

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	143.27	142.21	▼1.86	▼2.10
EUR	1.0875	1.0967	+0.0078	+0.0058
AUD	0.6632	0.6690	+0.0064	+0.0026
SGD	1.3523	1.3468	▼0.0068	▼0.0056
CNY	7.2438	7.2254	▼0.0234	▼0.0283
INR	82.74	82.74	+0.24	+0.70
IDR	15137	15135	+90	+142
MYR	4.6655	4.6665	+0.0060	+0.0000
PHP	55.62	55.63	+0.12	+0.42
THB	35.24	35.20	+0.15	▼0.26

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.062%	+3.3 bp	+22.5 bp
JPY (10YR)	0.428%	+1.4 bp	+2.7 bp
EUR* (10YR)	2.637%	+1.1 bp	+24.5 bp
AUD (5YR)	4.188%	+13.1 bp	+23.3 bp
SGD (5YR)	3.211%	+4.8 bp	+9.3 bp
CNY (5YR)	2.417%	▼0.2 bp	+0.9 bp
INR (5YR)	7.132%	+2.4 bp	+5.1 bp
IDR (5YR)	5.966%	+5.0 bp	+5.5 bp
MYR (5YR)	3.674%	+1.3 bp	+6.5 bp
PHP (5YR)	6.473%	+16.5 bp	+41.9 bp
THB (5YR)	2.314%	+1.5 bp	+0.0 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	33,734.88	▼0.55%	▼1.96%
N225 (JP)	32,388.42	▼1.17%	▼2.41%
STOXX 50 (EU)	4,236.60	+0.32%	▼3.69%
ASX (AU)	3,957.08	▼0.21%	▼3.40%
STI (SG)	3,139.47	▼0.35%	▼2.07%
SHCOMP (CN)	3,196.61	▼0.28%	▼0.17%
SENSEX (IN)	65,280.45	▼0.77%	+0.87%
JSE (ID)	6,716.46	▼0.60%	+0.82%
KLSE (MY)	1,377.67	▼0.60%	+0.07%
PSE (PH)	6,379.03	▼1.47%	▼1.38%
SET (TH)	1,490.51	+0.00%	▼0.84%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	264.46	+0.97%	+0.94%
COPPER (LME)	8,360.50	+1.39%	+0.46%
IRON ORE (CN)	109.53	▲1.93%	▲2.70%
GOLD	1,925.05	+0.74%	+0.30%
OIL (WTI)	73.86	+2.87%	+4.56%

TODAY'S COMMENTS & FORECAST

Open

USD/JPY	143.96	EUR/USD	1.0890
USD/SGD	1.3531	USD/THB	35.21
JPY/SGD	0.9399	USD/MYR	4.655

Forecast

USD/JPY	142.00 - 144.00
EUR/USD	1.0900 - 1.1030
AUD/USD	0.6630 - 0.6740
USD/SGD	1.3440 - 1.3550
JPY/SGD	0.9333 - 0.9542
USD/CNH	7.2150 - 7.2550
USD/INR	82.20 - 82.80
USD/IDR	15080 - 15200
USD/MYR	4.640 - 4.675
USD/PHP	55.35 - 55.75
USD/THB	34.95 - 35.35

Today's Direction

	Bull	Bear
USD/SGD	2	4
USD/JPY	3	3

Three Take-aways:

- 1) Selling of USD on NFP shortfall, is in no way buying conviction about less hawkish Fed.
- 2) G10 FX volatility could intensify amid greater uncertainty about received wisdom on drivers.
- 3) In particular, greater relevance of, and volatility in, real yield differentials could accentuate swings.

Selling & Buying

- Softer equities (Wall St down 0.3-0.6% with Nasdaq slipping 0.1%), USD slippage, and a steeper yield curve from lower front-end yields amid higher long-end (buying 2Y and selling 10Y USTs) pose **more questions than provide answers on the buying and selling in markets.**

- **Sure, on the surface, the answer is evident.** Selling USD and buying front-end bonds on less hawkish triggers at the margin triggered by NFP (209K) shortfall of far hotter ADP print (497K).

- Selling in equities could be framed as inklings of attendant economic worries amid prior run-up in; with 10Y UST selling (higher yields) attributable to a combination of higher oil (Brent up 2-3% to breach \$78) as the 2Y is more policy sensitive and 10Y is more oil-sensitive.

- **But beneath convenient excuses** for (buying and selling) that are seemingly, there is simply **no coherent idea motivating the trades. Buyers are not sold, and sellers are not buying it.**

- For one, nothing in US jobs data is in the same postal code as a Fed pause, much less a pivot.

- What's more, Yellen's trip barely papers over widening cracks; **at best, selling hollow relief, but no one ought to buy illusions of resolution.** And so, attendant CNH backstop may prove hollow.

- Upshot: Elevated uncertainty means that **selling and buying are tactical, not thematic.**

Why G10 FX Volatility Could Rise

- With the JPY defying initial bouts of USD upswing on hot US jobs data, to rise sharply in the NY session, the **potential for G10 FX volatility is hard to ignore.**

- To be sure, the JPY's potential for downside volatility skew from tensions between acute policy divergence (as other G10 central bankers lean even more hawkish) and feverish expectations of a BoJ policy shift (if not inflection) preia a topic in its own right. But that's for another day.

- Whereas, there are three key reasons why G10 FX volatility may turn more acute near-term.

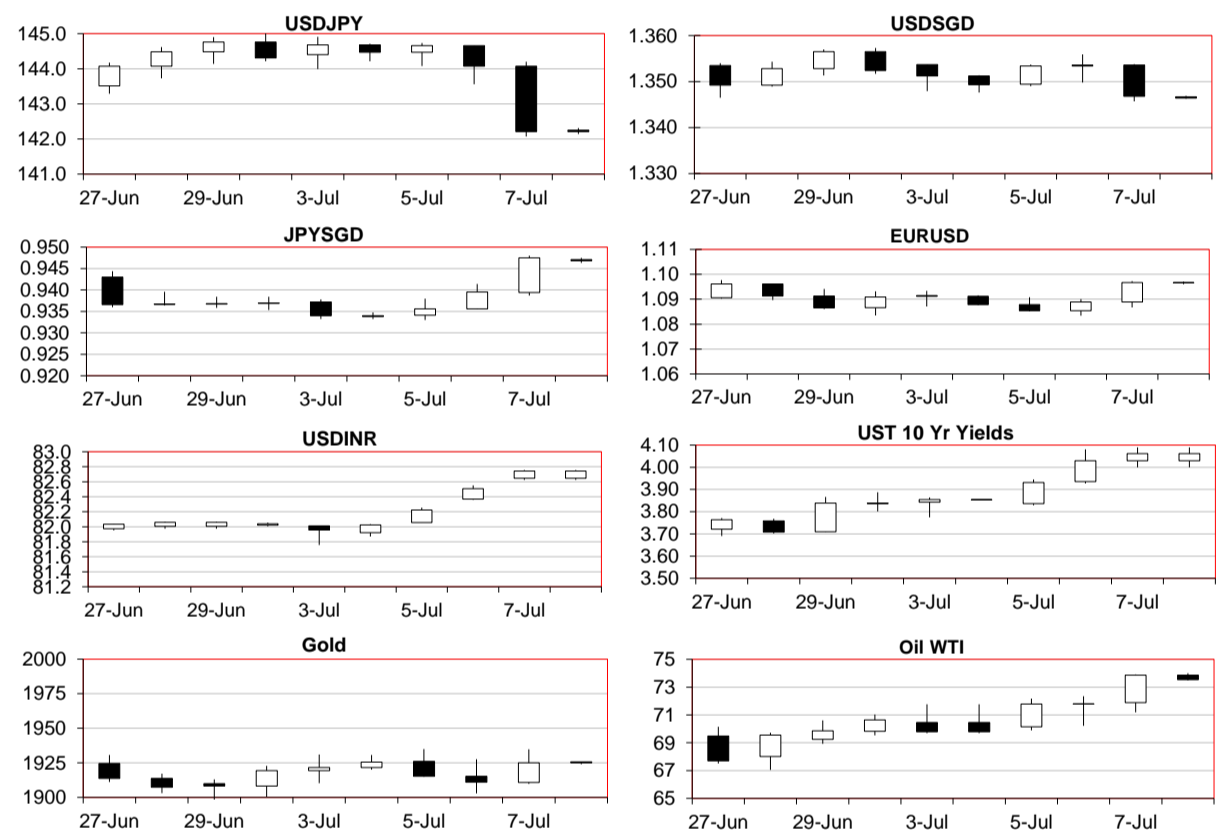
- **First**, the growing, and inconvenient, **dissonance between inflation hot (and sticky) spots** on one hand and **mounting risks of a hard landing** on the other.

OVERNIGHT RESULTS

(PH) Unemployment Rate (May): 4.3% (Apr: 4.5%) | (TW) Trade Balance (Jun): \$5.96b (Mkt: \$5.08b; May: \$4.89b)

(US) NFP (Jun): (Mkt: 225k; May: 339k) | (US) Unemployment Rate (Jun): (Mkt: 3.6%; May: 3.7%)

Past Two Weeks Movement



- In fact, insofar as the former incites a tightening response, it accentuates the latter; **suggesting a harder reversal of policy down the road.**

- And so a "the higher you climb, the harder you fall" type policy outcomes sets the FX stage for a high stakes "sudden stop" risks; which inadvertently imbues a good amount of volatility.

- **Second**, and perhaps notably, the Fed's efforts to, and measured success in, convincing markets of a **"long, flat peak", rather than a sharp peak**, also **challenge linear, one-way peak USD bets**; thereby inducing greater G10 FX volatility as short USD bets are vulnerable to sharp squeeze when the Fed manages a hawkish flex against markets.

- Finally, the **hard-wired received wisdom that** (shifts in) **relative real returns matter** for EM, but **not for DM** (where typically shifts in relative nominal returns have driven attendant FX response) **being challenged, if not overturned**, is also a cause of greater volatility.

- Point being, familiar assumptions on nominal rate differentials sufficing for "Majors" were based on prolonged periods of low and stable inflation.

- **But with high and volatile inflation being a global, not just an EM phenomenon**, these assumptions are being rendered as relics that have lost relevance.

- And so, **where the out-peaking of one another by Major central banks** might have initially triggered a **sympathetic FX response, reassessment about stickier inflation differentials** can **dampen or deny such one-for-one (nominal) rates to FX response.**

- All said, **more noise and less signal may be the lamentable state of FX play** for a while yet.

FX Daily Outlook

- EUR/USD: Post-NFP jolty may try to test 1.10; but expect a fizzle amid hawkish Fed.

- USD/JPY: Slump to 142-143 checks interventions risks for now; slowing downside on sub-142.

- USD/SGD: Sub-1.35 slip on USD pullback could test 1.34 but respectfully.

- AUD/USD: Higher oil could tempt 0.67 test; but lacks follow-through conviction to 0.68.

TODAY'S EVENTS

(JP) BoP Current Account Balance (May): ¥1862.4 (Apr: ¥1895.1b)

(JP) Eco Watchers Survey Current/Outlook SA (Jun): (May: 55.0/54.4)

(CH) New Yuan Loans CNY (Jun): (Mkt: 2430.0b; May: 1362.8b)

(US) Whole Sale Inventories MoM (May F): (May P: -0.1%) | (EZ) Sentix Investor Confidence (Jul): (Jun: -17)

10-15 July: (CH) Aggregate Financing CNY (Jun): (Mkt: 2820.0b; May: 1555.6b)

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