

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	143.23	143.73	+0.35	+0.41
EUR	1.0984	1.0974	+0.0018	+0.0036
AUD	0.6567	0.6528	▼0.0016	▼0.0010
SGD	1.3441	1.3466	▼0.0009	+0.0056
CNY	7.1996	7.2107	▼0.0079	+0.0191
INR	82.81	82.82	▼0.01	+0.23
IDR	15189	15191	▼27	+16
MYR	4.5707	4.5730	▼0.0100	+0.0305
PHP	56.22	56.21	▼0.05	+1.01
THB	34.87	34.94	▼0.01	+0.67

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.008%	▼1.4 bp	▼6.9 bp
JPY (10YR)	0.584%	▼2.6 bp	▼4.4 bp
EUR* (10YR)	2.497%	+2.8 bp	▼3.8 bp
AUD (5YR)	3.756%	▼1.0 bp	▼1.7 bp
SGD (5YR)	2.944%	+0.0 bp	+0.2 bp
CNY (5YR)	2.429%	+0.6 bp	▼1.7 bp
INR (5YR)	7.149%	+1.6 bp	+1.9 bp
IDR (5YR)	6.055%	▼0.3 bp	+7.4 bp
MYR (5YR)	3.599%	+0.1 bp	▼0.5 bp
PHP (5YR)	6.193%	+0.4 bp	▼1.1 bp
THB (5YR)	2.428%	+0.5 bp	+6.9 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	35,123.36	▼0.54%	▼0.45%
N225 (JP)	32,204.33	▼0.53%	▼1.54%
STOXX 50 (EU)	4,317.33	+0.66%	▼0.44%
ASX (AU)	4,139.36	+0.75%	+0.37%
STI (SG)	3,313.79	+0.00%	▼0.34%
SHCOMP (CN)	3,244.49	▼0.49%	▼0.53%
SENSEX (IN)	65,995.81	+0.23%	+0.32%
JSE (ID)	6,875.11	+0.09%	+0.30%
KLSE (MY)	1,462.03	+0.76%	+1.21%
PSE (PH)	6,530.45	+0.89%	+0.73%
SET (TH)	1,528.30	+0.65%	▼1.42%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	282.04	+1.01%	+2.00%
COPPER (LME)	8,363.26	+0.73%	▲1.25%
IRON ORE (CN)	104.03	+0.77%	▲1.73%
GOLD	1,914.46	▲0.56%	▲1.03%
OIL (WTI)	84.40	+1.78%	+6.18%

Three Take-aways:

- 1) Data sensitivities abound as bumpy inflation prints to conspire with the threat of higher oil prices.
- 2) Amid external headwinds and slowing growth momentum, Philippines GDP leans on private consumption.
- 3) RBI set for awkward hold with hawkish shades as pipeline food inflation risks notches up.

Sensitivities

- After equivocating at the opening (up and down start), equities pulled back to finish in the red. This was ostensibly at least partly due to caution ahead of US CPI tonight; fully reflecting our point about **heightened data sensitivity** ahead of September FOMC. In contrast, Eurozone equities were buoyant. But this reflects relief on **Italy soothing concerns** about additional tax on banks rather than out-and-out optimism. Reflecting so, EUR edged higher but was unable to recover above 1.10.

- Facing **prospects of a higher headline inflation** for July after June's 3.0% YoY, 2Y UST yields rose 5.7bp. Caution was also not lost with 10Y UST yields edging 1.4bp lower. Furthermore, with Brent crude prices surging to US\$87.5/barrel, the threat of elevated headline inflation is real.

- This was consequent in USD's mixed performance as NOK outperformed. Meanwhile, USD/JPY pulled higher above mid-143. Elsewhere, weaker SGD and AUD speaks to enlarged **sensitivities to China's deflationary environment** and on-going property credit crisis.

Philippines Q2 GDP: Slowing Momentum

- While Philippines Q2 GDP growth is expected to **post above 6% YoY**, these estimates still represent a **slowing sequential quarterly momentum** from Q1. While **private consumption** is expected to remain **resilient** as **low unemployment rate**, **softer remittances**, **monetary policy transmission** and still **pessimistic consumer sentiments** imply less room for outperformance.

- External demand remains lacklustre as latest June exports to **major trading partners** contracted.

- Looking ahead, the **risks to growth are tilted to the downside** with possible agricultural and energy price shocks further denting consumer pockets and sentiments.

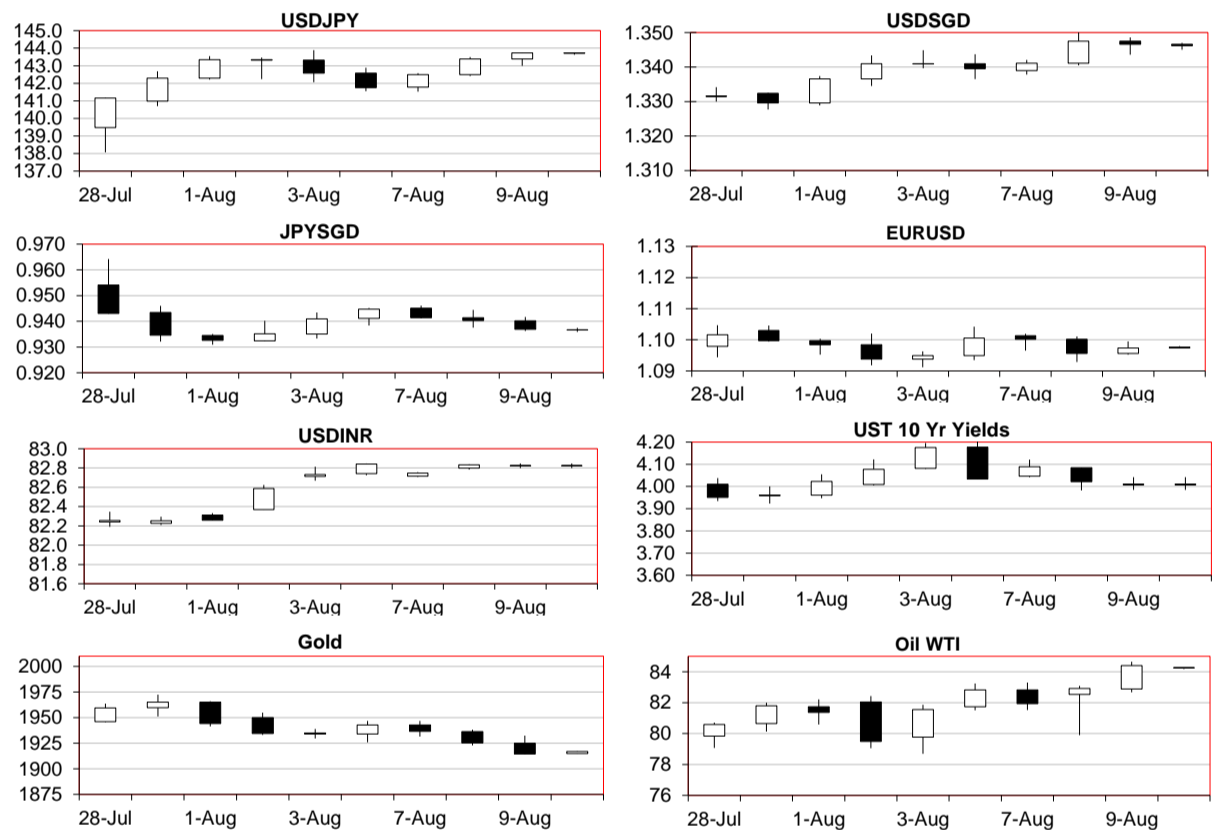
RBI: Of Inflection & Deflection

- **Between inflation and inflection**, the **RBI appears set for a loaded** (albeit widely expected) **hold**; and arguably with a tinge of hawkish after-taste from inconvenient food inflation.

OVERNIGHT RESULTS

(CH) CPI/PPI YoY (Jul): -0.3%/-4.4% (Mkt: -0.4%/-4.0%; Jun: 0.0%/-5.4%) | (KR) Unemployment Rate SA (Jul): 2.8% (Mkt: 2.7%; Jun: 2.6%) | (PH) Unemployment Rate (Jun): 4.5% (May: 4.3%) | (TW) CPI/Core YoY (Jul): 1.95/2.7% (Mkt: 1.9%/--; Jun: 1.8%/2.6%)

Past Two Weeks Movement



TODAY'S COMMENTS & FORECAST

Open

USD/JPY	143.72	EUR/USD	1.0977
USD/SGD	1.3462	USD/THB	35.08
JPY/SGD	0.9366	USD/MYR	4.574

Forecast

USD/JPY	143.00 - 145.00
EUR/USD	1.0880 - 1.1050
AUD/USD	0.6450 - 0.6600
USD/SGD	1.3400 - 1.3550
JPY/SGD	0.9241 - 0.9476
USD/CNH	7.2000 - 7.2600
USD/INR	82.70 - 83.10
USD/IDR	15150 - 15250
USD/MYR	4.560 - 4.600
USD/PHP	56.00 - 56.60
USD/THB	34.80 - 35.10

Today's Direction

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

- The **agitating elephant in the room** is **resurgent inflation**.

- As a consequence of which, the build up of **expectations for inflection have been deflected**.

- To be sure, there is an **argument to be made** that insofar the **rebound in inflation is almost entirely food-driven**, it should not have a material impact on the policy calculus.

- **But that textbook argument does not translate very well** on the ground for three key reasons.

- **First, in the context of rapid US dis-inflation**, an about turn that starts to reverse **India's dis-inflation may instigate rupee instability; as relative real return spreads increasingly disadvantage rupee**. Arguably as indiscriminate as it is inadvertent. But that debate is of no consolation for the real economic damage from rupee pressures. More so as the inflation concerns expressed as rupee pressures eventually turn self-fulfilling via imported inflation channels.

- **Second, there are also legitimate doubts about whether India's earlier dis-inflation** prior to this episode of food price shocks could have endured in any case. And with upswings in global energy prices alongside broad-based global food inflation risks from El Nino, this doubt is not unjustified.

- **Finally, and perhaps debunking flawed arguments that food inflation may be ignored in India's context** is the fact that food constitutes some 45% of the consumption basket.

- By virtue of which, it must have influence on inflation expectations; and by extension, policy calculus. The upshot is that **while the RBI may desire an end to the hiking cycle**, with a view of easing soon, it **cannot as yet reflect any distinctly dovish shift in stance**. So, an **awkward hold with a grudging retention of hawkish shades** may be **optimal policy given the non-ideal realities**.

FX Daily Outlook

- EUR/USD: US CPI to challenge 1.10 rallies and may impart slippages below 1.09.

- USD/JPY: Watch for volatility as rallies may test mid-144 with Brent crude and US CPI conspiring.

- USD/SGD: Cautious testing of 1.35 on the cards as China property worries may weaken CNH.

- AUD/USD: Submerged below 66 cents as higher oil prices unable to bolster.

TODAY'S EVENTS

(JP) PPI YoY (Jul): 3.6% (Mkt: 3.5%; 4.1%) | (PH) GDP YoY (2Q): (Mkt: 6.0%; 1Q: 6.0%)

(US) Initial Jobless Claims (5-Aug): (Mkt: 230k; 29-Jul: 227k) | (US) CPI/Core YoY (Jul): (Mkt: 3.3%/4.7%; Jun: 3.0%/4.8%)

(Central Banks): RBI Monetary Policy Decision

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