

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	139.62	140.07	+0.42	+2.02
EUR	1.1204	1.1130	▼0.0071	▼0.0096
AUD	0.6823	0.6779	+0.0007	▼0.0110
SGD	1.3244	1.3270	+0.0020	+0.0049
CNY	7.1874	7.1796	▼0.0436	+0.0303
INR	82.05	81.99	▼0.10	▼0.08
IDR	14987	14988	▼7	+20
MYR	4.5517	4.5433	+0.0035	▼0.0389
PHP	54.53	54.54	+0.02	+0.00
THB	34.05	34.00	▼0.05	▼0.57

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.850%	+10.2 bp	+8.7 bp
JPY (10YR)	0.467%	+0.1 bp	▼0.8 bp
EUR* (10YR)	2.457%	+5.1 bp	+0.7 bp
AUD (5YR)	3.847%	+9.8 bp	▼8.6 bp
SGD (5YR)	2.986%	+2.1 bp	▼8.5 bp
CNY (5YR)	2.400%	▼0.6 bp	▼2.9 bp
INR (5YR)	7.063%	+1.9 bp	+0.5 bp
IDR (5YR)	5.893%	+1.2 bp	+2.9 bp
MYR (5YR)	3.552%	▼0.1 bp	▼1.0 bp
PHP (5YR)	6.065%	+0.3 bp	▼2.2 bp
THB (5YR)	2.343%	+2.4 bp	+2.9 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	35,225.18	+0.47%	+2.41%
N225 (JP)	32,490.52	▼1.23%	+0.22%
STOXX 50 (EU)	4,373.73	+0.26%	▼0.41%
ASX (AU)	4,177.94	+0.64%	+2.87%
STI (SG)	3,274.38	▼0.03%	+1.11%
SHCOMP (CN)	3,169.52	▼0.92%	▼2.07%
SENSEX (IN)	67,571.90	+0.71%	+3.07%
JSE (ID)	6,864.19	+0.50%	+0.79%
KLSE (MY)	1,406.69	+0.26%	+0.75%
PSE (PH)	6,613.50	+1.09%	+0.53%
SET (TH)	1,521.18	▼1.01%	+1.82%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	274.70	+0.59%	+1.46%
COPPER (LME)	8,460.75	+0.70%	▲2.60%
IRON ORE (CN)	113.55	+0.82%	+2.29%
GOLD	1,969.53	▲0.36%	+0.46%
OIL (WTI)	75.63	+0.37%	▼1.64%

TODAY'S COMMENTS & FORECAST

Open

USD/JPY	139.87	EUR/USD	1.1134
USD/SGD	1.3270	USD/THB	34.21
JPY/SGD	0.9488	USD/MYR	4.557

Forecast

USD/JPY	138.80	-	141.00
EUR/USD	1.1090	-	1.1220
AUD/USD	0.6710	-	0.6840
USD/SGD	1.3200	-	1.3300
JPY/SGD	0.9362	-	0.9582
USD/CNH	7.1600	-	7.2200
USD/INR	81.85	-	82.35
USD/IDR	14920	-	15050
USD/MYR	4.542	-	4.575
USD/PHP	54.35	-	54.80
USD/THB	34.15	-	34.45

Today's Direction

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

Three Take-aways:

- 1) A conspiracy of earnings miss and hot US jobs triggered USD/yield squeeze amid "risk off".
- 2) Sharp JPY slippage in this climate reintroduces policy discomfort with downside JPY volatility.
- 3) But hawkish BoJ monetary reflex risks being a sub-par response not a proper solution.

Bearish Movies & Hawkish Plots?

- Turns out markets ended up a **bearish movie with a hawkish plot** as a coincidence of (Netflix) earnings disappointment and data pointing to job market strength **knocked risk sentiments back**, and **lifted the UST yields** in tandem with the **Greenback**.

- There was a 2.1% buckle on Nasdaq with 0.7% drop in S&P500 to show for **caution creeping in** (for the latter) and **disappointment hitting hard** for the former; as Netflix earnings miss on the heels of Tesla's margin pressures took the steam out of tech-led Wall St rallies.

- What's more, with jobless claims data surprising considerably lower (228K vs. 240K consensus), it is hard to shake off the sense that a "**hot**" jobs market may take some edge off imminent "Peak Fed" bets (increasingly pushing for a narrative of post-July suspension of tightening bias).

- In concert, this makes for a **case for reining in overdone market optimism, if not turning marginally bearish**; amid **hawkish calibrations** to rectify overly Fed policy sanguine views.

- Consequently, Asia equities are set to be on the back foot, on cues from Wall St wobbles; and EM Asia FX are likely to be compromised amid significantly higher UST yields and USD strength.

- Notably, AUD has slipped (sub-0.68) despite its own a solid jobs print; reflecting deference to Fed and UST shifts. More worryingly, it may reveal China doubts despite PBoC's strong CNY fix.

- SGD's more measured 0.2-0.3% slip compared to KRW's 0.7% drop speak worries about Korea's 20-day exports slump despite CNH anchor. Meanwhile, **a softer JPY and sticky inflation out of Japan underscore policy dilemmas and exchange rate headaches** for the BoJ.

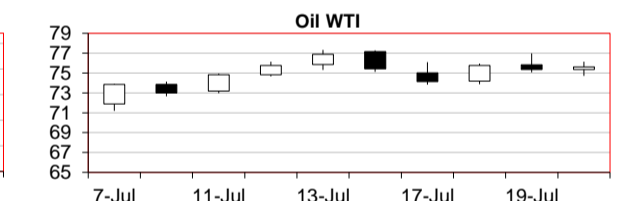
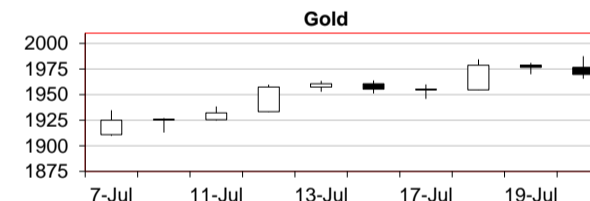
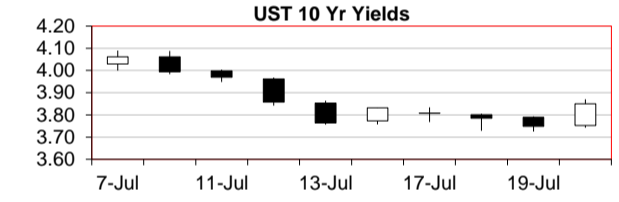
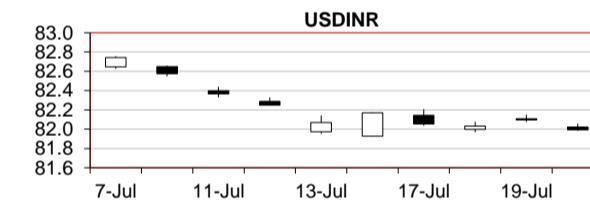
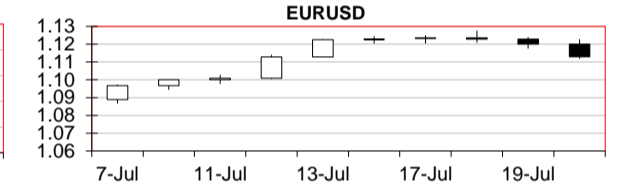
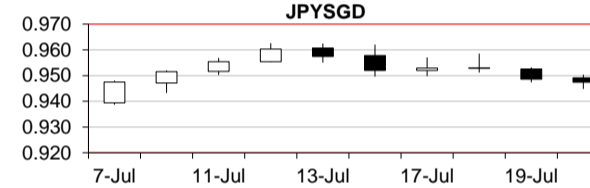
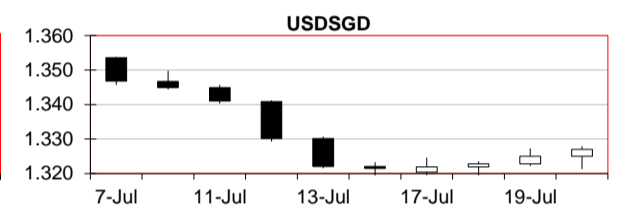
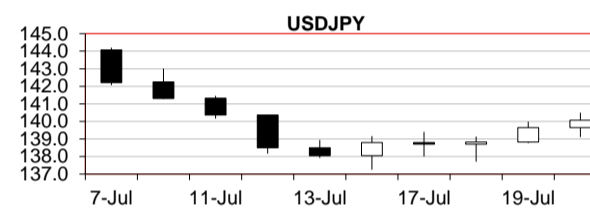
JPY: A BoJ Problem With a Fed Solution

- With JPY sliding >1% last couple of sessions, **as signs of hotter US jobs** (and attendant pick-up in yields) **reinstates "policy divergence pressures"**, **questions about BoJ options and response re-emerge**. Especially as inflation remains sticky (headline: > 3%, core >4%).

OVERNIGHT RESULTS

(AU) Emp. Chg (Jun): 32.6k (Mkt: 15.0k; May: 75.9k) (AU) Participation/Unemp. Rate (Jun): 66.8%/3.5% (Mkt: 66.9%/3.6%; May: 66.8%/3.6%) | (US) Initial Jobless Claims (Jul): 228K (Mkt: 240k; Jun: 237k) | (US) Philly Fed (Jul): -13.5 (Mkt: -10.0; Jun: -13.7)

Past Two Weeks Movement



- Specifically, whether Japan's inflation alongside perceptions of prolonged Fed hawkishness will move the **whether this will move that needle sufficiently for a BoJ response**.

- The short answer, in our view, is "no". For one, as Governor Ueda has suggested, **there is no conviction about entrenched demand-side inflation for the BoJ to tackle**.

- In which case, it **is sub-optimal for the BoJ to respond to JPY with monetary policy**.

- Why? Simply because, the "**JPY is a BoJ problem with a Fed solution**".

- By that, we recognize that bouts of acute JPY depreciation are presented as a by-product of the BoJ's easing stance being sharply at odds with aggressive global policy tightening.

- Consequently, that's (mis-)interpreted as **pressures on the BoJ to shift stance**, in particular **untether YCC to meaningfully narrow rate differentials**, so as to alleviate JPY pressures.

- But this is **dangerous mis-diagnosis**. Fact is, **late-cycle hawkish jolts can cause more harm than good** via **accentuated FX volatility**, **fiscal strains** and unnecessary **financing stress**.

- Simply put, the so-called "**cure**" (of BoJ policy tightening) **may be worse than the "disease"** of inconvenient policy divergence; from being a touch too dovish.

- Instead, the **BoJ's optimal strategy** may be to manage excessive volatility while awaiting a **far more efficacious and cost-effective Fed solution**; that is a Fed peak-to-pivot transition.

- Hence, the BoJ is best set to cautiously assess; with the **option to widen YCC bands if need be**.

- Meanwhile, the play book is to buy time for Fed pivot bets and attendant USD pullback to provide respite; **validating the point about BoJ problem with a Fed solution**.

FX Daily Outlook

- EUR/USD: US jobs print and "risk off" dampen; consolidation lower at 1.11-1.12.

- USD/JPY: Buoyancy on higher UST yields partlly/offset by "risk off"; straddling 140.

- USD/SGD: CNH anchor could temper slippage; with consolidation tending towards 1.33.

- AUD/USD: Underlying demand concerns may dilute CNH anchor; mid-0.67 bias.

TODAY'S EVENTS

(JP) Natl CPI/Ex Fresh Food, Energy YoY (Jun): 3.3%/4.2% (Mkt: 3.3%/4.2%; May: 3.2%/4.3%)

(KR) PPI YoY (Jun): -0.2% (Mkt: -; May: 0.6%)

(KR) Exports/Imports 20 Days YoY (Jul): -15.2%/-28.0% (Jun: 5.3%/-11.2%)

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