

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	139.75	141.16	+1.68	▼0.57
EUR	1.0950	1.1016	+0.0037	▼0.0108
AUD	0.6628	0.6650	▼0.0059	▼0.0079
SGD	1.3340	1.3316	+0.0001	+0.0009
CNY	7.1625	7.1485	▼0.0190	▼0.0391
INR	82.31	82.26	+0.32	+0.30
IDR	15105	15095	+95	+70
MYR	4.5535	4.5550	+0.0312	▼0.0077
PHP	54.88	54.90	+0.34	+0.15
THB	34.55	34.08	+0.00	▼0.37

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.951%	▼4.8 bp	+11.6 bp
JPY (10YR)	0.568%	+11.8 bp	+11.8 bp
EUR* (10YR)	2.492%	+1.8 bp	+5.3 bp
AUD (5YR)	3.872%	+10.4 bp	▼2.3 bp
SGD (5YR)	3.005%	+5.0 bp	+1.0 bp
CNY (5YR)	2.445%	+2.2 bp	+4.8 bp
INR (5YR)	7.145%	+3.4 bp	+7.8 bp
IDR (5YR)	6.005%	+4.7 bp	+9.3 bp
MYR (5YR)	3.595%	+2.6 bp	+2.1 bp
PHP (5YR)	6.164%	+0.6 bp	+2.4 bp
THB (5YR)	2.359%	+0.0 bp	+0.0 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	35,459.29	+0.50%	+0.66%
N225 (JP)	32,759.23	▼0.40%	+1.41%
STOXX 50 (EU)	4,466.50	+0.43%	+1.71%
ASX (AU)	4,195.17	▼0.08%	+0.30%
STI (SG)	3,371.17	+1.01%	+2.83%
SHCOMP (CN)	3,275.93	+1.84%	+3.42%
SENSEX (IN)	66,160.20	▼0.16%	▼0.79%
JSE (ID)	6,900.23	+0.05%	+0.28%
KLSE (MY)	1,450.35	▼0.06%	+2.61%
PSE (PH)	6,625.26	▼0.79%	▼0.34%
SET (TH)	1,543.27	+0.00%	+0.92%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	280.48	+0.11%	+1.45%
COPPER (LME)	8,625.49	+1.14%	+2.41%
IRON ORE (CN)	112.45	▲0.34%	▲0.58%
GOLD	1,959.49	+0.69%	▲0.12%
OIL (WTI)	80.58	+0.61%	+4.55%

TODAY'S COMMENTS & FORECAST

Open

USD/JPY	140.77	EUR/USD	1.1024
USD/SGD	1.3314	USD/THB	34.27
JPY/SGD	0.9458	USD/MYR	4.552

Forecast

USD/JPY	138.00 - 142.00
EUR/USD	1.0900 - 1.1060
AUD/USD	0.6600 - 0.6720
USD/SGD	1.3280 - 1.3380
JPY/SGD	0.9352 - 0.9696
USD/CNH	7.1400 - 7.1800
USD/INR	81.90 - 82.30
USD/IDR	15020 - 15120
USD/MYR	4.540 - 4.586
USD/PHP	54.60 - 54.88
USD/THB	34.00 - 34.80

Today's Direction

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

Three Take-aways:

- 1) Fed's Kashkari's positive inflation outlook remains associated with realistic employment costs.
- 2) Lagarde's GDP encouragement to be read together with non-definitive ECB pause.
- 3) BoJ's tweak aims to optimise the trade-offs between JPY and economic/financial stability risks.

Positive and Realistic

- Minneapolis Fed President Kashkari has touted the **inflation outlook as positive** which is congruent with the Fed's preferred inflation indicator, the PCE deflator sliding in in June.
- Nonetheless, **he injected realism** as he **does not think** that the inflation cycle will **end without cost to the labour market**. Coincidentally, Uni. Of Michigan surveyed sentiments had a downward revision.
- Consequently, UST 2Y and 10Y yields fell 5.4bp and 4.8bp respectively. Despite the softer UST yields, the USD/JPY was pulled higher to head above mid-140. (See more below)
- JPY imparted weakness was also seen in the AUD which sank toward mid-66 cents. To be sure, **softer retail sales denting odds of a RBA hike** also played a key role.
- **ECB's Lagarde also had a positive spin** with her assessment of EZ GDP as "encouraging" while being **realistic by saying that a pause is not "definitive"**. EUR recovered to above 1.10.
- In EM-Asia, the USD/SGD stayed flat. While EM-Asia FX might look to stay positive on USD weakness, one ought to be realistic on the magnitude of these gains given real rate differentials.

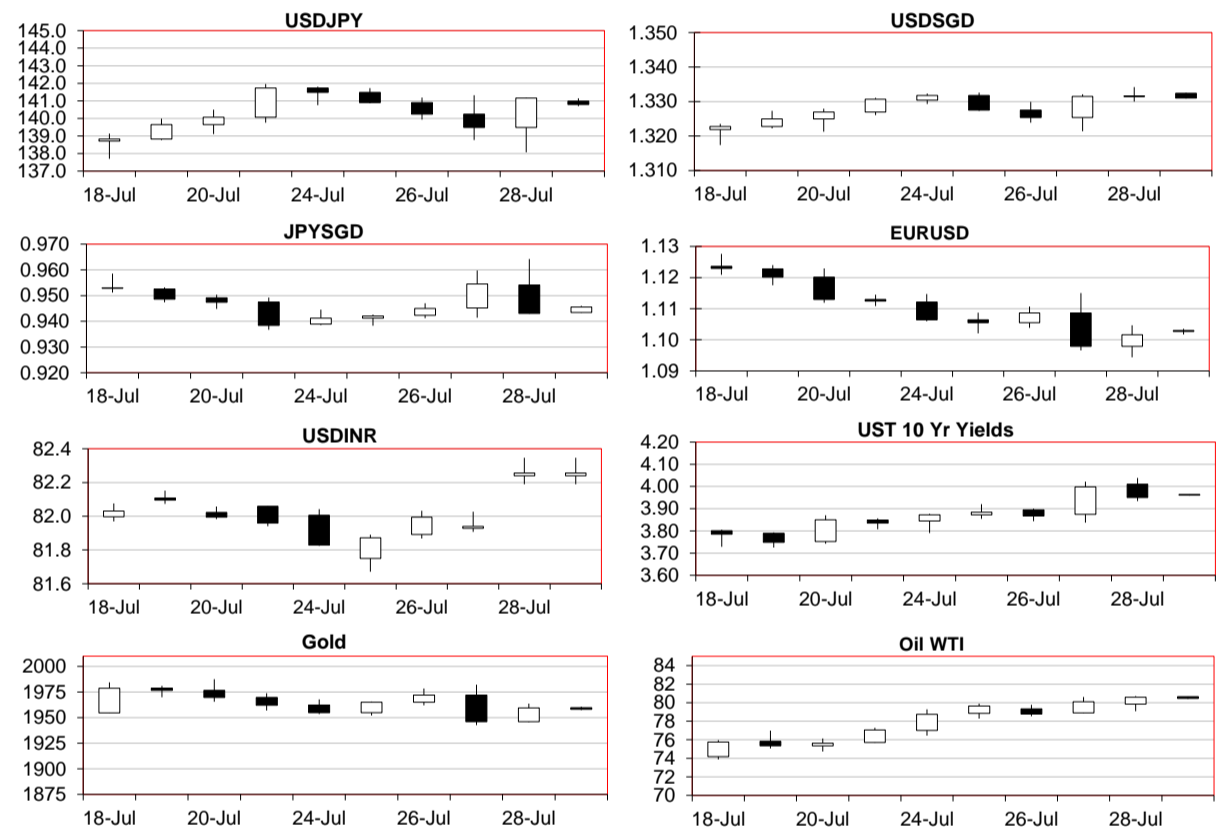
BoJ: What to Make of the "Non Rigid" YCC Ceiling Tweak?

- On Friday, the BoJ only delivered **half a surprise move** to be technical about it.
- Specifically, the BoJ keeping policy unchanged but for referring to the +/-0.5% band around the YCC 10Y yield target (of 0%) **as more a guidance than a rigid target**.
- Admittedly, in the current environment of massive UST-JGB spread, the band around YCC target is **effectively an (+0.5%) upper limit** for how high JGB yields will be allowed to stray.
- By extension, **allusion to 0.5% ceiling as a "reference point, not rigid limit" implies that JGB yields will be allowed to stray somewhat higher than that**.
- All else equal, this should thus translate into a tweak that dials back the dovish stance (less dovish rather than outright hawkish) and should **provide the JPY a bit of boost**.

OVERNIGHT RESULTS

(AU) Retail Sales MoM (Jun): -0.8% (Mkt: 0.0%; May: 0.8%) | (TW) GDP YoY (2Q A): 1.5% (Mkt: 0.9%; 1Q: -2.9%) | (US) U. of Mich. Sentiment (Jul F): 71.6 (Mkt: 72.6; Jul P: 72.6) | (US) PCE Deflator/Core YoY (Jun): 3.0%/4.3% (Mkt: 3.0%/4.2%; May: 3.8%/4.6%) |

* Past Two Weeks Movement *



- Nonetheless, the JPY has pared gains, on two facets of such a move.
- **First**, it was positioning. And so having fallen short of earlier whispers of a YCC move, which probably had been imagined to be an outright widening of the bands, It was a **more emphatic case of "buying the rumour and selling the fact"**.
- **Second**, perhaps more importantly, the motivation to not harden wider bands but to **ostensibly rein in JGB yield upside**, we think reveals a **preference to allow Fed (and ECB) pivot to catch down with the BoJ; rather than hastily engage more unequivocal policy tightening**.
- This is in line with our argument that the JPY (depreciation pressures) is a **"BoJ problem with a Fed solution"** if unnecessary policy-induced pain is to be avoided. In all, this move is part **tease part tweak**. And perhaps the road to **optimally managing the sharp, unenviable trade-offs between JPY and economic/financial stability risks**.
- Which in turn suggests that in coming weeks, **JPY downside risks may only be managed dynamically, not unequivocally eradicated**; at least till later in 2023 when Fed pivot becomes clearer. Nonetheless, there is a risk that such deliberately "soft" and vague guidance may be **sub-optimal for policy clarity; and in the worst case, backfire in terms of policy credibility**.
- For one, the BoJ conducting fixed rate purchases at 1.00% thereafter, has inadvertently led to markets assuming that the BoJ's guidance was effectively a doubling of bands to +/-1.00%.
- Although we suspect the BOJ's intent was to reserve flexibility on the YCC ceiling.
- Consequently, the BoJ might have **unhappy policy guidance outcomes**. After all, Gandhi defined happiness to be **"when what you think, what you say and what you do are in harmony"**.

FX Daily Outlook

- EUR/USD: EUR rallies are also far from definitive as 1.11 remains a cautious adventure.
- USD/JPY: Rallies look increasingly laboured given policy tweaks.
- USD/SGD: Buoyancy above mid-1.32 retained as CNH/CNY attempts to gain ground.
- AUD/USD: With RBA looming, the AUD will find 67 cents too high a bar.

TODAY'S EVENTS

(JP) Retail Sales (Jun): (Mkt: 5.4%; May: 5.8%) | (JP) Industrial Production YoY (Jun P): (Mkt: 0.3%; May: 4.2%) | (CH) Manufact./Non-manufact. PMI (Jul): (Mkt: 48.9/53.0; Jun: 49.0/53.2) | (TH) BoP Current Account Balance (Jun): (Mkt: \$1425m; May: -\$2766m) | (US) MNI Chicago PMI (Jul): (Mkt: 43.5; Jun: 41.5) | (US) Dallas Fed Manf. Activity (Jul): (Mkt: -22.5; Jun: -23.3) | (EZ) CPI Core/Estimate YoY (Jul): (Mkt: 5.3%/5.2%; Jun: 5.5%/5.5%) | (EZ) GDP SA YoY/QoQ (2Q A): (Mkt: 0.4%/0.1%; 1Q: 1.1%/0.0%)

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