

## MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	138.22	138.83	+0.12	▼1.53
EUR	1.1254	1.1229	▼0.0007	+0.0220
AUD	0.6809	0.6811	▼0.0005	+0.0125
SGD	1.3216	1.3228	+0.0009	▼0.0182
CNY	7.1736	7.1864	+0.0129	▼0.0234
INR	82.01	82.03	▼0.02	▼0.34
IDR	14997	14995	▼10	▼145
MYR	4.5380	4.5398	+0.0025	▼0.1192
PHP	54.42	54.42	+0.04	▼0.86
THB	34.22	34.22	▼0.40	▼0.60

\*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.785%	▼2.2 bp	▼18.5 bp
JPY (10YR)	0.480%	▼0.1 bp	+2.1 bp
EUR* (10YR)	2.355%	▼9.3 bp	▼29.4 bp
AUD (5YR)	3.845%	▼2.8 bp	▼24.3 bp
SGD (5YR)	2.992%	▼6.0 bp	▼21.6 bp
CNY (5YR)	2.403%	▼1.3 bp	▼1.3 bp
INR (5YR)	7.018%	▼3.2 bp	▼5.8 bp
IDR (5YR)	5.881%	▼1.1 bp	▼5.0 bp
MYR (5YR)	3.553%	+0.0 bp	▼6.9 bp
PHP (5YR)	6.109%	▼2.5 bp	▼17.9 bp
THB (5YR)	2.321%	+0.1 bp	+0.7 bp

\* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	34,951.93	+1.06%	+2.02%
N225 (JP)	32,493.89	+0.32%	+0.90%
STOXX 50 (EU)	4,369.73	+0.30%	+1.94%
ASX (AU)	4,066.80	+0.71%	+2.36%
STI (SG)	3,254.26	▼0.01%	+2.86%
SHCOMP (CN)	3,197.82	▼0.37%	▼0.73%
SENSEX (IN)	66,795.14	+0.31%	+1.79%
JSE (ID)	6,830.20	▼0.54%	+0.49%
KLSE (MY)	1,403.03	▼0.22%	+0.83%
PSE (PH)	6,528.80	▼0.34%	+2.03%
SET (TH)	1,535.30	+0.43%	+2.56%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	271.86	+1.48%	+1.59%
COPPER (LME)	8,444.99	▲0.27%	+1.69%
IRON ORE (CN)	113.24	+0.66%	+4.68%
GOLD	1,978.72	+1.21%	+2.41%
OIL (WTI)	75.75	+2.16%	+1.23%

### Three Take-aways:

- 1) The seduction of soft-landings, with signs of central bank restraint, lulled markets into "risk on".
- 2) USD Bears on a rampage may need to re-think the proposition of higher EZ and UK inflation.
- 3) Real interest rate spread consideration to at least arrest, if not partly reverse, overdone USD shorts.

### Killing Me Softly

- The **seduction of a soft landing was enhanced** as less hawkish ECB speak resonated with bets of Fed hikes on the verge of being exhausted (thanks to softer inflation and cooling jobs); in turn prompting the "pivot"-type "risk on" that is *characterised by surging equities and falling yields*.  
 - In fact, ardent bulls are betting on a "no landing" scenario that skirts a recession altogether.  
 - Sure, optimists may be encouraged by **ECB's usually hawkish Knot softening his tone**; deferring to data dependence, to suggest a hike after July "at most a possibility but no means a certainty".  
 - Moreover, **mixed US retail sales data might have stumbled into a sweet spot**; as softer headline was tempered by upward revisions and the Control Group conveyed comforting resilience.  
 - But here's the thing. Neither the Fed nor the ECB may provide assurances about suspending rate hikes beyond July as the default remains as a (calibrated) tightening bias. Crucially, rate cuts (a proper pivot) may require a sharp downturn, given inconveniently sticky core inflation.  
 - Upshot being, a in **softening hawkish stance is no guarantee of not killing economic expansion**.  
 - This resonates with the song, "Killing Me Softly" on many levels. For one, *soothing (central bank) sounds don't kill economic pain*. In fact, lagged tightening effects as the Fed "keeps at it" are conveyed in the lyrics: "But he just kept right on | Strumming my pain with his fingers".  
 - Sharper drop in EZ yields on ECB has backstopped fresh USD sell-off. EUR gains stall around 1.12 and USD/JPY bounces from 138 to sub-139. Amid China woes, sub-1.32 dips rejected for USD/SGD while AUD is dampened at 0.68. Even then, *USD looks oversold on inflated bearish cues*.

### Inflated USD Bears?

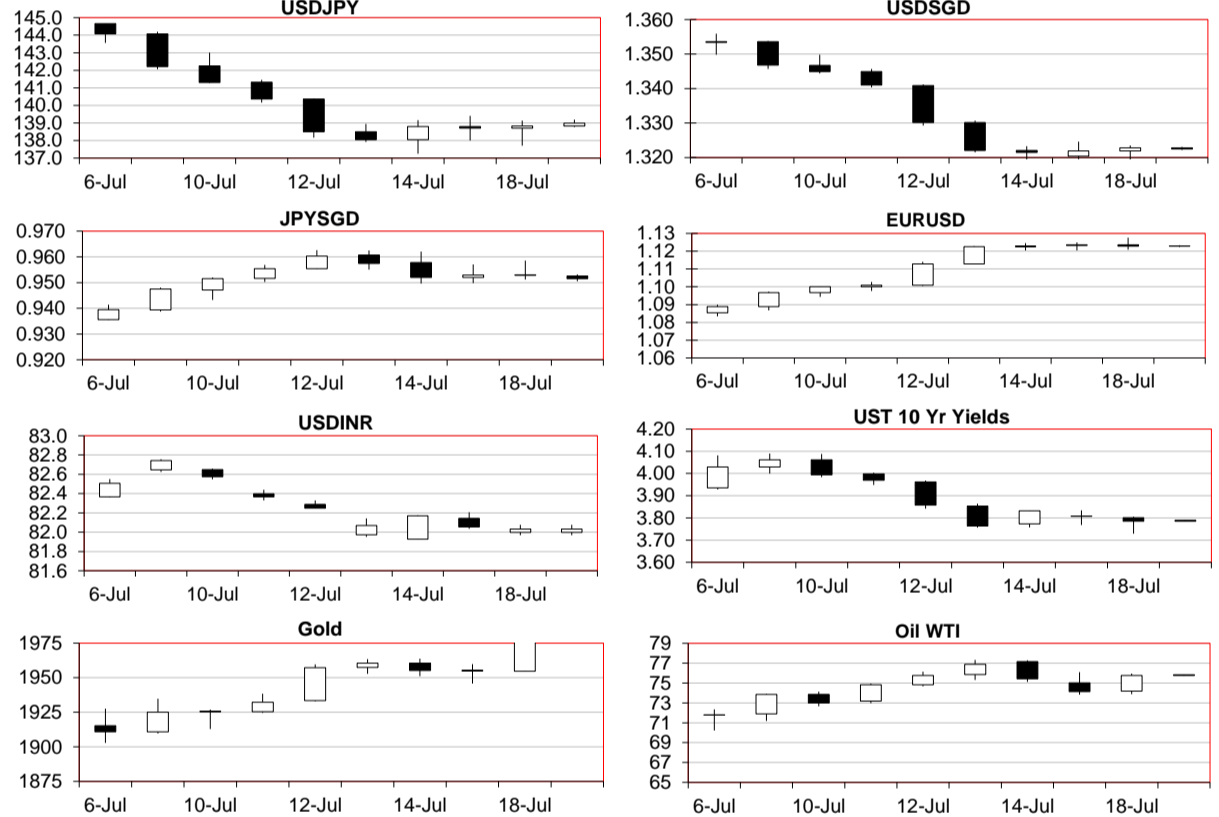
- With *today's release of Euro-zone and UK inflation*, both of which are *expected print stickier as well as hotter, than US inflation*, the **propensity for USD bears to lurk opportunistically** appears to be the **received wisdom**. But this is **plainly misguided**.

### OVERNIGHT RESULTS

(JP) Tertiary Industry Index MoM (May): 1.2% (Apr: 1.2%) | (US) Ind Pdn MoM (Jun): -0.5% (Mkt: 0.0%; May: -0.2%; rev: -0.5%)

US Retail Sales/Control Gr. MoM (Jun): 0.7%/0.6% (Mkt: 0.5%/0.3%; May: 0.3%/0.2%; rev: 0.5%/0.3%)

### Past Two Weeks Movement



## TODAY'S COMMENTS & FORECAST

### Open

USD/JPY	139.03	EUR/USD	1.1229
USD/SGD	1.3228	USD/THB	34.07
JPY/SGD	0.9515	USD/MYR	4.540

### Forecast

USD/JPY	137.80 - 140.40
EUR/USD	1.1160 - 1.1300
AUD/USD	0.6740 - 0.6870
USD/SGD	1.3160 - 1.3300
JPY/SGD	0.9373 - 0.9652
USD/CNH	7.1750 - 7.2180
USD/INR	81.80 - 82.45
USD/IDR	14930 - 15080
USD/MYR	4.518 - 4.588
USD/PHP	54.20 - 54.80
USD/THB	33.90 - 34.30

### Today's Direction

	Bull	Bear
USD/SGD	6	0
USD/JPY	6	0

- There are **three fundamental errors of analysis** involved here (**over-inflating the case and confidence of single-track USD bears**).

- **First**, markets erroneously conflate hotter/stickier inflation (in the EZ and UK) with relatively more hawkish policy outcomes.

- Whereas, insofar that markets under-appreciate the Fed's inclination to deliver on its 50bp hike guidance, the *hawkish walk across the Fed, ECB and BoE may not vary significantly*;

- *regardless of perceptions of divergence in hawkish talk*.

- What that means is that realized rate differential expectations projected from perceived policy divergence will fall short; thereby limiting/reversing reflex for EUR and GBP gains (vs. USD).

- **Second**, and crucially, **shifts in real rate differentials are likely to be in favour of the Greenback**; as any (if at all) rate hike out-run by ECB/BoE are set to be more than offset by a far larger decline in US inflation vis-à-vis EZ/UK.

- Admittedly, nominal rate spreads have historically mattered more for DM in contrast to real rate spreads for EM. But *with DM now subject to EM-like high and volatile inflation, the case for real rate spreads to matter significantly more is as sensible as it is compelling*.

- **Finally**, pivot bets on the Fed precludes the ECB and BoE are just not realistic given that the latter two face more distinct hard-landing risks amid sharper policy trade-offs.

- And this cannot make for sustained currency advantage in the near-term for EUR or GBP.

- Upshot: The *case for USD bears' unchallenged domination is inflated*.

### FX Daily Outlook

- EUR/USD: China drag and tempered ECB hawkish stance may eventually stall 1.13 aspirations.

- USD/JPY: Softer yields elsewhere may anchor below 140, but dovish BoJ backstops sub-138.

- USD/SGD: Dips below 1.32 checked by slowing EUR upside and CNH slippage amid China woes.

- AUD/USD: Balanced RBA Minutes reinforce consolidation; with China caution dampening pre-0.69.

### TODAY'S EVENTS

(US) Housing Starts/Building Permits (Jun): (Mkt: 1480k/1500k; May: 1631k/1496k)

(EZ) CPI/Core YoY (Jun F): (Mkt: 5.5%/5.4%; Jun P: 6.1%/5.4%)

(UK) CPI/Core YoY (Jun F): (Mkt: 8.2%/7.1%; Jun P: 8.7%/7.1%)

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