

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	143.81	144.75	+1.02	+2.17
EUR	1.1008	1.0981	+0.0007	+0.0032
AUD	0.6551	0.6515	▼0.0013	▼0.0036
SGD	1.3463	1.3494	+0.0028	+0.0084
CNY	7.2104	7.2188	+0.0081	+0.0491
INR	82.83	82.72	▼0.11	▼0.02
IDR	15197	15185	▼6	+0
MYR	4.5727	4.5705	▼0.0025	+0.0152
PHP	56.23	56.25	+0.05	+0.71
THB	35.09	35.11	+0.17	+0.46

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.106%	+9.7 bp	▼7.0 bp
JPY (10YR)	0.584%	+0.0 bp	▼6.9 bp
EUR* (10YR)	2.528%	+3.1 bp	▼7.7 bp
AUD (5YR)	3.804%	+4.8 bp	▼1.2 bp
SGD (5YR)	2.971%	+2.7 bp	▼1.0 bp
CNY (5YR)	2.432%	+0.3 bp	+0.2 bp
INR (5YR)	7.136%	▼1.3 bp	▼4.0 bp
IDR (5YR)	6.047%	▼0.8 bp	+4.6 bp
MYR (5YR)	3.591%	▼0.8 bp	▼1.8 bp
PHP (5YR)	6.169%	▼2.4 bp	▼3.3 bp
THB (5YR)	2.425%	▼0.3 bp	+6.6 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	35,176.15	+0.15%	▼0.11%
N225 (JP)	32,473.65	+0.84%	+0.98%
STOXX 50 (EU)	4,384.04	+1.55%	+1.84%
ASX (AU)	4,155.68	+0.39%	+1.12%
STI (SG)	3,322.93	+0.28%	+0.57%
SHCOMP (CN)	3,254.56	+0.31%	▼0.79%
SENSEX (IN)	65,688.18	▼0.47%	+0.69%
JSE (ID)	6,893.28	+0.26%	▼0.07%
KLSE (MY)	1,458.93	▼0.21%	+1.18%
PSE (PH)	6,449.66	▼1.24%	▼1.93%
SET (TH)	1,533.41	+0.33%	+0.29%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	279.96	▲0.74%	+0.53%
COPPER (LME)	8,348.74	▲0.17%	▲2.59%
IRON ORE (CN)	103.64	▲0.37%	+0.42%
GOLD	1,912.48	▲0.10%	▲1.12%
OIL (WTI)	82.82	▼1.87%	+1.56%

TODAY'S COMMENTS & FORECAST

Open

USD/JPY	144.86	EUR/USD	1.0982
USD/SGD	1.3495	USD/THB	35.13
JPY/SGD	0.9316	USD/MYR	4.576

Forecast

USD/JPY	143.60 - 145.50
EUR/USD	1.0920 - 1.1080
AUD/USD	0.6450 - 0.6600
USD/SGD	1.3420 - 1.3550
JPY/SGD	0.9223 - 0.9436
USD/CNH	7.2230 - 7.2600
USD/INR	82.45 - 83.00
USD/IDR	15130 - 15280
USD/MYR	4.558 - 4.600
USD/PHP	55.90 - 56.60
USD/THB	35.05 - 35.35

Today's Direction

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

Three Take-aways:

- 1) US inflation (measured) relief more than reversed by UST supply bulge; USD and UST yields up.
- 2) China's deflation needs to be recognized as mostly "non-exportable"; with little global relief.
- 3) Crucially, it neither hastens global peak rates nor expands Beijing's stimulus capacity/scope.

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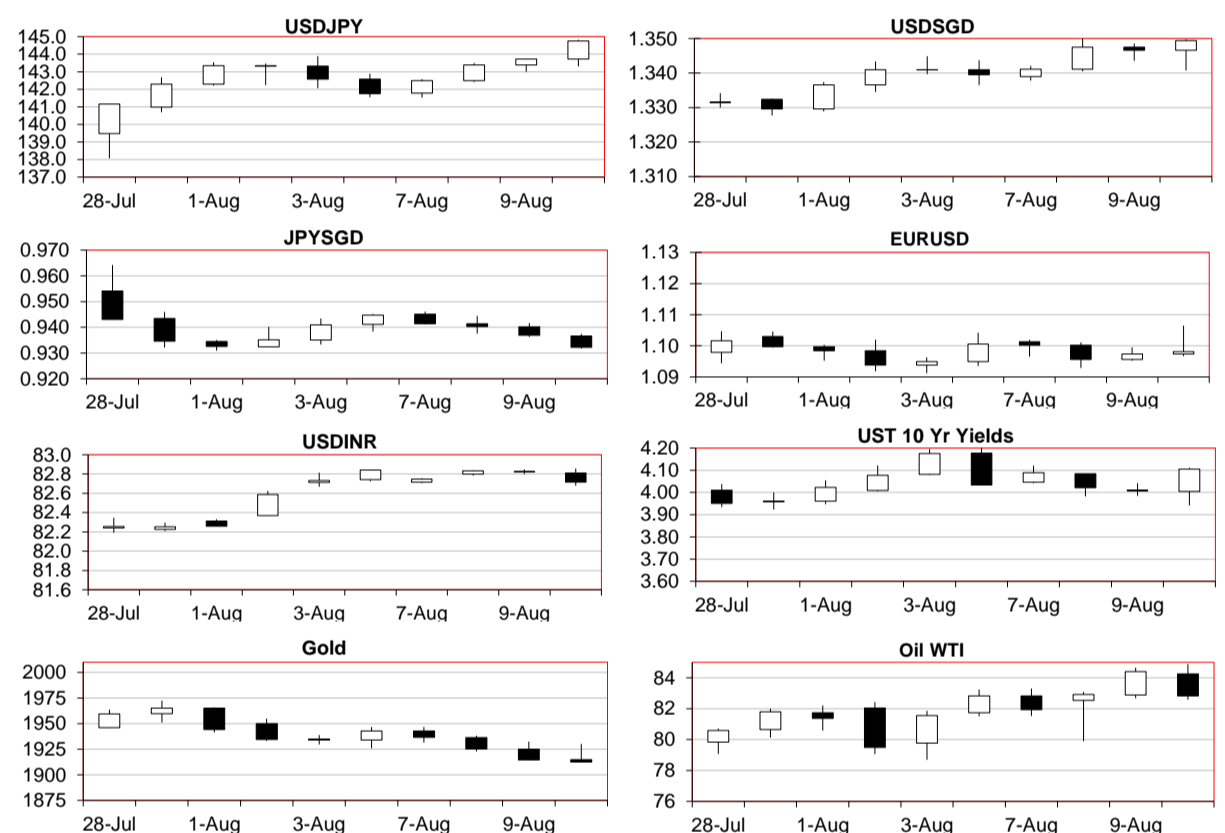
- Fractionally more encouraging US dis-inflation in the headline that also had some flattering details made hearts skip in anticipation and glee in the "pivot" camp; but not for long.
- Lukewarm reception for the 30Y UST auction prompted some stomach churn about bloated UST issuances, more than reversing earlier post-CPI pullback in UST yields (10Y: +10bp to 4.11%).
- In turn, triggering USD squeeze led by USD/JPY (given sensitivity to UST yield surge) to rallies to high-144; EUR dipped back to sub-1.10; AUD slid back to 0.65; USD/SGD rallied to flirt with 1.35.
- Speculation that the Fed could skip Sep (FOMC) hike at appears to have been prompted earlier "risk on" and encouraged by Fed remarks of inflation in the right direction. But the Fed reserves optionality, which means markets cannot skip accentuated data-driven volatility ahead.

Three Things About China's Deflation

- The sheer disparity between China's brow furrowing deflation and worries about inconveniently sticky, if not reaccelerating, inflation elsewhere is hard to square.
- For that reason alone, it is worth exploring the significance of China's deflation for the rest of the world. Specifically, to explore whether it heralds pipeline inflation relief.
- The short answer is "No, it does not". But as is often the case, the details are somewhat more complicated. In any case, here are three key take-aways on China's deflation.
- First, China tipping into consumer deflation does not mark an inflection, in China's dynamics; much less globally. Instead, it merely reflects the underlying demand and confidence deficit issues that feed each other; and belatedly so at that.
- Second, and crucially, most of China's deflation is not even "exportable" deflation/dis-inflation. And therefore why is this the case?
- Mainly because China's deflation is predominantly due to non-exportable property market slump;

OVERNIGHT RESULTS

(PH) GDP YoY/QoQ (2Q): 4.3%/-0.9% (Mkt: 6.0%/0.6%; 1Q: 6.0%/1.0%)
(US) Core PPI (Jul): 0.2%/0.1% (Mkt: 0.2%/0.1%; Jun: 0.1%/0.1%)
(US) Core CPI (Jul): 3.5%/4.7% (Mkt: 3.0%/4.8%)



- replete with its pernicious, far-reaching adverse cash-flow effects as well as negative wealth effects, exacerbated by a coincident pullback in business confidence and hence, spending.
- And this domestic deflation cannot be meaningfully exported as global dis-inflation beyond pre-existing global manufacturing downturn (and pockets of goods deflation) cannot be exported on its own without similar shocks in economies that account for final demand.
- Especially amid fresh inflation impulses to food from El Niño food conspiring with threats of energy price shocks from a hawkish OPEC+ alongside lingering Russia-Ukraine risks.
- Ironically, despite deflation in China, the bigger impact may be from Chinese tourists beginning to export demand pull inflation elsewhere as travel gathers momentum from opened border; and at the cost of demand suction deflation at home.
- Third, and finally, China's deflation may be of little policy consequence.
- Globally, China's deflation provides little to no relief for "sticky" inflation and the attendant policy dilemma; as globally sticky core services inflation amid tight jobs that have caught monetary policy on too loose a footing coming out of COVID.
- At home, Beijing's sharp policy trade-offs involving pre-existing financial stability risks are also not magically waved away, limiting the capacity for, and efficacy of, monetary stimulus regardless of headline dis-inflation ostensibly creating policy space.
- Meanwhile local government debt overhang stifle fiscal stimulus.
- And above all, conflicting social-political objectives (embedded in "Common Prosperity") inadvertently dull the "wake-up call" for policy-makers to jolt China out of deflation.

FX Daily Outlook

- EUR/USD: UST yield squeeze on UST issuance indigestion to subdue EUR pick-up above 1.10.
- USD/JPY: Two-way volatility on watch as 145 flirt could prompt verbal/actual intervention.
- USD/SGD: Upside bias remains on dips even if traction above 1.35 remains tentative for now.
- AUD/USD: China doubts and higher UST yields weighing; sub-0.65 is a risk to be watched.

TODAY'S EVENTS

(SG) GDP QoQ/YoY (Q2 F): 0.1%/0.5% (Prelim: 0.3%/0.7%) | (TH) Consumer Confidence Economic (Jul): (Mkt: Jun: 51.2)
(CH) Aggregate Financing /New CNY Loans (Jul): (Mkt: 1100.0b/780.0b; Jun: 4224.1b/3049.5b)
(US) PPI/PPI ex-Food & Energy YoY (Jul): (Mkt: 0.7%/2.3%; Jun: 0.1%/2.4%)
(US) U.o.M Sentiment (Aug P): (Mkt: 71.3; Jul: 71.6) | U.o.M Inflation Expectations 1Y/5-10Y (Aug P): (3.5%/3.0%; Jul: 3.4%/3.0%)
(Central Banks): RBA Governor Lowe's Testimony

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