

**MARKET SUMMARY**

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	142.31	141.31	▼0.90	▼3.37
EUR	1.0954	1.1001	+0.0034	+0.0089
AUD	0.6649	0.6675	▼0.0015	+0.0002
SGD	1.3481	1.3449	▼0.0019	▼0.0063
CNY	7.2319	7.2260	+0.0006	▼0.0208
INR	82.63	82.58	▼0.17	+0.62
IDR	15230	15195	+60	+170
MYR	4.6668	4.6705	+0.0040	+0.0040
PHP	55.71	55.69	+0.07	+0.38
THB	35.16	35.15	▼0.05	▼0.08

\*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.994%	▼6.8 bp	+13.9 bp
JPY (10YR)	0.462%	+3.4 bp	+5.7 bp
EUR* (10YR)	2.640%	+0.3 bp	+20.3 bp
AUD (5YR)	4.188%	+0.0 bp	+29.3 bp
SGD (5YR)	3.242%	+3.1 bp	+14.6 bp
CNY (5YR)	2.418%	+0.1 bp	▼0.5 bp
INR (5YR)	7.119%	▼1.3 bp	+2.8 bp
IDR (5YR)	6.023%	+5.7 bp	+13.1 bp
MYR (5YR)	3.660%	▼1.4 bp	+5.6 bp
PHP (5YR)	6.286%	▼18.7 bp	+21.3 bp
THB (5YR)	2.315%	+0.1 bp	+0.2 bp

\* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	33,944.40	+0.62%	▼1.38%
N225 (JP)	32,189.73	▼0.61%	▼4.63%
STOXX 50 (EU)	4,256.51	+0.47%	▼3.22%
ASX (AU)	3,965.80	+0.22%	▼3.22%
STI (SG)	3,149.32	+0.31%	▼1.80%
SHCOMP (CN)	3,203.70	+0.22%	▼1.24%
SENSEX (IN)	65,344.17	+0.10%	+0.21%
JSE (ID)	6,731.04	+0.22%	+0.51%
KLSE (MY)	1,383.06	+0.39%	▼0.92%
PSE (PH)	6,379.72	+0.01%	▼1.97%
SET (TH)	1,496.89	+0.43%	▼0.66%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	264.38	▲0.03%	+1.34%
COPPER (LME)	8,356.49	▲0.05%	▲0.48%
IRON ORE (CN)	106.64	▲2.64%	▲3.10%
GOLD	1,925.35	+0.02%	+0.19%
OIL (WTI)	72.99	▼1.18%	+4.59%

**Three Take-aways:**

- 1) Pre-CPI markets looking past hawkish remnants to relish peak (Fed) rates bet.
- 2) China's deflation risks are mischaracterized, having a sizable fuel drag; overstating stimulus bet.
- 3) Crucially, confidence deficit and renminbi risks suggest compromised scope for monetary easing.

**Pre-Judgment**

- **Pre-CPI (US CPI release on Wednesday) markets are somewhat non-committal, refusing to indulge in large positioning one way or another; but not without pre-judgment.**
- That said, it appears that soft spots in US NFP (jobs) data have instilled a marginal dovish bias.
- **Markets have interpreted marginally cautious caveats of Fed comments, on moving (rates higher) in a more "patient" manner, as less hawkish; explaining softer UST yields (more pronounced at the front-end), USD slippage and measured traction in equities.**
- This, despite remarks consistent with at least a couple more hikes. And that reveals markets' preference for post-peak assessment given convergence around peak rate in Q3.
- In FX land, this is playing out as gains (vs. USD) in FX land; although **China's deflation woes are keeping AUD gains in check (sub-0.67) even as EUR surges past 1.10 and USD/JPY slumps to 141.**
- But **markets concluding peak rate ahead of US CPI is a milder version of pre-judgment.**
- Whereas, **expectations of China stimulus on China deflation worries are far more pronounced;** resonating with a quotable line from Alice in Wonderland: "*Sentence first -- verdict afterwards*".

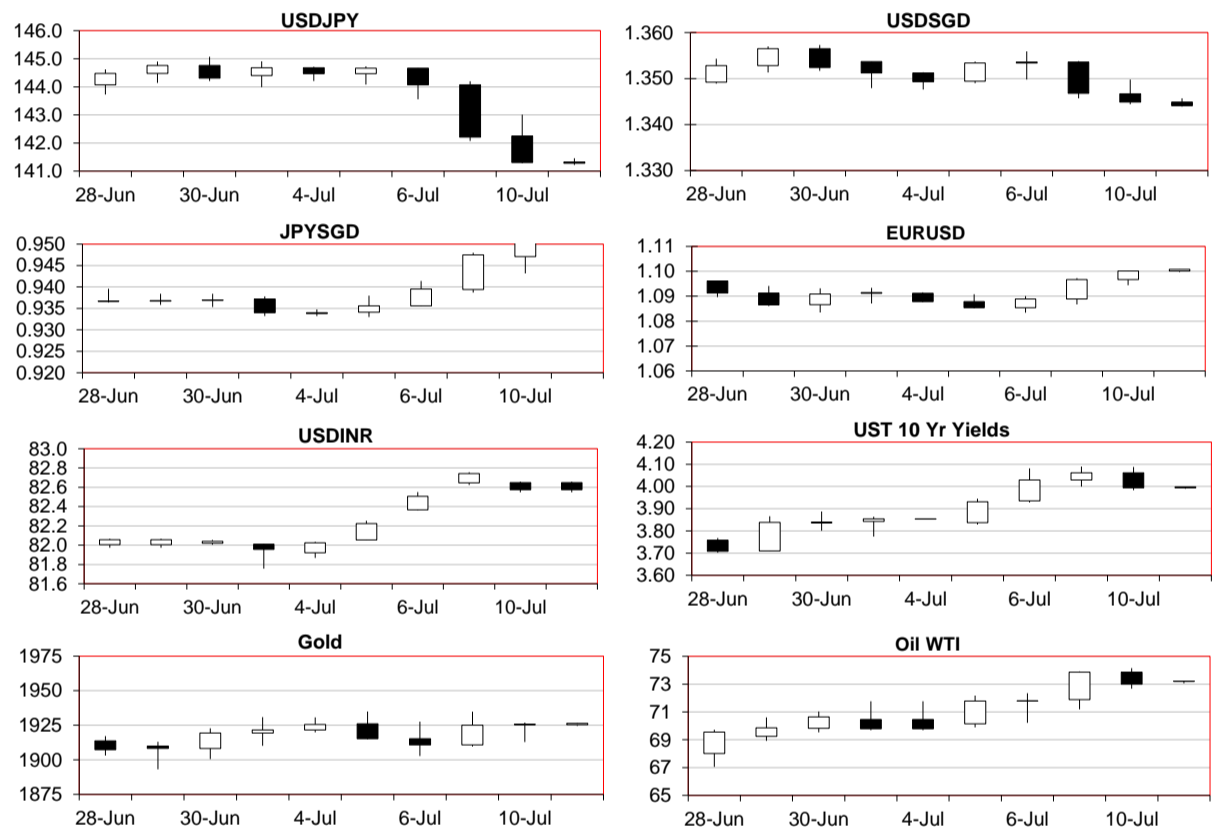
**Why China's CPI is a Red Herring**

- **China's deflation risk** was simultaneously a **bugbear**, with *markets fretting the symptoms of demand collapse, and a beacon of hope*, inadvertently *inciting feverish speculation about imminent, emphatic stimulus* to be unveiled by the upper echelons of Beijing.
- **But** to us, China's inflation, or conspicuous lackthereof in this case (as CPI falls to 0% and PPI slump to -5.4% reveals deepening deflation), is **above all, a red herring.**
- **Misunderstood** in some parts, **mischaracterized** in its nature, and arguably, **misleading** in terms of the policy response (to deflation risks) that may be expected as a result.
- **Misunderstood**, because **sharp headline CPI dis-inflation is mostly from fuel costs.**

**OVERNIGHT RESULTS**

(JP) Eco Watchers Survey Current/Outlook (Jun): 53.6/52.8 (Mkt: 54.7/54.2; May: 55.0/54.4)

(US) Fed Two Weeks Movement (Prelim: -0.1%) | (EZ) Sentix Investor Confidence (Jul): -22.5 (Mkt: -17.9; Jun: -17.0)


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

USD/JPY	141.30	EUR/USD	1.1006
USD/SGD	1.3445	USD/THB	35.06
JPY/SGD	0.9515	USD/MYR	4.669

**Forecast**

USD/JPY	140.50 - 143.00
EUR/USD	1.0940 - 1.1060
AUD/USD	0.6640 - 0.6740
USD/SGD	1.3380 - 1.3490
JPY/SGD	0.9357 - 0.9601
USD/CNH	7.2150 - 7.2550
USD/INR	82.20 - 82.80
USD/IDR	15100 - 15250
USD/MYR	4.658 - 4.678
USD/PHP	55.30 - 55.70
USD/THB	34.85 - 33.20

**Today's Direction**

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

- Specifically, headline **CPI collapse**, threatening to tip over a deflation, is mainly driven by a **sharp drop in transport costs; in turn led by a staggering 17.6% plunge in automotive fuels.**
- To be sure, that is **not to deny the underlying hollowing out of consumer confidence.**
- Fact is, **deflation in household durables is worrying evidence of deleterious property market drag;** with potentially **adverse balance sheet/wealth effects.**
- But this is **precisely why deflationary risks may be mischaracterized.**
- Point being, it is **not that deflationary pressures are symptom of economic slowdown.**
- **But** rather, that it was a **deflationary shock unleashed by the property market that is amplifying economic headwinds;** which will feed-back as more entrenched deflation.
- That's to say the assumed causation from growth to confidence may be turned on its head.
- Which is **precisely why the presumed policy response may be misleading.**
- Fact is, the **familiar (but now less relevant) playbook of pump-priming the economy to boost confidence could prove to be a less efficacious.** Whereas, addressing the confidence deficit first may be the vital pre-condition to revive growth multipliers for stimulus to take hold.
- Simply put, **resorting to rate cuts/monetary easing and infrastructure projects may fall short of picking-up the slack** from far-reaching, pernicious effects of the property downturn.
- In fact, resultant **intensification of capital outflow risks** and attendant **renminbi sell-off** that accompany **chronic confidence deficit caution against unbridled monetary easing;** which may inadvertently intensify, not alleviate, pressures. So, stability is a precondition for stimulus.

**FX Daily Outlook**

- EUR/USD: Boosted by less hawkish read and peak Fed bets; 1.11 is a high hurdle.
- USD/JPY: 141 test conveys softer yields and China deflation risks; but watch for bids at 140-ish.
- USD/SGD: Backstop in CNH could help maintain 1.34; but extending sub-1.34 is a higher bar.
- AUD/USD: China demand shortfall risks and RBA overhang to dampen 0.67+.

**TODAY'S EVENTS**

(JP) Machine Tool Orders YoY (Jun P): (May: -22.1%)

(CH) New Yuan Loans CNY (Jun): (Mkt: 2318.5b; May: 1362.8b) | (PH) Trade Bal (May): (Mkt: -\$4622m; Apr: -\$4531m)

(GE) ZEW Survey Expectations/Current (Jul): (Mkt: -10.5/-62.0; Jun: -8.5/-56.5)

11 - 18 July (CH) FDI YTD YoY CNY (Jun): (May: 0.1%)

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