

**MARKET SUMMARY**

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	145.39	146.35	+0.78	+2.62
EUR	1.0924	1.0879	▼0.0026	▼0.0095
AUD	0.6476	0.6424	▼0.0031	▼0.0104
SGD	1.3566	1.3598	+0.0015	+0.0132
CNY	7.2891	7.2985	+0.0101	+0.0878
INR	82.95	82.96	+0.00	+0.13
IDR	15282	15283	▼57	+92
MYR	4.6301	4.6293	▼0.0067	+0.0563
PHP	56.55	56.51	▼0.34	+0.31
THB	35.29	35.37	▼0.02	+0.43

\*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.250%	+3.9 bp	+24.2 bp
JPY (10YR)	0.630%	▼0.2 bp	+4.6 bp
EUR* (10YR)	2.650%	▼2.2 bp	+15.3 bp
AUD (5YR)	3.963%	▼4.5 bp	+20.7 bp
SGD (5YR)	3.085%	▼0.9 bp	+14.1 bp
CNY (5YR)	2.366%	▼1.0 bp	▼6.3 bp
INR (5YR)	7.185%	+0.0 bp	+3.6 bp
IDR (5YR)	6.142%	+2.7 bp	+8.7 bp
MYR (5YR)	3.657%	+0.6 bp	+5.8 bp
PHP (5YR)	6.108%	▼1.9 bp	▼8.5 bp
THB (5YR)	2.443%	+0.9 bp	+1.5 bp

\* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	34,765.74	▼0.52%	▼1.02%
N225 (JP)	31,766.82	▼1.46%	▼1.36%
STOXX 50 (EU)	4,284.27	▼0.10%	▼0.77%
ASX (AU)	4,021.57	▼0.43%	▼2.85%
STI (SG)	3,213.58	▼0.59%	▼3.02%
SHCOMP (CN)	3,150.13	▼0.82%	▼2.91%
SENSEX (IN)	65,539.42	+0.21%	▼0.69%
JSE (ID)	6,900.54	▼0.21%	+0.37%
KLSE (MY)	1,463.51	+0.22%	+0.10%
PSE (PH)	6,410.09	+1.17%	▼1.84%
SET (TH)	1,519.56	▼0.08%	▼0.57%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	273.46	▲0.31%	▲3.04%
COPPER (LME)	8,115.25	▲0.35%	▲2.97%
IRON ORE (CN)	103.87	+0.02%	▲0.15%
GOLD	1,891.81	▲0.54%	▲1.18%
OIL (WTI)	79.38	▼1.99%	▼5.95%

**TODAY'S COMMENTS & FORECAST**
**Open**

USD/JPY	146.33	EUR/USD	1.0875
USD/SGD	1.3604	USD/THB	35.50
JPY/SGD	0.9297	USD/MYR	4.630

**Forecast**

USD/JPY	145.00 - 146.60
EUR/USD	1.0850 - 1.1000
AUD/USD	0.6380 - 0.6480
USD/SGD	1.3520 - 1.3630
JPY/SGD	0.9222 - 0.9400
USD/CNH	7.3000 - 7.3500
USD/INR	82.80 - 83.30
USD/IDR	15250 - 15350
USD/MYR	4.625 - 4.645
USD/PHP	56.40 - 57.10
USD/THB	35.29 - 35.60

**Today's Direction**

	Bull	Bear
USD/SGD	3	1
USD/JPY	2	2

**Three Take-aways:**

- 1) FOMC Minutes detail a delicate balancing act with hawkish spots which boost UST yields and USD.
- 2) Sterling gained on higher Gilt yields as UK inflation exceeded expectations.
- 3) Despite pipeline inflation threats, BSP to stand pat on monetary policy today amid growth woes.

**Balancing Acts and Hawkish Spots**

- With UST yields edging higher (2Y: +1.3bp; 10Y: +3.9bp) and US equities sent tumbling again, FOMC Minutes may have revealed **hawkish spots amid a tough balancing act**.

- **First**, the Minutes noted that risks have become **more two sided** and it was important to **balance the risk of an inadvertent overtightening of policy against the cost of an insufficient one**.

- **Second**, revelation that a **couple** (which implies two) of participants favoured leaving the target range unchanged appears to have been read as a majority of participants having hawkish tendencies.

- **Third**, on Quantitative Tightening (QT), participants noted that **"balance sheet run-off need not end when ... eventually begins to reduce the target range"** which could signal the need for balancing rate normalisation with balance sheet normalisation to prevent inflation resurgence.

- Admittedly, while **long term actions are given a larger discount** considering evolving economic circumstances, the near term implication is a reminder of the impact **from on-going QT efforts**.

- Concomitantly, the Greenback got a further boost. Among G10 peers, only the Sterling made gains as **UK inflation exceeded expectations and drove Gilt yields higher**. USD/JPY was pulled above 146 on rising UST yields while EUR slipped below 1.09. USD/SGD took a cautious climb towards 1.36.

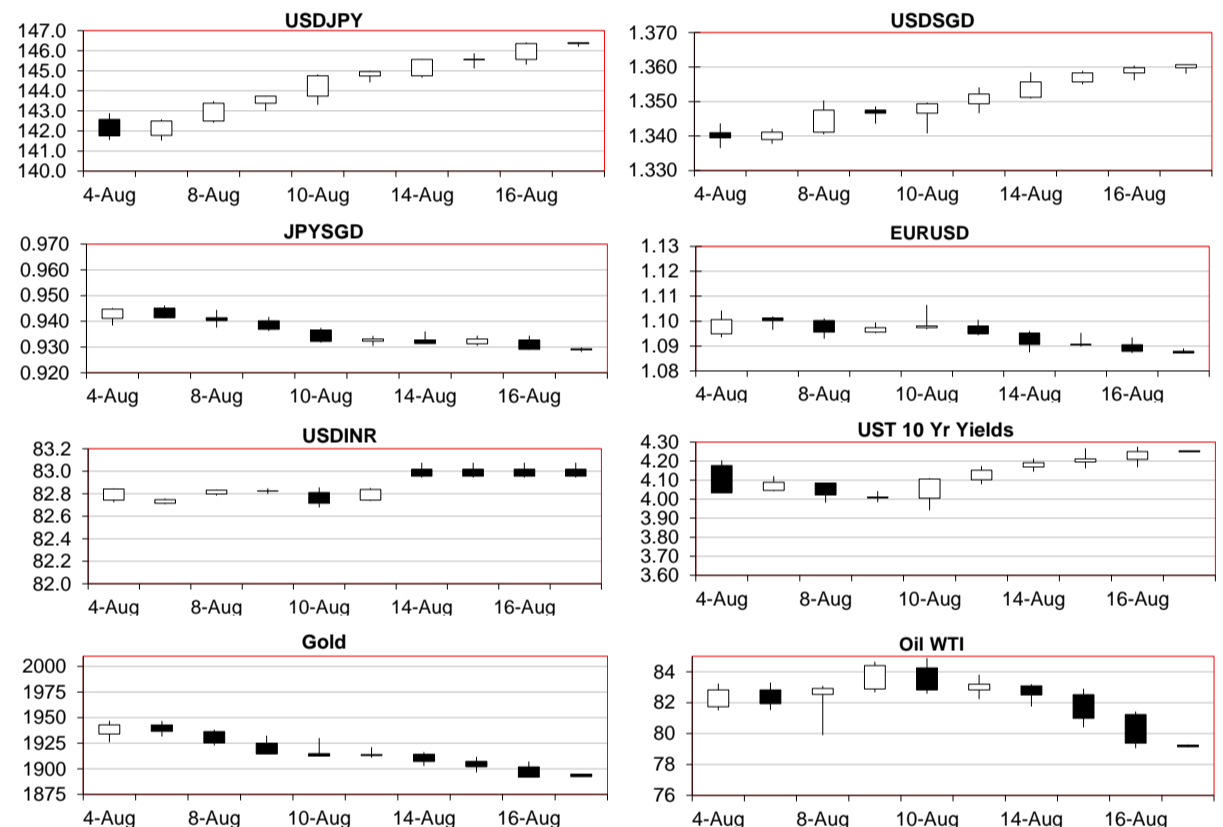
- AUD slipped further towards 64 cents amid the commodities' continued slide alongside on-going China woes. Apart from the need for concrete details to back broad pledges to revive consumption, the fiscal impact and ensuing ratings spillover present stark trade-offs.

**BSP - Holding Amid Two Way Threats**

- While **our base case is for the BSP to continue to stand pat** on monetary policy and keep their overnight borrowing rate at 6.25% on 17 August, **the threats of rising inflation upside and accentuated growth risks are narrowing their policy space beyond this August meeting**.

**OVERNIGHT RESULTS**

(EZ) GDP SA YoY (2Q P): 0.6% (Mkt: 0.6%; Prev: 0.6%) | (EZ) Industrial Production WDA YoY (Jun): -1.2% (Mkt: -4.0%; May: -2.2%)  
 (US) Housing Starts/Building Permits (Jul): 1452k/1463k (Mkt: 1450k/1468k; Jun: 1434k/1441k) | (US) Industrial Production MoM (Jul): 1.0% (Mkt: 0.3%; Jun: -0.5%)

**\* Past Two Weeks Movement \***


- Even without a **clear direct El Nino** hit on the domestic economy yet, the **indirect spillover** from India's rice export ban will not be taken lightly considering the **hefty weight of food** in the CPI basket. The **clear rise in rice prices in Vietnam** (their biggest import source) is a worrying one.

- As such, the damage on household's cost of living will certainly be a material one and the ensuing impact on private consumption is a fundamentally real one rather than just nominal effects.

- Furthermore, the **broad dissipation of headline dis-inflation** from sticky oil prices backed by OPEC+ actions to keep supplies tight may begin to support a bumpy inflation path in early Q4.

- In short, while we do not doubt BSP's projection that headline inflation will technically fall within their 2-4% range in Q4, reality may be **must closer to their upper limit** rather than resting comfortably within.

- On the activity front, **dismal Q2 GDP growth at 4.3% YoY** amid private consumption's sequential contraction alongside an uptick in unemployment rate will have the authorities **watchful of the lagged effects from their earlier tightening moves**.

- **At this juncture**, on the back of easing core inflation and **falling headline inflation** (4.7% in July), the **BSP will retain caution on raising policy rates higher** as growth woes rise.

- Rate cuts are similarly not on the table amid **PHP depreciation woes exacerbating inflation upside risks**. In fact, given the fact that BSP Governor Remolona has signalled that 6.8% nominal policy rate and 3.8% real rate as the **ceiling for not impeding growth**, the tail risk is for a surprise hike.

**FX Daily Outlook**

- EUR/USD: At sub-1.09, further slips will encounter friction from fear of inflation resurgence.
- USD/JPY: Higher UST yields may allow buoyancy off mid-145 but mid-146 subject to restrain.
- USD/SGD: 1.36 consolidation enabled by China woes as CNH weakness set to be prolonged.
- AUD/USD: Sub-64 cents to be contemplated but slides require further commodity plunges.

**TODAY'S EVENTS**

(JP) Trade Balance (Jul): -¥78.7b (Mkt: ¥47.9b; ¥43.1b) | (JP) Core Machine Orders YoY (Jun): -5.8% (Mkt: -5.8%; May: -8.7%)  
 (SG) Non-oil domestic exports YoY (Jul): (Mkt: -14.3%; Jun: -15.5%) | (AU) Employment Change/Unemployment Rate (Jul): (Mkt: 15.0k; 3.6%; Jun: 32.6k; 3.5%) | (JP) Tertiary Industry Index MoM (Jun): (Mkt: -0.2%; May: 1.2%)  
 (US) Initial Jobless Claims (12 Aug): (Mkt: 240k; Prev: 248k) | (US) Philadelphia Fed Business Outlook (Aug): (Mkt: -10.0; Jul: -13.5)  
 (US) Leading Index (Jul): (Mkt: -0.4%; Jun: -0.7%)  
 (Central Banks): **BSP Monetary Policy Decision**

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