

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 (with 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*.

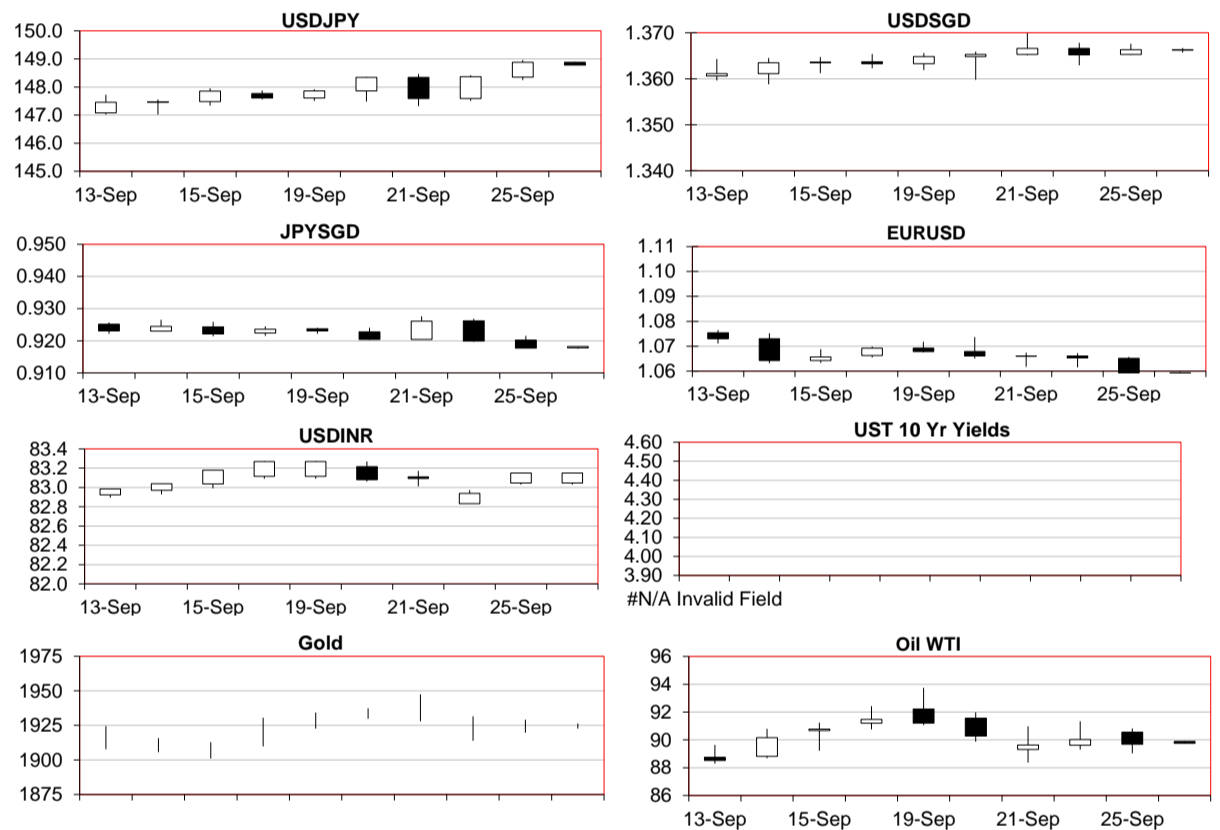
OVERNIGHT RESULTS

(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) Business 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

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

- **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**.

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 than 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)

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