

**MARKET SUMMARY**

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	145.45	146.22	+0.83	+0.66
EUR	1.0887	1.0896	+0.0023	▼0.0010
AUD	0.6400	0.6414	+0.0008	▼0.0073
SGD	1.3575	1.3575	+0.0003	+0.0018
CNY	7.3100	7.2832	▼0.0013	+0.0259
INR	83.11	83.11	+0.00	+0.16
IDR	15326	15325	+40	+10
MYR	4.6523	4.6488	+0.0000	+0.0331
PHP	56.35	56.17	+0.00	▼0.64
THB	35.26	35.18	▼0.20	+0.09

\*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.338%	+8.3 bp	+14.7 bp
JPY (10YR)	0.649%	+1.4 bp	+3.7 bp
EUR* (10YR)	2.703%	+8.1 bp	+6.6 bp
AUD (5YR)	3.979%	+1.9 bp	+3.4 bp
SGD (5YR)	3.174%	+3.8 bp	+12.7 bp
CNY (5YR)	2.351%	▼0.9 bp	▼5.5 bp
INR (5YR)	7.204%	+0.5 bp	+1.9 bp
IDR (5YR)	6.305%	+8.8 bp	+21.3 bp
MYR (5YR)	3.639%	+0.6 bp	▼0.8 bp
PHP (5YR)	6.098%	+0.1 bp	▼3.6 bp
THB (5YR)	2.513%	+1.4 bp	+8.0 bp

\* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	34,463.69	▼0.11%	▼2.39%
N225 (JP)	31,565.64	+0.37%	▼1.54%
STOXX 50 (EU)	4,224.87	+0.28%	▼2.43%
ASX (AU)	3,953.40	▼0.22%	▼3.50%
STI (SG)	3,154.03	▼0.63%	▼2.88%
SHCOMP (CN)	3,092.98	▼1.24%	▼2.69%
SENSEX (IN)	65,216.09	+0.41%	▼0.28%
JSE (ID)	6,866.03	+0.09%	▼0.64%
KLSE (MY)	1,450.57	+0.31%	▼0.44%
PSE (PH)	6,290.27	+0.00%	▼0.61%
SET (TH)	1,525.85	+0.44%	▼0.61%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	274.74	▲0.27%	▲1.21%
COPPER (LME)	8,239.00	+0.31%	▲0.05%
IRON ORE (CN)	107.46	+0.20%	+3.86%
GOLD	1,894.93	+0.30%	▲0.64%
OIL (WTI)	80.72	▼0.65%	▼2.17%

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

USD/JPY	146.25	EUR/USD	1.0898
USD/SGD	1.3574	USD/THB	35.18
JPY/SGD	0.9282	USD/MYR	4.646

**Forecast**

USD/JPY	145.00 - 146.80
EUR/USD	1.0850 - 1.0950
AUD/USD	0.6330 - 0.6450
USD/SGD	1.3520 - 1.3600
JPY/SGD	0.9210 - 0.9379
USD/CNH	7.2600 - 7.3200
USD/INR	83.00 - 83.20
USD/IDR	15250 - 15380
USD/MYR	4.640 - 4.670
USD/PHP	56.00 - 56.60
USD/THB	35.00 - 35.26

**Today's Direction**

	Bull	Bear
USD/SGD	3	3
USD/JPY	3	3

**Three Take-aways:**

- 1) Divergent US equities, higher UST yields amid USD holding ground falls far short of risk on.
- 2) Rising real rates may be more pertinent and perhaps a greater risks than are notions of peak Fed.
- 3) Rate cut disappointment an excuse, not reason, for China chill reflecting far more entrenched threats.

**Long Views and Near Term Pains**

- Overnight, US equities attempted to recover ground with the Nasdaq surging 1.6% while the S&P 500 rose a milder 0.7%. That said, the Dow closing 0.1% lower underscores more **structural headwinds** such as worries surrounding **discretionary spending**. What's more, with S&P also **downgrading and cutting the rating outlook** for US banks, the near terms pains are far from over.

- Undeniably, Structural Shifts will be all the focus this week with Jackson hole Symposium being titled "Structural Shifts in the Global Economy". While the **long term focus is self-evident**, that does not absolve risks surrounding the **near term policy implications**.

- For one, if the shifts are pertaining to the inflation trajectory, this will invoke discussions surrounding the neutral rate and **shift market pricing of rate paths with ensuing FX impact**.

- At this juncture, amid the EUR testing 1.09 and AUD hovering above 64 cents, the **mild gains made by most G10 peers does not distract from the fact that the USD has maintained traction with the DXY staying above 103**. **Structural differentials** are certainly laid bare with USD/JPY being pulled above 146 by higher UST yields. Unsurprisingly, 2Y UST yields lean on the hawkish end to rise 5.8bp while upsized issuance concerns continue to send 10Y UST soaring 8.3 bp.

**The "Real" Deal**

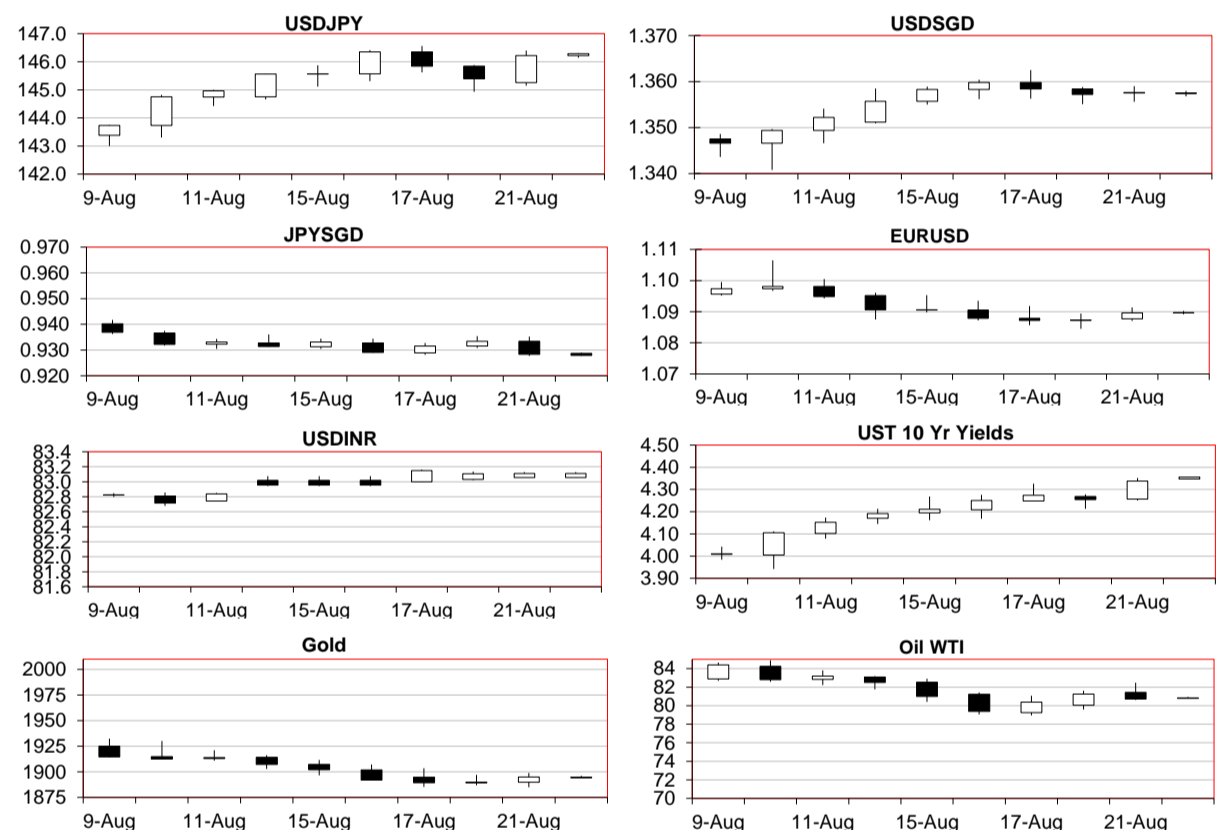
- **Rising real US rates is the "real deal"**; insofar that *on-going impact from real tightening*, and not hollow consolation about "peak Fed", that is *bound to sway the economy and markets*.

- Depending on the preferred measure, real **10Y UST yields may range between 1.25% to near 2%** (the former derived by backing out real yields from nominal yields and 5Y5Y inflation swaps and the latter from inflation-indexed bonds). But the wider point is that real yields **have surged tremendously**.

- In fact, with *a surge of near 300bps upswing since Sep 2021*, this is the *most acute tightening in real rates* - as measured by TIIPS - *in some 25 years* (based on available data, that is).

**OVERNIGHT RESULTS**

(CH) 1Yr/5Yr Loan Prime Rate (21-Aug): 3.45%/4.20% (Mkt: 3.40%/4.05; Prev: 3.55%/4.20%) | (TH) GDP YoY (2Q): 1.8% (Mkt: 3.0%; 1Q: 2.7%)

**Past Two Weeks Movement \***


- That being the case, it is **not outlandish to expect significant, if not profound**, (albeit lagged) **impact on credit** (constricting demand) and **capital flows** (inducing financial volatility/pressures).

- And in particular, insofar that the ascendancy of real rates in the US will outpace that elsewhere in the West, and likely in many parts of the EM, that we had flagged; i) a **sticky path down for the Greenback\*** despite "peak Fed", and barring an abrupt dovish swing by the Fed and; ii) the risks of premature EM Asia rate hike peak potentially undermining currency stability\*\*.

- Heading into **Jackson Hole** later this week, **Fed Chair Powell's comments on policy could continue to underpin, if not boost, real UST yields**. Especially if the *notion of higher neutral rates* (in the context of structural shifts) are raised *alongside reiteration on "higher for longer"*.

**China Chills**

- A 1.8% slump in Hang Seng alongside the sea of red across the China equity complex left little doubt that a **measured 15bp cut to 1Y LPR**, but with **no change to 5Y LPR**, **disappointed market hopes of a "big bang" stimulus**. This was *an excuse, not reason to sell*.

- For **one**, the *inherent tensions with financial/CNY stability* in the context of elevated leverage/hawkish Fed means that the **PBoC's scope for cuts was constrained from the get go**.

- **Second**, given these considerations, the PBoC and financial regulators meeting with banks over the weekend suggest **moral suasion to lower credit premium as the preferred mode of easing**.

- **Finally**, Beijing's **property sector backstop is complex and complicated by opposing socio-political objectives** amid **confidence deficit**. Hence, cutting longer-term rates is no panacea.

**FX Daily Outlook**

- EUR/USD: Higher UST yields may thwart attempts to durably sustain above 1.09.

- USD/JPY: Jawboning risks increases amid retain buoyancy.

- USD/SGD: Consolidation around mid-1.35 as CNH attempts to hold against higher UST yields.

- AUD/USD: 64 cents bounces par for the course but rallies elude.

**TODAY'S EVENTS**

(JP) PMI-Mfg/Svcs (Aug P): (Jul: 49.6/53.8) | (JP) Machines Tool orders YoY (Jul F): (Prelim: 19.8%) |

(ID) Current Account Balance (2Q): (Mkt: -268m; 1Q: \$3000m)

(US) Richmond Fed Manufacturing Index (Aug): (Mkt-10; Jul-9)

\* Mizuho FX Brief - USD: Keeping it Real, 25 July 2023

\*\* Mizuho Chart Speak - The Real Risks with EM Asia Policy & FX, 8th Aug 2023

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