight Accommodation, Excessive Depreciation

- While we had expected the BNM to hold rates at their meeting today, this **call to stand pat on policy is now admittedly very tight** amid recent (end-June) signals of FX intervention by the BNM's Financial Markets Committee to stem excessive volatility.

OVERNIGHT RESULTS

(CH) Caixin China PMI Services (Jun): 53.9 (Mkt: 56.2; May: 57.1) | (SG) Retail Sales/Ex Auto YoY (May): 1.8%/1.8% (Apr: 3.6%/4.2%) | (TH) CPI/Core YoY (Jun): 0.2%/1.3% (Mkt: 0.0%/1.4%; May: 0.5%/1.6%) | (PH) CPI YoY (Jun): 5.4% (Mkt: 5.5%; May: 6.1%) | (US) Durable Goods Orders/Nondef Ex Air (May F): 1.8%/0.7% (Mkt: 1.7%/0.7%; May P: 1.7%/0.7%) | (EZ) Services PMI (Jun F): 52.0 (Mkt: 52.4; Jun P: 52.4) | (EZ) PPI YoY (May): -1.5% (Mkt: -1.3%; Apr: 1.0%)

* Past Two Weeks Movement *



TODAY'S COMMENTS & FORECAST

Open

USD/JPY	144.50	EUR/USD	1.0856
USD/SGD	1.3533	USD/THB	34.97
JPY/SGD	0.9365	USD/MYR	4.653

Forecast

USD/JPY	144.00 - 145.00
EUR/USD	1.0800 - 1.0910
AUD/USD	0.6620 - 0.6700
USD/SGD	1.3520 - 1.3655
JPY/SGD	0.9324 - 0.9483
USD/CNH	7.2350 - 7.2700
USD/INR	82.10 - 82.25
USD/IDR	14950 - 15070
USD/MYR	4.650 - 4.670
USD/PHP	55.20 - 55.50
USD/THB	34.80 - 35.00

Today's Direction

	Bull	Bear
USD/SGD	8	1
USD/JPY	4	5

- Admittedly, insofar that the **previous** hike in May was **intended** to "withdraw" monetary stimulus related to the Covid-19 pandemic, there might have been scope to tighten.
- But the **bar for a further hike** to remove the current "slightly" accommodative stance has been since **raised higher** given ongoing global manufacturing headwinds.
- The manufacturing troubles were laid bare as **industrial production declined** on both a year ago basis and sequentially and PMIs continued sinking in contractionary territory.
- Furthermore, **headline inflation's continued decline** dampens the case for further hikes. Nonetheless, elevated **core inflation at 3.5% (in May) remains a key challenge for the BNM**.
- Specifically, under the hood examination reveals that 55 out of 132 item categories in the CPI basket remains above the headline inflation of 2.8% and points to still evident price pressures.
- The recent complication stems from **MYR underperformance** alongside the CNH/CNY complex which has been deemed **excessive** by the BNM.
- The ringgit's weakening also throws up **unwelcomed imported inflation challenges**.
- While it is certainly **not outlandish to suggest** that a 25bp hike to improve rate differentials may help MYR stability, it should not be mistakenly extrapolated as a trigger for MYR outperformance.
- In the near term, state elections may throw up another political curveball for MYR performance.
- All in, while our base case is for the overnight policy rate to be unchanged at 3.00%, it is worth **flagging that the odds for a further 25 hike is at a non-negligible 35%**.

FX Daily Outlook

- EUR/USD: With services PMI affirming growth concerns, recovery to 1.09 out of reach.
- USD/JPY: Sideways trading as intervention risks tackle higher UST yields.
- USD/SGD: CNH's inability to sustain recovery buoys the pair above 1.35.
- AUD/USD: After slip to mid-0.66, AUD at risks of further downside from higher UST yields.

TODAY'S EVENTS

(AU) Trade Balance (May): (Mkt: A\$10700m; Apr: A\$11158m) | (TW) CPI/Core YoY (Jun): (Mkt: 1.8%/-; May: 2.0%/2.6%) | (US) ADP Employment Change (Jun): (Mkt: 240k; May: 278k) | (US) JOLTS Job Openings (May): (Mkt: 9968k; Apr: 10103k) | (US) Initial Jobless Claims: (Mkt: 245k; Prior: 239k) | (US) ISM Services Index (Jun): (Mkt: 51.3; May: 50.3) | (EZ) Retail Sales YoY (May): (Mkt: -2.7%; Apr: -2.6%)
Central Banks Decision: **BNM Overnight Policy Rate**

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