

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	146.82	147.08	+0.49	▼0.64
EUR	1.0714	1.0754	+0.0004	+0.0032
AUD	0.6427	0.6426	▼0.0005	+0.0047
SGD	1.3623	1.3606	+0.0000	▼0.0007
CNY	7.2957	7.2923	+0.0032	▼0.0110
INR	82.99	82.92	▼0.11	▼0.12
IDR	15344	15340	+15	+75
MYR	4.6778	4.6788	+0.0058	+0.0136
PHP	56.66	56.66	▼0.02	▼0.16
THB	35.62	35.64	+0.14	+0.18

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.280%	▼0.8 bp	+2.0 bp
JPY (10YR)	0.711%	+0.2 bp	+5.3 bp
EUR* (10YR)	2.643%	+0.5 bp	+3.1 bp
AUD (5YR)	3.892%	+1.0 bp	+2.9 bp
SGD (5YR)	3.162%	+0.3 bp	+3.9 bp
CNY (5YR)	2.475%	▼0.9 bp	+1.9 bp
INR (5YR)	7.238%	▼1.2 bp	+5.1 bp
IDR (5YR)	6.314%	+2.5 bp	+13.7 bp
MYR (5YR)	3.618%	+1.3 bp	+1.8 bp
PHP (5YR)	6.104%	▼0.8 bp	▼2.2 bp
THB (5YR)	2.717%	+0.9 bp	+11.2 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	34,645.99	▼0.05%	+0.01%
N225 (JP)	32,776.37	+0.95%	▼0.79%
STOXX 50 (EU)	4,242.27	▼0.28%	▼0.63%
ASX (AU)	4,097.97	+0.36%	+1.04%
STI (SG)	3,214.46	▼0.12%	▼0.38%
SHCOMP (CN)	3,137.06	▼0.18%	▼0.55%
SENSEX (IN)	67,221.13	+0.14%	+2.19%
JSE (ID)	6,933.97	▼0.42%	▼0.83%
KLSE (MY)	1,453.39	▼0.11%	▼0.10%
PSE (PH)	6,230.20	▼0.06%	+0.08%
SET (TH)	1,545.50	+0.30%	▼0.15%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	287.36	+0.36%	+0.86%
COPPER (LME)	8,367.50	▲0.10%	▲1.36%
IRON ORE (CN)	120.93	+1.19%	+2.88%
GOLD	1,913.67	▲0.45%	▲0.65%
OIL (WTI)	88.84	+1.78%	+2.48%

TODAY'S COMMENTS & FORECAST
Open

USD/JPY	147.16	EUR/USD	1.0753
USD/SGD	1.3608	USD/THB	35.59
JPY/SGD	0.9247	USD/MYR	4.677

Forecast

USD/JPY	146.00 - 148.00
EUR/USD	1.0680 - 1.0800
AUD/USD	0.6350 - 0.6450
USD/SGD	1.3570 - 1.3680
JPY/SGD	0.9169 - 0.9370
USD/CNH	7.2900 - 7.3600
USD/INR	82.81 - 83.35
USD/IDR	15300 - 15360
USD/MYR	4.670 - 4.688
USD/PHP	56.56 - 57.25
USD/THB	35.35 - 35.75

Today's Direction

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

Three Take-aways:

- 1) EUR boost by reports of upgraded inflation forecasts may face limited upside on lack of statistical surprise.
- 2) US headline inflation set to accelerate; falling core is flattered by rental dis-inflation and goods deflation.
- 3) Risk premium re-pricing and financing risks back the case of peak Fed not being peak pain.

Of Underlying Pressures and Spikes

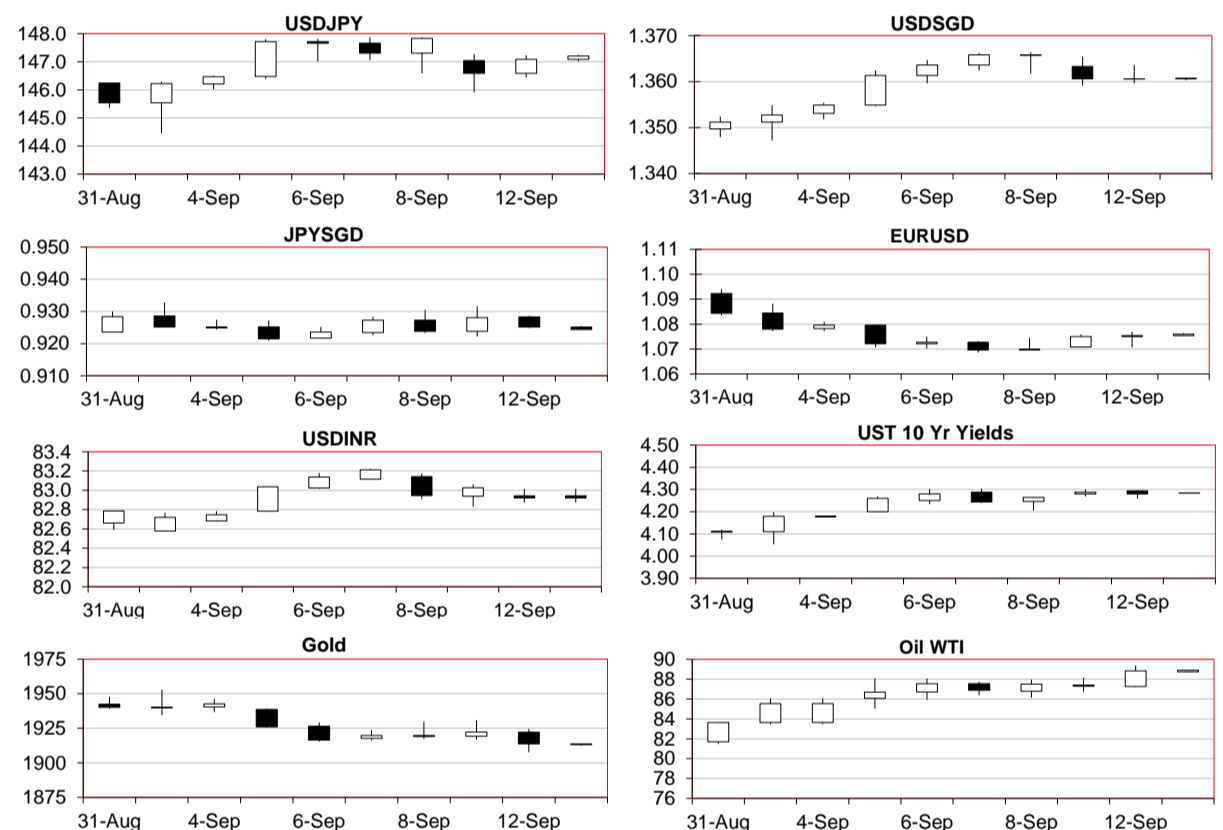
- Late in the session, reports of ECB having 2024 inflation projections **above 3%** boosted EUR to mid-1.07. To clear, **inflation projections matter for policy** but the **spike is more** reflective of the excitable nature of this decision which sit on a **knife edge with the probabilities of a hike now rising to 55%**.
- Statistically, the excitement needs to be checked. Specifically, it is worth noting that the **previous 2024 inflation projection in June stood at 3.0%** and given the energy price trajectory in Q3 thus far, **one should not be too surprised at an upward revision**.
- Admittedly, the **unknown** nature of the **magnitude** of the revision as well as the "last minute" **leak during a blackout period** inevitably fuel speculation of ECB hike bets.
- Nonetheless, the Greenback maintained traction against most other G10 peers as **UST 2Y yields edging up 2.9bp** is certainly not betting against the resurgence of headline inflation. (See below)
- For one, **USD/JPY rising back above 147** substantiates our points that opening up **future policy options** may not charge up JPY bulls especially against the **current hawkish Fed**.
- Elsewhere, the AUD and SGD ended flat amid an abundance of caution. Reflecting this, US equities declined with Nasdaq leading losses ahead of tonight's resurgent headline CPI print.

US CPI - Like An Onion

- Fed Chair Powell has said before, in what your scribe likes to think of a hat tip to Shrek, that **inflation is like an onion in that it has "layers"**. And evolving **disparities, perhaps even outright dissonance**, in the various layers **challenge the ability to accurately ascribe underlying inflation risks**. For one, headline inflation (the outer most layer) is set to **re-accelerate**; from 3.0-3.2% YoY over June and July to 3.6% in August.
- Yet **core inflation could continue to downtrend**; easing further (from 4.7% in July) to 4.3%.

OVERNIGHT RESULTS

(IN) CPI YoY (Aug): 6.8% (Mkt: 7.1%; Jul: 7.4%) | (IN) Industrial Production (Jul): 5.7% (Mkt: 5.3%; Jun: 3.7%)
 (GE) Zew Survey Expectations/Current (Sep): -11.4/-79.4 (Mkt: -15.0/-76.0; Aug: -12.3/-71.3)

*** Past Two Weeks Movement ***


- Text book economics will suggest that this is not a problem; as core inflation trend, which strips out volatile food and energy, trend is more important.

- But the trouble is, this is **still not layered enough** to hastily jump to such textbook, sanguine/dovish conclusions. Specifically, it may be **premature for the Fed can overlook headline inflation re-acceleration to revel in cooling core inflation**.

- Three reasons why. First, outbursts of energy inflation can unfortunately have a much longer reach. Second, **policy ramifications are muted** insofar that falling core inflation is flattered by **expected rental dis-inflation** and **goods deflation**.

- Finally, even with this softening, the "inner-most" **core (of non-accommodation services), which the Fed deems consequential for wage-price spiral risks, remains far too sticky**. Truly, like an, **US inflation involved layers to peel back. And might still leave Fed rates at eye-watering levels**.

Why Peak Fed is Not Peak Pain

- As the Fed approaches the end of rate hikes, not only is anticipatory relief palpable, but "pivot" **exuberance is building**. But our warning is that cheer is premature.

- For one, historically downturns coincide with acute credit tightening after "peak Fed".

- What's more, **risk premium** (in EM Asia) has been **unusually depressed**; under the cover of **exceptional inflation spread inversion** and **indulgent post-pandemic liquidity**.

- But both are **on borrowed time**. And **reversion** underway set **to prompt risk re-pricing**;

- with **China chills threatening to exacerbate economic headwinds, capital outflow/currency depreciation risks**. More so as a **strong USD imposes demand pressures and financing risks**.

(See Mizuho Brief - Macro Risks: Why Peak Fed is Not Peak Pain, 12 Sept 2023)

FX Daily Outlook

- EUR/USD: Speculation on upgraded inflation face risk of statistical reality check to fade EUR.
- USD/JPY: US CPI to continue to buoy pair and allow consolidation above mid-165.
- USD/SGD: Bounces above 1.36 as ride on EUR meets US CPI resurgence.
- AUD/USD: Slippages above 64 cents to be watched amid recent weakness.

TODAY'S EVENTS

(KR) Unemployment Rate SA (Aug): 2.4% (Mkt: 2.9%; Jul: 2.8%) | (JP) BSI LargeAll Industry QoQ (3Q):5.8% (2Q: 2.7%)

(JP) PPI YoY (Aug): 3.2% (Mkt: 3.3%; Jul: 3.4%)

(US) CPI/Core YoY (Aug): (Mkt: 3.6%/4.3%; Jul: 3.2%/4.7%)

(EZ) Industrial Production MoM (Jul):(-0.9%; Jun:0.5%)

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