

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	139.96	139.48	▼0.76	▼0.59
EUR	1.1130	1.0979	▼0.0107	▼0.0151
AUD	0.6816	0.6709	▼0.0049	▼0.0070
SGD	1.3222	1.3315	+0.0061	+0.0045
CNY	7.1357	7.1675	+0.0244	▼0.0121
INR	81.95	81.94	▼0.06	▼0.05
IDR	15004	15000	▼18	+12
MYR	4.5178	4.5238	▼0.0249	▼0.0195
PHP	54.56	54.56	▼0.06	+0.03
THB	34.06	34.08	▼0.17	+0.09

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.998%	+13.1 bp	+14.8 bp
JPY (10YR)	0.450%	▼0.5 bp	▼1.7 bp
EUR* (10YR)	2.474%	▼1.1 bp	+1.7 bp
AUD (5YR)	3.768%	▼9.0 bp	▼7.9 bp
SGD (5YR)	2.955%	▼6.4 bp	▼3.1 bp
CNY (5YR)	2.423%	▼1.2 bp	+2.3 bp
INR (5YR)	7.111%	+3.5 bp	+4.8 bp
IDR (5YR)	5.958%	▼0.4 bp	+6.5 bp
MYR (5YR)	3.569%	▼2.7 bp	+1.7 bp
PHP (5YR)	6.158%	+2.1 bp	+9.3 bp
THB (5YR)	2.359%	+0.0 bp	+1.6 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	35,282.72	▼0.67%	+0.16%
N225 (JP)	32,891.16	+0.68%	+1.23%
STOXX 50 (EU)	4,447.44	+2.33%	+1.69%
ASX (AU)	4,198.69	+0.24%	+0.50%
STI (SG)	3,337.42	+0.98%	+1.93%
SHCOMP (CN)	3,216.67	▼0.20%	+1.49%
SENSEX (IN)	66,266.82	▼0.66%	▼1.93%
JSE (ID)	6,896.66	▼0.74%	+0.47%
KLSE (MY)	1,451.27	+0.14%	+3.17%
PSE (PH)	6,677.92	▼0.02%	+0.97%
SET (TH)	1,543.27	+1.23%	+1.45%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	280.17	▲0.25%	+1.99%
COPPER (LME)	8,528.00	▲0.57%	+0.79%
IRON ORE (CN)	112.83	▲0.42%	▲0.63%
GOLD	1,946.00	▲1.32%	▲1.19%
OIL (WTI)	80.09	+1.66%	+5.90%

Three Take-aways:

- 1) ECB's 25bps hike deemed less hawkish than the Fed as Lagarde espoused an open mind.
- 2) Credit tightening in EZ and dismal growth suggest less room for policy tightening compared to the Fed.
- 3) Exercising restraint will feature within BoJ's decision with YCC tweaks (not overhaul) a viable option.

Open Mind

- In a rare turn of events, the ECB's 25bp hike was **deemed less hawkish** (if not openly dovish) relative to the Fed's; leading to **slumping EUR** (sub-1.10) that more than reversed post-FOMC EUR gain (amid USD slippage). A conspiracy of factors were involved, led by **ECB chief's "open mind"** on the next policy meeting in September.

- To be sure, both the Fed and ECB alluded to a data dependent rate decision ahead. But Lagarde's **"open mind" was far less convincing than Powell's "live" characterization of September**; validating our point (as outlined in our recent piece*) that it is highly unlikely that the ECB will "outwalk the Fed". What's more, the allusion by ECB to **"powerful transmission" of tightening so far corroborated in far more emphatic credit tightening in loan survey data** also suggested less room (and appetites) for over-tightening compared to the Fed.

- Especially as **stellar Q2 US GDP replete with consumer resilience** on display raised the prospects that the US can endure far more tightening than the EZ can.

- Speaking of open minds, a Nikkei report suggesting BoJ open to, if not prepped for YCC, tweak sent JGB yields, underpinning upside from US GDP-led surge in UST yields and JPY higher (139.2). We have long held the view that a YCC tweak is an option (although not major overhauls that untether JGB yields completely). But this would still be a response to manage, not a resolution to, latent JPY pressures.

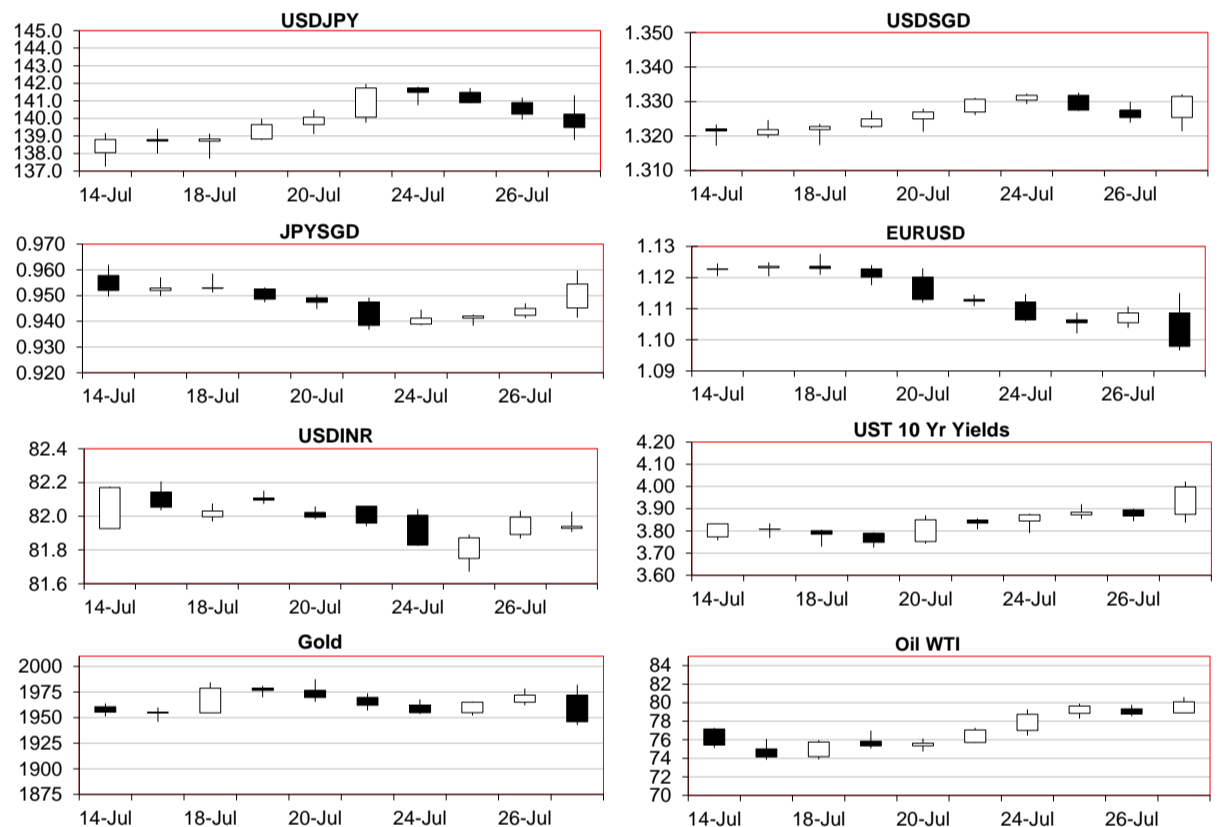
BoJ: Exercising Restraint, Not Options

- We stand by, if not double down on, our earlier that the JPY is a "BoJ problem with a Fed solution". Admittedly, "BoJ problem" insofar that JPY pressures, while are set -off by sharp Fed-BoJ divergence expressed as a flare out in UST-JGB spreads. But a "Fed solution" to the extent that buying time till a Fed pivot (bets) triggers a pullback in UST-JGB spreads is far more viable.

OVERNIGHT RESULTS

(CH) Industrial Profits YoY (Jun): -8.3% (May: -12.6%) | (SG) Unemp. Rate (Jun): 1.9% (Mkt: 1.9%; May: 1.9%) | (US) Initial Jobless Claims (Jul): 221k (Mkt: 235k; Jun: 228k) | (US) GDP Annualized QoQ (2Q A): 2.4% (Mkt: 1.8%; 1Q: 2.0%) | (US) Durable Goods Orders/Nondef Ex Air (Jun P): 4.7%/0.2% (Mkt: 0.4%/-0.2%; May: 1.8%/0.7%; Revised: 2.05/0.5%) | (US) Kansas City Fed Manf. Activity (Jul): -11 (Jun: -12.0) |

* Past Two Weeks Movement *



TODAY'S COMMENTS & FORECAST

Open

USD/JPY	138.84	EUR/USD	1.0979
USD/SGD	1.3310	USD/THB	34.48
JPY/SGD	0.9587	USD/MYR	4.544

Forecast

USD/JPY	138.00 - 141.00
EUR/USD	1.0900 - 1.1060
AUD/USD	0.6680 - 0.6790
USD/SGD	1.3280 - 1.3380
JPY/SGD	0.9418 - 0.9696
USD/CNH	7.1400 - 7.1800
USD/INR	81.90 - 82.30
USD/IDR	14980 - 15080
USD/MYR	4.520 - 4.586
USD/PHP	54.40 - 54.88
USD/THB	34.00 - 34.80

Today's Direction

	Bull	Bear
USD/SGD	4	4
USD/JPY	3	5

- As opposed to any ill-conceived attempt to allow untethered JGB yield catch up (mainly via YCC overhaul/disbandment) with UST yields.

- Fact is, the latter would break unspoken fiscal backstop and trigger unspeakable economic pain amid tsunami unprecedented JGB yield volatility;

- and all while unremitting JPY volatility is not resolved, but perhaps just reversed into unwelcome upside JPY volatility, which is not less disruptive or deleterious.

- The BoJ is of course fully aware of the dangerously high stakes involved in the temptation for a response that is not only short of a resolution, risks a "cure worse than the disease".

- And so, as the BoJ deliberates on its decision today, the **viable options may be moral suasion and perhaps a tried and tested tweak (wider) of YCC bands**. Although the latter needs to come assurances of commitment to current easing stance so that upside JGB yield volatility may be contained. Exercising restraint rather than options though may be more optimal.

- And what helps is that markets are beginning to look past scope for further upward calibration in Fed and ECB rates to converge on the (forward-looking) peak rate-to-pivot transition narrative.

- And so, tolerating near-term JPY buckles managed with a mix of jaw-boning and bouts of surprise intervention may be a lower cost interim policy as compared to hasty, late-cycle tightening exposed to being catastrophically wrong-footed.

- All said, **exercising restraint rather than options may be the considered inaction** that is superior to a hasty response for its own sake.

FX Daily Outlook

- EUR/USD: Pressure on EUR to persist and restrain recovery above mid-1.10.
- USD/JPY: Volatility watch as BoJ YCC tweaks present a live risk.
- USD/SGD: Regional FX weakness to pass through and buoy 1.33.
- AUD/USD: Sideways between 67-68 cents as RBA's hawks lose edge.

TODAY'S EVENTS

(KR) Industrial Production YoY (Jun): -5.6% (Mkt: -6.4%; May: -7.3%) | (AU) Retail Sales MoM (Jun): (Mkt: 0.0%; May: 0.7%) | (TW) GDP YoY (2Q A): (Mkt: 0.9%; 1Q: -2.9%) | (US) U. of Mich. Sentiment (Jul F): (Mkt: 72.6; Jul P: 72.6) | (US) PCE Core Deflator YoY (Jun): (Mkt: 4.2%/3.0%; May: 4.6%/3.8%) | (US) Personal Income/Spending (Jun): (Mkt: 0.5%/0.4%; May: 0.4%/0.1%)

Central Banks: BoJ Policy Decision

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