

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	147.27	147.46	+0.38	▼0.20
EUR	1.0745	1.0730	▼0.0024	+0.0003
AUD	0.6412	0.6422	▼0.0004	+0.0040
SGD	1.3615	1.3611	+0.0005	▼0.0025
CNY	7.2843	7.2717	▼0.0206	▼0.0463
INR	82.95	82.99	+0.06	▼0.15
IDR	15370	15370	+30	+77
MYR	4.6829	4.6810	+0.0022	+0.0053
PHP	56.72	56.73	+0.07	▼0.21
THB	35.71	35.76	+0.12	+0.25

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.249%	▼3.2 bp	▼3.1 bp
JPY (10YR)	0.713%	+0.2 bp	+5.3 bp
EUR* (10YR)	2.651%	+0.8 bp	▼0.2 bp
AUD (5YR)	3.892%	+0.0 bp	+3.6 bp
SGD (5YR)	3.175%	+1.3 bp	+2.3 bp
CNY (5YR)	2.460%	▼1.5 bp	▼4.2 bp
INR (5YR)	7.157%	▼8.1 bp	▼3.2 bp
IDR (5YR)	6.324%	+1.0 bp	+9.2 bp
MYR (5YR)	3.635%	+1.7 bp	+2.7 bp
PHP (5YR)	6.121%	+1.7 bp	+0.0 bp
THB (5YR)	2.801%	+8.3 bp	+12.5 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	34,575.53	▼0.20%	+0.38%
N225 (JP)	32,706.52	▼0.21%	▼1.61%
STOXX 50 (EU)	4,223.48	▼0.44%	▼0.35%
ASX (AU)	4,097.89	▼0.00%	+1.21%
STI (SG)	3,218.93	+0.14%	▼0.12%
SHCOMP (CN)	3,123.07	▼0.45%	▼1.11%
SENSEX (IN)	67,466.99	+0.37%	+2.41%
JSE (ID)	6,935.48	+0.02%	▼0.86%
KLSE (MY)	1,453.54	+0.01%	▼0.48%
PSE (PH)	6,149.18	▼1.30%	▼1.48%
SET (TH)	1,535.31	▼0.66%	▼0.87%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	287.62	+0.10%	+1.01%
COPPER (LME)	8,397.50	+0.36%	+0.46%
IRON ORE (CN)	121.13	+0.17%	+1.92%
GOLD	1,908.12	▲0.29%	▲0.44%
OIL (WTI)	88.52	▼0.36%	+1.12%

TODAY'S COMMENTS & FORECAST
Open

USD/JPY	147.35	EUR/USD	1.0733
USD/SGD	1.3610	USD/THB	35.75
JPY/SGD	0.9236	USD/MYR	4.680

Forecast

USD/JPY	146.00 - 148.00
EUR/USD	1.0680 - 1.0800
AUD/USD	0.6380 - 0.6480
USD/SGD	1.3570 - 1.3680
JPY/SGD	0.9169 - 0.9370
USD/CNH	7.2600 - 7.3200
USD/INR	82.81 - 83.35
USD/IDR	15340 - 15380
USD/MYR	4.670 - 4.688
USD/PHP	56.56 - 57.25
USD/THB	35.60 - 35.90

Today's Direction

	Bull	Bear
USD/SGD	3	4
USD/JPY	3	4

Three Take-aways:

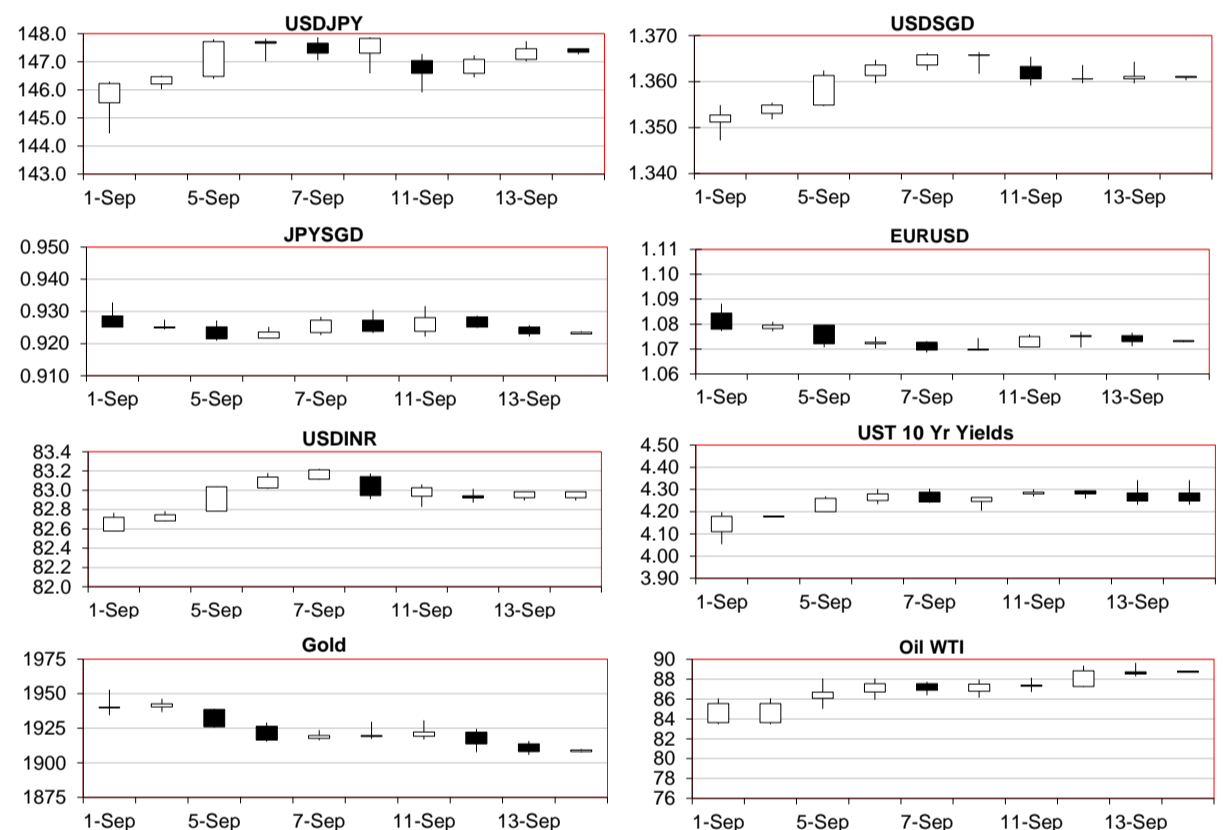
- 1) US headline inflation remains troubled by energy prices while inner core services inflation accelerated.
- 2) Despite UST yields decline, the commitment to elevated rates holds amid USD resilience.
- 3) The ECB will exercise flexibility and humility as they restrain on rate hikes.

Cutting Onions

- The **more you cut an Onion, the stronger it will taste**. At first glance, US inflation prints for August are about in line with expectations depending on the statistical basis. A **dissection** though may change the flavour and not unlike onions **the taste changes depending on how it is cut**.
- US Headline CPI inflation rose to 3.7% YoY from July's 3.2% with gasoline being a significant contributor. Given that Brent crude prices in September thus far have largely exceeded the average August figures, **high fuel prices will be distasteful for headline inflation ahead**.
- **Cutting deeper**, core inflation accelerating to 0.3% MoM from 0.2% maybe the more worrying figure with rent, medical care, personal care and vehicle insurance being key contributors.
- Admittedly, **the sequential momentum of rent increases have slowed**.
- That said, Fed Chair Powell's utmost concern which is the **inner "most core" inflation (Excluding housing) remains stubbornly sticky** saw a sequential boost to 0.4% MoM.
- While a significant part this inner core was indeed driven by higher airfares, the **ability of businesses to pass on higher fuel costs will not be lost on policy makers**.
- In addition, while **rising** health insurance cost is omitted from the PCE index (the Fed's official mandate), these costs are still reflective of household burdens and cost pressures.
- **Given these complexities**, markets had rather mixed directions with the data not being a point of inflection. US equities reflected so with the Dow lower by 0.2% while the Nasdaq and S&P500 were up 0.1 and 0.3% respectively.
- Meanwhile, 2Y UST yields' decline below 5% to just above 4.96% is also not a hallmark of conviction for pivot bets. What's committed though is that the rates will stay elevated.
- Tonight's retail sales and jobless claim print data will add to the debate on consumer health. Establishing an initial direction will require more alignment of data.

OVERNIGHT RESULTS

(US) CPI/Core YoY (Aug): 3.7%/4.3% (Mkt: 3.6%/4.3%; Jul: 3.2%/4.7%) | (EZ) Industrial Production MoM (Jul):-1.1% (-0.9%; Jun:0.5%)

*** Past Two Weeks Movement ***


- Against the UST yields decline, the Greenback stayed resilient. USD/JPY hovered above 147.
- The SGD and AUD also made little gains last night. After the **dismal industrial production print and ahead of ECB's decision tonight**, EUR remains pressured below mid-1.07 after the initial spike from the report of inflation forecast upgrade.

ECB: Flexibility & Humility

- Despite the outburst in energy prices fuelling fears of resurgent inflation, the **ECB is likely to hold rates as the contraction in services activity remains worrying**. The post Jackson hole change in **policy dynamics from earlier steadfast rate increase is clear**. Specifically, ECB President Lagarde's Jackson Hole allusions to "**clarity**", "**flexibility**" and "**humility**".
- While **clarity** was on their inflation objective, her focus on flexibility in not making policy on simple rules in an uncertain economy warns us of **over extrapolating recent price shocks**.
- As for **humility**, her concession to the "**limits of what we currently know and what our policy can achieve**" also points to **increasing caution on policy moves**. Furthermore, the **ECB is afforded breathing space** with the Fed likely to hold rates at the September FOMC (next week).
- As such, we expect the **ECB to stick to these three key elements** by stating their clear commitment to **reduce inflation via hawkish communications**.
- Nonetheless, exercise restraint in the interest of downside risks to growth by **keeping policy on hold as uncertainty over global demand prospects temper variable persistence of energy and oil shocks**.

FX Daily Outlook

- EUR/USD: ECB hold may see EUR test 1.07 as hawkish communications may not suffice.
- USD/JPY: Lower UST yields to assist 147 slippage but buoyancy on oil retained above 146.
- USD/SGD: Consolidation around 1.36 as CNH asserts amid softer UST yields.
- AUD/USD: Mid-64 cents consolidation establish best case as rallies are absent catalyst.

TODAY'S EVENTS

(JP) Core Machine Orders YoY (Jul) : -13.0% (Mkt: -10.3%; -5.8%) |
 (AU) Employment Change/Unemployment Rate (Aug): (Mkt: 25.0k/3.7%; Jul: -14.6k/3.7%)
 (JP) Industrial Production YoY (Jul F): (Prelim: -2.5%) | (US) Initial Jobless Claims (9 Sep): (Mkt: 225k; Prev: 216k)
 (US) Retail Sales Adv/Ex Auto and Gas MoM (Aug): (Mkt: 0.1%/-0.1%; 0.7%/1.0%)
 Central Banks: **ECB Policy Rate Decision**

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