Mizuho Bank, Ltd. Asia & Oceania Treasury Department
Tel: 65-6805-4200

MIZUHO

# DAILY MARKET REPORT

**26-Sep-2023** **Tuesday**

## MARKET SUMMARY

| FX | CLOSE(Asia) | CLOSE(NY) | Daily Δ* | Wkly Δ |
|---|---|---|---|---|
| JPY | 148.44 | 148.88 | +0.51 | +1.27 |
| EUR | 1.0638 | 1.0593 | ▼0.0060 | ▼0.0099 |
| AUD | 0.6422 | 0.6424 | ▼0.0017 | ▼0.0013 |
| SGD | 1.3666 | 1.3663 | +0.0011 | +0.0030 |
| CNY | 7.3112 | 7.3120 | +0.0130 | +0.0208 |
| INR | 83.11 | 83.15 | +0.21 | ▼0.12 |
| IDR | 15402 | 15400 | +25 | +30 |
| MYR | 4.6845 | 4.6865 | ▼0.0030 | ▼0.0035 |
| PHP | 56.78 | 56.78 | ▼0.02 | ▼0.09 |
| THB | 36.08 | 36.13 | +0.12 | +0.40 |

*compared with previous day CLOSE(NY)

| Yields | CLOSE | Daily Δ | Wkly Δ |
|---|---|---|---|
| USD (10YR) | 4.533% | +10.0 bp | +23.1 bp |
| JPY (10YR) | 0.736% | ▼1.0 bp | +2.1 bp |
| EUR* (10YR) | 2.798% | +5.9 bp | +9.0 bp |
| AUD (5YR) | 4.045% | ▼3.1 bp | +9.5 bp |
| SGD (5YR) | 3.329% | +1.7 bp | +9.5 bp |
| CNY (5YR) | 2.543% | +2.2 bp | +3.4 bp |
| INR (5YR) | 7.185% | +0.3 bp | +2.2 bp |
| IDR (5YR) | 6.409% | +0.3 bp | +3.3 bp |
| MYR (5YR) | 3.705% | ▼1.1 bp | +5.6 bp |
| PHP (5YR) | 6.127% | ▼0.1 bp | +4.2 bp |
| THB (5YR) | 2.845% | +2.1 bp | +8.1 bp |

* German bunds

| Equity Indices | CLOSE | Daily Δ | Wkly Δ |
|---|---|---|---|
| DJIA (US) | 34,006.88 | +0.13% | ▼1.78% |
| N225 (JP) | 32,678.62 | +0.85% | ▼2.55% |
| STOXX 50 (EU) | 4,167.37 | ▼0.95% | ▼1.85% |
| ASX (AU) | 4,139.09 | ▼0.80% | ▼0.33% |
| STI (SG) | 3,215.40 | +0.33% | ▼1.47% |
| SHCOMP (CN) | 3,115.61 | ▼0.54% | ▼0.33% |
| SENSEX (IN) | 66,023.69 | +0.02% | ▼2.33% |
| JSE (ID) | 6,998.38 | ▼0.26% | +0.90% |
| KLSE (MY) | 1,443.45 | ▼0.47% | ▼1.00% |
| PSE (PH) | 6,172.84 | +0.49% | +0.79% |
| SET (TH) | 1,507.36 | ▼1.00% | ▼1.32% |

| Commodity | CLOSE | Daily Δ | Wkly Δ |
|---|---|---|---|
| CRB | 284.94 | ▲0.37% | ▲1.53% |
| COPPER (LME) | 8,075.40 | ▲1.06% | ▲2.70% |
| IRON ORE (CN) | 120.66 | ▲1.07% | ▲1.65% |
| GOLD | 1,915.92 | ▲0.48% | ▲0.93% |
| OIL (WTI) | 89.68 | ▼0.39% | ▼1.97% |

Three Take-aways:
1) UST long-end yields surge amid a conspiracy of "higher for longer" worries and US shutdown risks.
2) Loss of the last major 'AAA' ratings (by Moody's) for the US dulls long-end UST prices (lifts yields)
3) But "higher for longer" hawkish skip the main threat; perversely lifting USD amid recession risks.

### Altitude Sickness

- The **long-end led surge in UST yields** to a new post-2007 record over 4.5% in the 10Y (witht the 2Y just a tad off recent 5.18% highs) **markets may be suffering altitude sickness**.
- A multitude of factors conspire in setting this stage. But two actors feature.
- Funnily, *one deals with potential loss of altitude*, and the *other frets "higher for longer"*.
- To be perfectly clear, the **Fed's hawkish skip**, **lifting the 'Dot Plot'**, thereby underscoring *"higher for longer"* rates narrative last week was **probably the key driving force**. Tellingly over the last week, 10Y yields are 20-25bp (to 4.54%) higher; with 2Y yields up some 10bp (at 5.14%).
- But equally, **Moody's warning that a potential government shutdown** over the weekend (if Congress fails to compromise on the spending stalemate) **is credit negative invariably thrusts long-end yields higher**. More so *as last major agency's 'AAA' ratings for the US is threatened*.
- The paradox of all thus US policy and rates (altitude) fretting - the former being too high and the latter not high enough - is that the **USD is left on a significantly stronger footing**; up some 0.4% near 106 (for USD index), at the expense of the **EUR that has tumbled (0.7%) below 1.06**.
- To some extent, this is due to **relatively higher US real rates narrative asserting itself**. Even *more perverse* is that *recession risks from Fed over-tightening may in fact favour USD*.
- Especially given that economic gloom across the Atlantic is far more dire. Elsewhere AUD has slipped (0.3%) to test 0.64 as China risks led by Evergrande liquidation threat loom large, weighing on SGD (supported above mid-1.36). USD/JPY test of 149 though stalled by intervention risks.

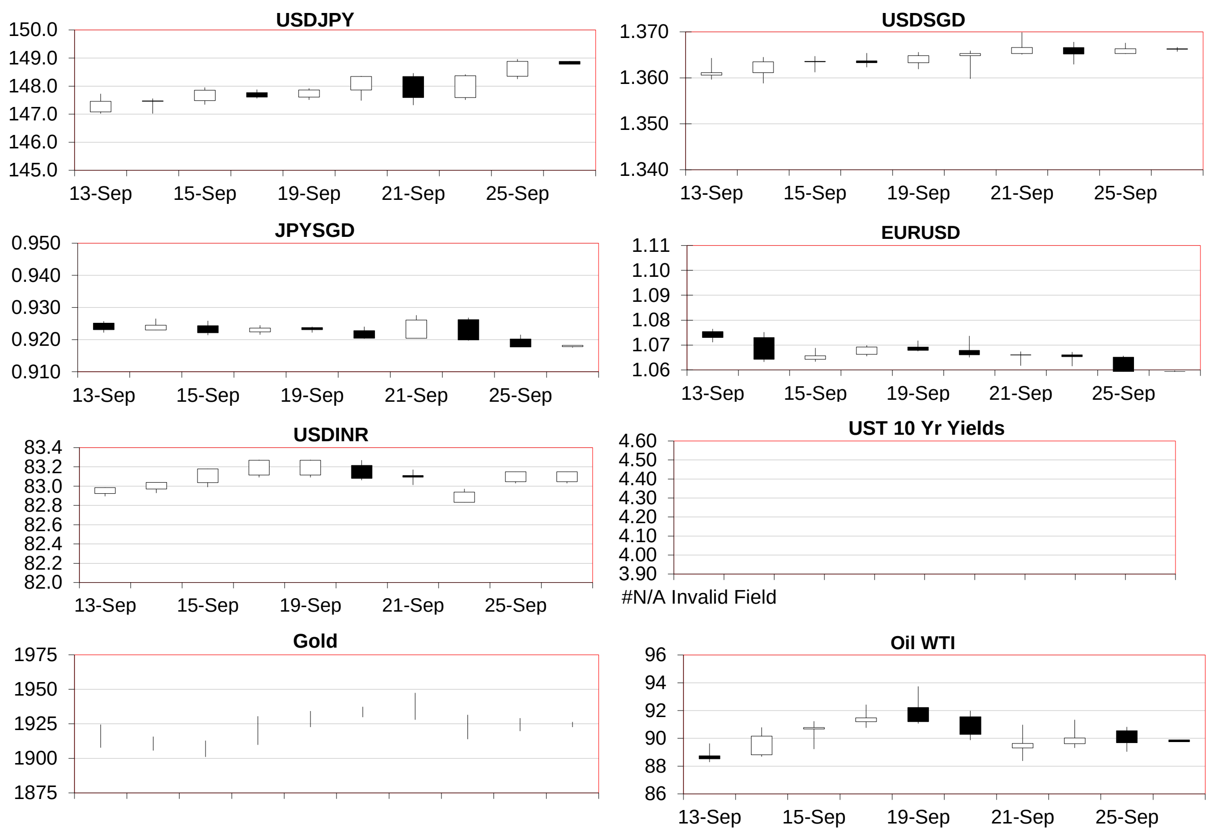
### Fretting "Higher for Longer"?

- The recent run of long-end led surge in yields suggests **markets fretting "higher for longer"**. Crucially, the consequent alleviation of yield curve inversion does not absolve hard-landing risks.
- To be fair, **Fed Chair Powell's hawkish restraint** is glaringly **in references to being "careful"** here on, given policy lags; *especially having moved "very far and very fast" on rate tightening*.

### OVERNIGHT RESULTS

**(SG) CPI/Core YoY (Aug): 4.0%/3.4% (Mkt: 4.0%/3.5%; Jul: 4.1%/3.8%)**
**(GE) IFO Business Climate (Sep): 85.7 (Mkt: 85.2; Aug: 85.8)**
(US) Chicago Fed Activity (Aug): -0.16 (Mkt: -0.10 Jul:0.07)| (US) Dallas Fed Mfg (Sep): -18.1 (Mkt-14.0: ; Aug: -17.2)

**Past Two Weeks Movement**




## TODAY'S COMMENTS & FORECAST

- *But* this **acute awareness of more two-sided risks** associated with policy calculus is **not to be mistaken for adequately subdued hawkish bias** *that averts risks of over-tightening*.
- In other words, **caution alone may not avert a policy calamity**.
- For one, **rate inaction was subordinated to hawkish 'Dot Plot' shifts** backed by hawkish rhetoric underscoring "*higher for longer*" rates suggest **risk of over-tightening remains "live"**.
- Second, **upbeat, soft-landing type revisions to** economic projections (upward revisions to growth and lowered unemployment rate) may **ironically be its own undoing** insofar that it *fails to deter further policy (over-)tightening;* be it active (hikes) or passively higher real rates.
- Moreover, Fed Chair **Powell declaring soft landing** as *the desired objective, not the guaranteed base case*, suggests that the **Fed may be willing to assume downturn risks**.
- Third, upward revisions to 2024 'Dot Plot' by 50bp (to more measured cuts) while PCE/Core PCE drift lower, suggests **intended real rate tightening of some 30-60bp tighter in 2024**.
- And so, *optimism about "peak rates" may be misguided* as a **more restrictive iteration of "higher for longer" inflicts more pain on the economy into 2024**.
- Finally, **admission that "neutral" rates may be well higher** than the Fed's longer-term projection of 2.5% **underscores** not just a possibility, but arguably a **propensity for tighter rate settings into 2024**. In turn this is *lifting longer-yields in bear steepening fashion for now*.
- All said, mounting policy headwinds suggests a *dynamic assessment of soft landing looks far less favourable despite (and perhaps perversely because of) upbeat SEP revisions*.

### Open

| | | | |
|---|---|---|---|
| USD/JPY | 148.82 | EUR/USD | 1.0592 |
| USD/SGD | 1.3663 | USD/THB | 36.17 |
| JPY/SGD | 0.9181 | USD/MYR | 4.682 |

### Forecast

| | | | |
|---|---|---|---|
| USD/JPY | 147.90 | - | 149.00 |
| EUR/USD | 1.0550 | - | 1.0680 |
| AUD/USD | 0.6370 | - | 0.6460 |
| USD/SGD | 1.3620 | - | 1.3700 |
| JPY/SGD | 0.9141 | - | 0.9263 |
| USD/CNH | 7.3000 | - | 7.3400 |
| USD/INR | 82.80 | - | 83.45 |
| USD/IDR | 15380 | - | 15430 |
| USD/MYR | 4.680 | - | 4.705 |
| USD/PHP | 56.65 | - | 57.10 |
| USD/THB | 36.05 | - | 36.30 |

### Today's Direction

| | Bull | : | Bear |
|---|---|---|---|
| USD/SGD | 3 | : | 3 |
| USD/JPY | 3 | : | 3 |

### FX Daily Outlook

- EUR/USD: Strong USd and higher real UST yields weigh; bids below mid-1.05.
- USD/JPY: Higher UST yields tempting 149 restrained by intervention risks above.
- USD/SGD: China gloom and hard USD buoy closer to 1.37 thank 1.36.
- AUD/USD: Pre-CPI backstop ahead of low 0.63, but 0.64+ traction challenged by China woes.

### TODAY'S EVENTS

**(SG) Industrial Production (Aug): (Mkt: -3.3%; Jul:-0.9%)**
(US) New Home Sales (Aug): (Mkt: 699k; Jul: 714k) | (US) Conf. Board Consumer Confidence (Sep): (Mkt: 105.5; Aug: 106.1)|
(US) Richmond Fed Mfg Index (Sep): (Mkt-7.0: ; Aug: -7.0)