

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	139.60	138.50	▼1.86	▼6.16
EUR	1.1027	1.1129	+0.0120	+0.0275
AUD	0.6687	0.6787	+0.0101	+0.0132
SGD	1.3377	1.3302	▼0.0108	▼0.0232
CNY	7.1903	7.1655	▼0.0443	▼0.0850
INR	82.28	82.25	▼0.12	+0.02
IDR	15075	15078	▼62	+63
MYR	4.6512	4.6518	▼0.0072	▼0.0002
PHP	54.94	54.95	▼0.33	▼0.44
THB	34.90	34.92	+0.10	+0.03

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.857%	▼11.3 bp	▼7.4 bp
JPY (10YR)	0.474%	+1.5 bp	+8.2 bp
EUR* (10YR)	2.541%	▼10.8 bp	+6.3 bp
AUD (5YR)	4.037%	▼5.1 bp	+11.0 bp
SGD (5YR)	3.171%	▼3.7 bp	+8.1 bp
CNY (5YR)	2.419%	+0.3 bp	+0.2 bp
INR (5YR)	7.107%	+3.1 bp	+4.1 bp
IDR (5YR)	5.896%	▼3.5 bp	▼0.2 bp
MYR (5YR)	3.591%	▼3.1 bp	▼7.0 bp
PHP (5YR)	6.275%	▼1.3 bp	+13.0 bp
THB (5YR)	2.314%	+0.0 bp	+1.6 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	34,347.43	+0.25%	+0.17%
N225 (JP)	31,943.93	▼0.81%	▼4.18%
STOXX 50 (EU)	4,360.46	+1.72%	+0.22%
ASX (AU)	4,048.29	+1.89%	▼0.17%
STI (SG)	3,175.36	+0.36%	▼0.31%
SHCOMP (CN)	3,196.13	▼0.78%	▼0.83%
SENSEX (IN)	65,393.90	▼0.34%	▼0.08%
JSE (ID)	6,808.21	+0.17%	+1.33%
KLSE (MY)	1,398.06	+0.47%	+0.59%
PSE (PH)	6,466.85	+1.07%	▼0.70%
SET (TH)	1,491.14	▼0.39%	▼1.18%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	268.30	+0.26%	+2.09%
COPPER (LME)	8,488.75	+2.21%	+2.22%
IRON ORE (CN)	110.58	+2.22%	▲0.55%
GOLD	1,957.35	+1.30%	+2.20%
OIL (WTI)	75.75	+1.23%	+5.52%

Three Take-aways:

- 1) Sharper-than-expected US CPI pullback ignites pivot bets, UST yields and USD slump; equities rally.
- 2) Despite faster than expected inflation deceleration, under-the-hood stickiness stall imminent pivot.
- 3) Singapore may be on the cusp of a technical recession; though Q2 GDGP data will merely validate.

"Peak" Fed Rallies?

- Sharper than expected US CPI deceleration (details below) unleashed a wave of "Peak Fed" rallies; entailing *outsized drop in UST yields* across the curve (12-18bp across 2Y, 5Y 10Y), with a corresponding (-1%) *slump in USD and buoyant equities* (S&P500: +0.7%; Nasdaq: +1.2%).

- AUD surged 1.6% to 0.68 test, USD/JPY slumped -1% to 138, EUR (+>1%) to mid-1.11 and USD/SGD is testing 1.33 support (SGD: +0.7%). On that relative scale, <-0.5% gain CNH is a mere piggy-back.

- With "Peak Fed" rallies building on post-NFP momentum, the *risk* is that *markets are getting more excited than the Fed will be impressed*; especially if we look under the hood of inflation.

US CPI: Finer Points of Dis-inflation

- Admittedly, there is nothing to refute about US inflation decelerating faster than expected; both in the headlines and the core. At 3.0%, the headline is down more than 1%-pt from 4.0% in May, 3.4%-pts from 6.4% in January this year and 6.1%-pts from the 9.1% peak a year ago.

- Core at 4.8% is correspondingly down 0.5%-pt (from May's 5.3%), 0.8%-pt (from 5.6% in Jan) and 1.1%-pts from a year ago; although down 1.7%-pts from 6.5% peak in March 2022.

- The aggressive pivot bets will argue that while inflation's deceleration is exaggerated in the headline compared to the core, that is not unusual. But here are three finer points that ought to be understood to temper premature highs of pivot bets.

- First, *core inflation at 4.8% despite goods deflation of 1.0%-pt* must temper optimism about softer core inflation dynamics. Especially as *overstated post-COVID goods deflation is expected to fade*; thereby *depriving inflation of a 1%-pt reduction*.

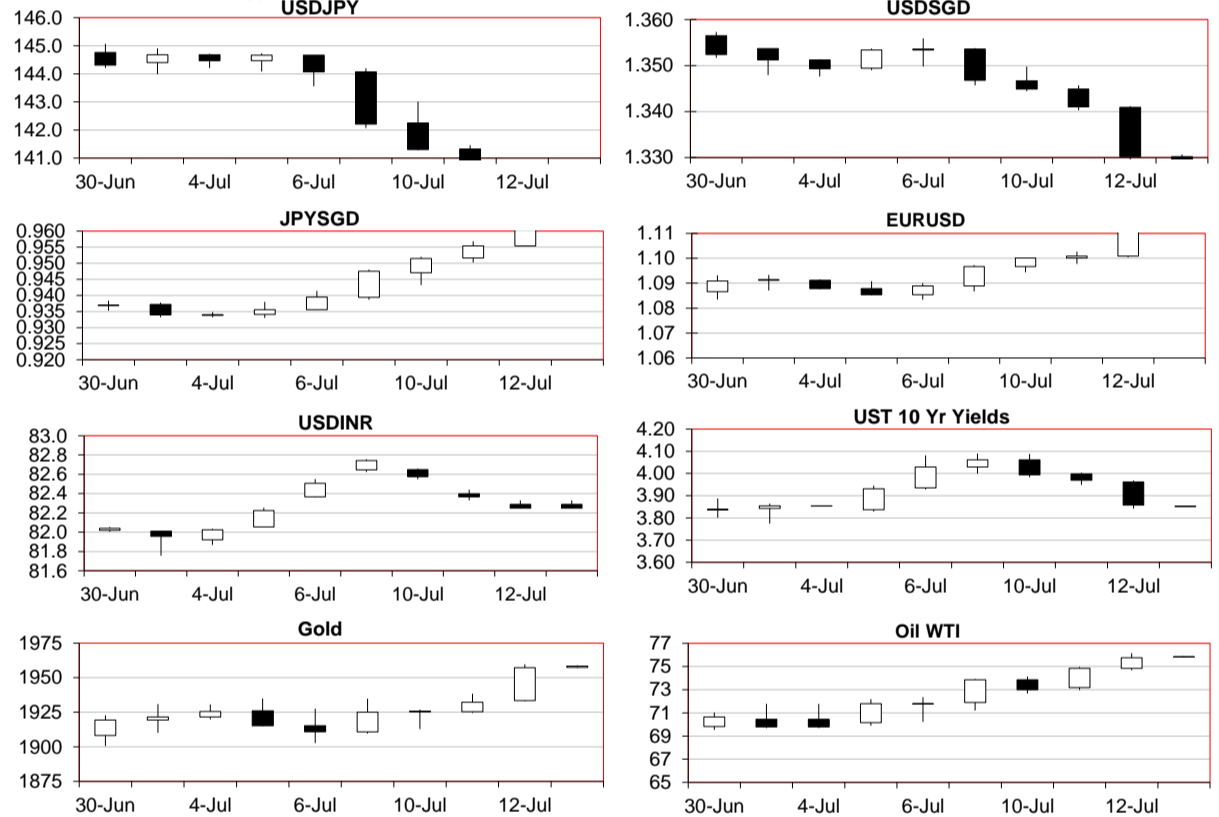
- Second, core services inflation declining 0.4% is helped by a 0.2%-pt reduction in shelter (rentals). And with the Fed expecting declining shelter deflation to feature in H2, *dis-inflation from the dynamic in rentals is less likely to trigger an emphatic dovish inflection*.

OVERNIGHT RESULTS

(IN) CPI YoY (Jun): (Mkt: 4.60%; May: 4.3%) | (IN) Industrial Production (May): (Mkt: 5.0%; Apr: 4.2%) |

(KR) Past Two Weeks Movement: (Mkt: 2.6%; May: 2.5%) | (MY) Ind Pdtm YoY (May): 4.7% (Mkt: 0.0%; Apr: -3.3%) |

(US) CPI/Ex Food and Energy YoY (Jun): 3.0%/4.8% (Mkt: 3.1%/5.0%; May: 4.0%/5.3%)


TODAY'S COMMENTS & FORECAST
Open

USD/JPY	138.32	EUR/USD	1.1140
USD/SGD	1.3296	USD/THB	34.66
JPY/SGD	0.9611	USD/MYR	4.620

Forecast

USD/JPY	137.60 - 139.70
EUR/USD	1.1070 - 1.1220
AUD/USD	0.6720 - 0.6850
USD/SGD	1.3270 - 1.3380
JPY/SGD	0.9499 - 0.9724
USD/CNH	7.1500 - 7.1800
USD/INR	81.95 - 82.55
USD/IDR	15030 - 15180
USD/MYR	4.645 - 4.678
USD/PHP	54.75 - 55.15
USD/THB	34.55 - 34.90

Today's Direction

	Bull	Bear
USD/SGD	1	7
USD/JPY	3	5

- Finally, the decline in core services ex-rentals, which is alluded to by the Fed as the "inner-most core" is far more modest. At less than 0.2%-pt reduction from a month ago and just 0.4%-pts lower than January; whereas it is 0.2%-pts higher than a year ago.

- And insofar as the "inner most core" is the so-called final mile for policy, a good look-under the hood reveals that *underlying inflation/expectations risks are too sticky and elevated for the Fed to abandon prevailing hawkish stance imminently*.

Three Things About Singapore's Impending Technical Recession

- The consensus is for Singapore's Q2 GDP to mark a technical recession; with a second consecutive sequential (QoQ) contraction. There are three things to note.

- First, it will be the first manufacturing-led technical recession since the 2008 GFC.

- Admittedly, there have been a few manufacturing downturns since; in 2012 (EZ crisis), 2015 (China crisis), and 2019 (US-China). But none of these triggered a technical recession. And COVID technical recession was driven by a deep services slump whereas manufacturing was afloat.

- Second, the depth and length of this manufacturing downturn, essentially recession, is the worst since GFC. What this means is that a fifth quarter of deepening manufacturing contraction, could undermine offset from waning post-COVID construction/services bounce.

- Finally, given the threat of mounting global headwinds on the policy and geo-political fronts, averting a technical recession will be but cold comfort. All said, *Q2 GDP flagging technical recession will not be telling us anything we don't already know*.

FX Daily Outlook

- EUR/USD: CPI jolt to mid-1.11 may falter closer to 1.12; if caution creeps in.
- USD/JPY: Testing sub-138 makes for very volatile JPY swings; rang of mid-137 to mid-139.
- USD/SGD: Sub-1.33 may be on the table as a reaction, not so much conviction.
- AUD/USD: 0.69 is a step too far as mid-0.68 is likely to be contested.

TODAY'S EVENTS

(CH) Trade Balance (Jun): (Mkt: \$74.4b; May: \$65.8b) | (TH) Consumer Confidence Economic (Jun): (May: 50.2) |

(US) Initial Jobless Claims: (Mkt: 250k; Prior: 248k) | (US) PPI/Ex-Food & Energy YoY (Jun): (Mkt: 0.4%/2.6%; May: 1.1%/2.8%) |

(EZ) Industrial Production MoM (May): (Mkt: 0.3%; Apr: 1.0%)

Central Banks: BoK 7-Day Repo Rate

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