

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	142.93	142.58	▼0.74	+3.10
EUR	1.0920	1.0949	+0.0011	▼0.0030
AUD	0.6529	0.6551	+0.0013	▼0.0158
SGD	1.3434	1.3410	+0.0000	+0.0095
CNY	7.1892	7.1697	▼0.0219	+0.0022
INR	82.78	82.73	+0.14	+0.79
IDR	15193	15185	+10	+185
MYR	4.5551	4.5553	+0.0128	+0.0315
PHP	55.53	55.54	+0.34	+0.98
THB	34.64	34.64	+0.38	+0.56

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.175%	+9.8 bp	+17.7 bp
JPY (10YR)	0.653%	+2.5 bp	+20.3 bp
EUR* (10YR)	2.605%	+7.0 bp	+13.1 bp
AUD (5YR)	3.816%	+4.3 bp	+4.8 bp
SGD (5YR)	2.981%	+3.9 bp	+2.6 bp
CNY (5YR)	2.430%	▼1.6 bp	+0.7 bp
INR (5YR)	7.176%	+4.6 bp	+6.5 bp
IDR (5YR)	6.001%	+2.0 bp	+4.3 bp
MYR (5YR)	3.609%	+0.5 bp	+4.0 bp
PHP (5YR)	6.202%	▼0.2 bp	+4.4 bp
THB (5YR)	2.359%	+0.0 bp	+0.0 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	35,215.89	▼0.19%	▼0.19%
N225 (JP)	32,159.28	▼1.68%	▼2.23%
STOXX 50 (EU)	4,304.63	▼0.73%	▼3.21%
ASX (AU)	4,109.59	▼0.35%	▼2.12%
STI (SG)	3,304.06	▼0.63%	▼1.00%
SHCOMP (CN)	3,280.46	+0.58%	+1.98%
SENSEX (IN)	65,240.68	▼0.82%	▼1.55%
JSE (ID)	6,898.08	+0.64%	+0.02%
KLSE (MY)	1,441.85	▼0.19%	▼0.65%
PSE (PH)	6,576.76	+1.44%	▼1.51%
SET (TH)	1,529.01	▼1.37%	▼0.92%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	278.48	+0.71%	▲0.61%
COPPER (LME)	8,570.50	+1.20%	+0.50%
IRON ORE (CN)	103.21	▲2.50%	▲8.53%
GOLD	1,934.06	▲0.02%	▲0.61%
OIL (WTI)	81.55	+2.59%	+1.82%

TODAY'S COMMENTS & FORECAST

Open

USD/JPY	142.60	EUR/USD	1.0951
USD/SGD	1.3409	USD/THB	34.57
JPY/SGD	0.9403	USD/MYR	4.552

Forecast

USD/JPY	141.90 - 143.80
EUR/USD	1.0900 - 1.1020
AUD/USD	0.6500 - 0.6610
USD/SGD	1.3460 - 1.3440
JPY/SGD	0.9360 - 0.9471
USD/CNH	7.1600 - 7.2200
USD/INR	82.30 - 82.90
USD/IDR	15100 - 15230
USD/MYR	4.535 - 4.570
USD/PHP	55.20 - 55.68
USD/THB	34.30 - 34.70

Today's Direction

	Bull	Bear
USD/SGD	2	4
USD/JPY	1	5

Three Take-aways:

- 1) BoE delivers expected 25bp hike with a hawkish flavour; with the surge in yields restraining cheer.
- 2) The BoJ's intended vagueness on a now elastic YCC ceiling purposefully reclaims some control.
- 3) With the unintended (but helpful for JPY and BoJ) impact of curbing "carry" trades.

Bumpy Rides

- While the BoE hiked by 25bp as expected, Governor Bailey sounded more hawkish than the ECB which assisted the pound to reverse initial losses. While he is confident that inflation is on the downslope, the BoE is likely signaling a **bumpy ride** by highlighting risks from rapid wage growth.

- Across the Atlantic, US ISM services came in **softer than expected expansion** with underlying details revealing **higher prices paid, slower employment growth and new orders**. Low US initial jobless claims backstop potential Fed hikes and seep caution on US equities. With pared back "peak Fed" bets conspiring with higher longer end UST yields, USD remain buoyant despite being off the highs.

- EUR is pressured around mid-1.09 while AUD hovers at mid-65 cents. Meanwhile, USD/JPY slide towards mid-142 is little relief amid Saudi's prolonged oil supply cuts and even possible deepening.

BoJ's Intended Curve Control ...

- The BoJ's YCC tease (*rather than tweak*), invoking non-rigid YCC ceiling (*avoiding an outright lift*), smells like a **purposeful attempt to reclaim more control of policy flexibility and agility**.

- Especially in the context of accentuated late-cycle risks.

- The BoJ's prioritization of policy optionality not just understandable, but arguably critical. Nonetheless, *equivocation on the extent of, and commitment to, lifting* JGB yields **necessarily comes at a price**. In particular, **sacrificing the ability to alleviate JPY pressures**.

- Arguably this **trade-off**, whereby the BoJ gives up a more enduring and emphatic JPY boost for JPY in exchange for less destabilizing surge in JGB yields (with potentially adverse fiscal implications), is a **calculated gambit to mitigate opposing risks while buying time**.

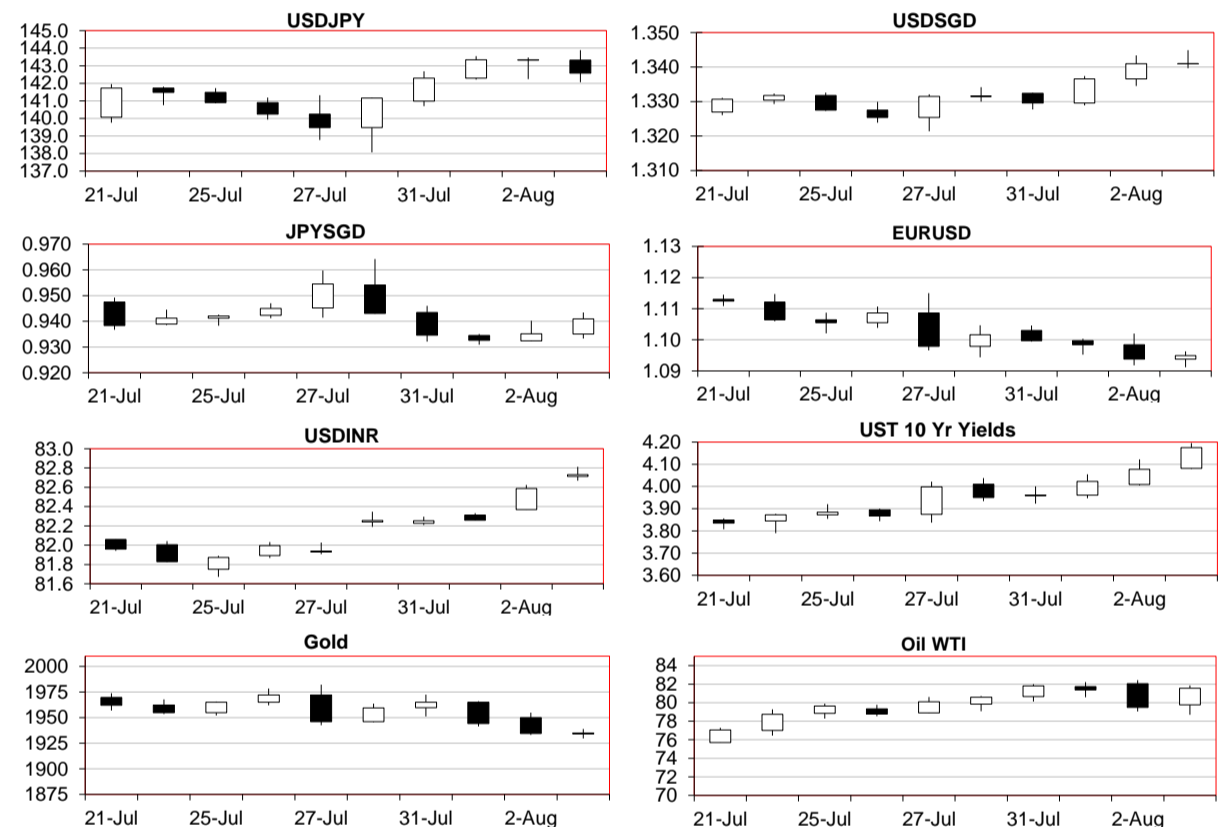
- And this squares with acute JPY depreciation being "*a BoJ problem with a Fed solution*".

- Point being, it is **too costly for the BoJ to completely eradicate JPY pressures**.

OVERNIGHT RESULTS

(CH) Caixin China PMI Services (Jul): 54.1 (Mkt: 52.4; Jun: 53.9) | (AU) Trade Bal (Jun): A\$11321m (Mkt: A\$10750m; May: A\$11791m) | (US) Initial Jobless Claims: 227k (Mkt: 225k; Prior: 221k) | (US) Durable Goods/Nondef Ex Air Orders (Jun F): 4.6%/0.1% (Mkt: 4.7%/0.2%; Jun P: 4.7%/0.2%) | (US) ISM Services (Jul): 52.7 (Mkt: 53.1; Jun: 53.9) | (EZ) PMI - Services (Jul F): (Mkt: 51.1; Jun P: 51.1)

Past Two Weeks Movement



- Whereas, **managing extreme volatility**, whilst *biding time for USD capitulation premised on Fed pivot* that will correspond to pullback in UST-JGB may be far more (cost-)effective.

- But these are the **intended outcomes with the necessary trade-offs** assumed.

- Albeit dynamically. Which means one may reasonably expect the BoJ to calibrate its response in view of how competing JPY and fiscal risks evolve amid heightened global yield volatility.

... & Unintended Curve Balls

- But the BoJ is not merely responding to volatility, but may also be **unintentionally transmitting volatility to the detriment of carry trades**.

- The starting point to appreciating this is to recognize that in the wake of the hawkish wave (outside of Japan) in response to global inflation shocks the **JPY has now reclaimed the position as the dominant**, if not exclusive, **funding currency for "carry"** (trades).

- Specifically, **increased uncertainty around YCC limits** and attendant **JGB yield swings**, alongside **JPY fluctuations** will **invariably accentuate volatility that hurts "carry" trades**.

- In turn, this will, at the margin, have a **detrimental effect on EM currencies generally, and high yielders** more specifically, while JPY pressures are alleviated.

- Especially as carry trades are compromised by higher JGB yields and/or sharp JPY fluctuations. In any case, **volatility is in and of itself the bane of "carry" traders**.

- Finally, **unintended** as this "carry" dampening effect *may be*, it will nevertheless be a **welcome JPY backstop** that provides the BoJ with a little more breathing room.

FX Daily Outlook

- EUR/USD: Higher UST yields to stall rallies above 1.10.

- USD/JPY: Buoyancy backed by Saudi's prolonged cuts while JGB bears remain a test not catalyst.

- USD/SGD: China property measures look unable to inspire CNH, pair to float above mid-1.33.

- AUD/USD: Consolidation around mid-65 cents as RBA statement look to highlight growth risks.

TODAY'S EVENTS

(SG) Retail Sales/Ex Auto YoY (Jun): (Mkt: 2.1%/--; May: 1.8%/1.8%) | (PH) CPI YoY (Jul): (Mkt: 4.9%; Jun: 5.4%) |

(US) Nonfarm Payrolls/Unemployment Rate (Jul): (Mkt: 200k/3.6%; Jun: 209k/3.6%) |

(EZ) Retail Sales YoY (Jun): (Mkt: -1.7%; May: -2.9%)

Central Banks: RBA Monetary Policy Statement

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