

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	148.88	149.07	+0.19	+1.21
EUR	1.0586	1.0572	▼0.0021	▼0.0107
AUD	0.6403	0.6397	▼0.0027	▼0.0057
SGD	1.3683	1.3689	+0.0026	+0.0041
CNY	7.3121	7.3112	▼0.0008	+0.0139
INR	83.23	83.24	+0.09	▼0.03
IDR	15497	15490	+87	+110
MYR	4.6915	4.6895	+0.0030	▼0.0065
PHP	56.96	56.97	+0.19	+0.20
THB	36.35	36.39	+0.19	+0.35

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.536%	+0.2 bp	+17.7 bp
JPY (10YR)	0.741%	+0.5 bp	+2.3 bp
EUR* (10YR)	2.808%	+1.0 bp	+7.0 bp
AUD (5YR)	4.110%	+6.5 bp	+18.7 bp
SGD (5YR)	3.354%	+2.5 bp	+11.7 bp
CNY (5YR)	2.540%	▼0.3 bp	+2.4 bp
INR (5YR)	7.170%	▼1.5 bp	+0.7 bp
IDR (5YR)	6.494%	+8.5 bp	+8.2 bp
MYR (5YR)	3.724%	+1.9 bp	+6.4 bp
PHP (5YR)	6.118%	▼0.9 bp	+2.9 bp
THB (5YR)	2.881%	+3.6 bp	+12.0 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	33,618.88	▼1.14%	▼2.60%
N225 (JP)	32,315.05	▼1.11%	▼2.79%
STOXX 50 (EU)	4,129.18	▼0.92%	▼2.68%
ASX (AU)	4,136.92	▼0.05%	▼0.45%
STI (SG)	3,215.07	▼0.01%	▼0.79%
SHCOMP (CN)	3,102.27	▼0.43%	▼0.73%
SENSEX (IN)	65,945.47	▼0.12%	▼2.44%
JSE (ID)	6,923.80	▼1.07%	▼0.81%
KLSE (MY)	1,445.55	+0.15%	▼0.83%
PSE (PH)	6,263.94	+1.48%	+3.57%
SET (TH)	1,494.02	▼0.88%	▼1.90%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	284.72	▲0.08%	▲1.82%
COPPER (LME)	8,034.15	▲0.51%	▲2.42%
IRON ORE (CN)	120.41	▲0.21%	▲1.24%
GOLD	1,900.65	▲0.80%	▲1.59%
OIL (WTI)	90.39	+0.79%	▼0.89%

TODAY'S COMMENTS & FORECAST

Open

USD/JPY	149.05	EUR/USD	1.0569
USD/SGD	1.3695	USD/THB	36.42
JPY/SGD	0.9189	USD/MYR	4.694

Forecast

USD/JPY	148.40 - 149.60
EUR/USD	1.0530 - 1.0640
AUD/USD	0.6370 - 0.6460
USD/SGD	1.3640 - 1.3730
JPY/SGD	0.9118 - 0.9252
USD/CNH	7.3100 - 7.3400
USD/INR	83.05 - 83.50
USD/IDR	15450 - 15650
USD/MYR	4.688 - 4.725
USD/PHP	56.85 - 57.35
USD/THB	36.38 - 36.55

Today's Direction

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

Three Take-aways:

- 1) UST sell-off get a breather, but yields remaining elevated take a toll on equities/risk sentiments.
- 2) Especially as looming shutdown risks further spook markets. Ironically, USD retains haven allure.
- 3) Close call (hike or hold) for the BoT; but after seven successive hikes, a hawkish hold may be optimal.

Undone?

"Who do you need? | Who do you love | When you come undone" - Come Undone, Duran Duran
 - Admittedly, bond bears took a breather, sparing USTs another round of sell-down(;thereby averting a further surge in yields). But the **elevation in yields is not undone**.
 - Fact is, not only are concerns of a "higher for longer" Fed not assuaged, but the retrenchment of risk is compounded by the looming threat of US government shutdown come October 1st.
 - To be sure, **markets have not** (as yet) **come undone** under the threat of these risks.
 - But it is hard to ignore the case to hedge against a meltdown from worse case of US shutdown.
 - Perversely, if there is enough critical mass and momentum behind this defensive unwind in risk assets, it may snowball into a self-reinforcing sell-off. A Prisoner's dilemma of sorts, if you must.
 - The **irony** in all of this is that the **USD retains, if not reinforces, its haven allure**; not despite, but because of US government shutdown risks from the malfunction in a bi-partisan Congress.
 - Notwithstanding legitimate USD boost (via yields) from a hawkish Fed, USD bulls defy debt/fiscal risks and downgrades risks (to Moody's 'AAA' ratings) that have amplified UST yield upside.
 - Arguably because **"the USD"** is to the answer to Duran Duran's 1993 song, **"Come Undone"**.
 - EUR struggling just above mid-1.05 amid ECB's references to being "forced" into further hikes amid price shocks and AUD barely regaining traction from sub-0.64 speak to the **refuge and real yield advantage of USD when things come undone** amid high yields and uncertainty.
 - Bump-up in Aussie inflation amid upside risks from fresh price shocks ahead, may not boost AUD despite upping the odds of another RBA hike; as real spreads (vs. USD) will still disadvantage AUD.

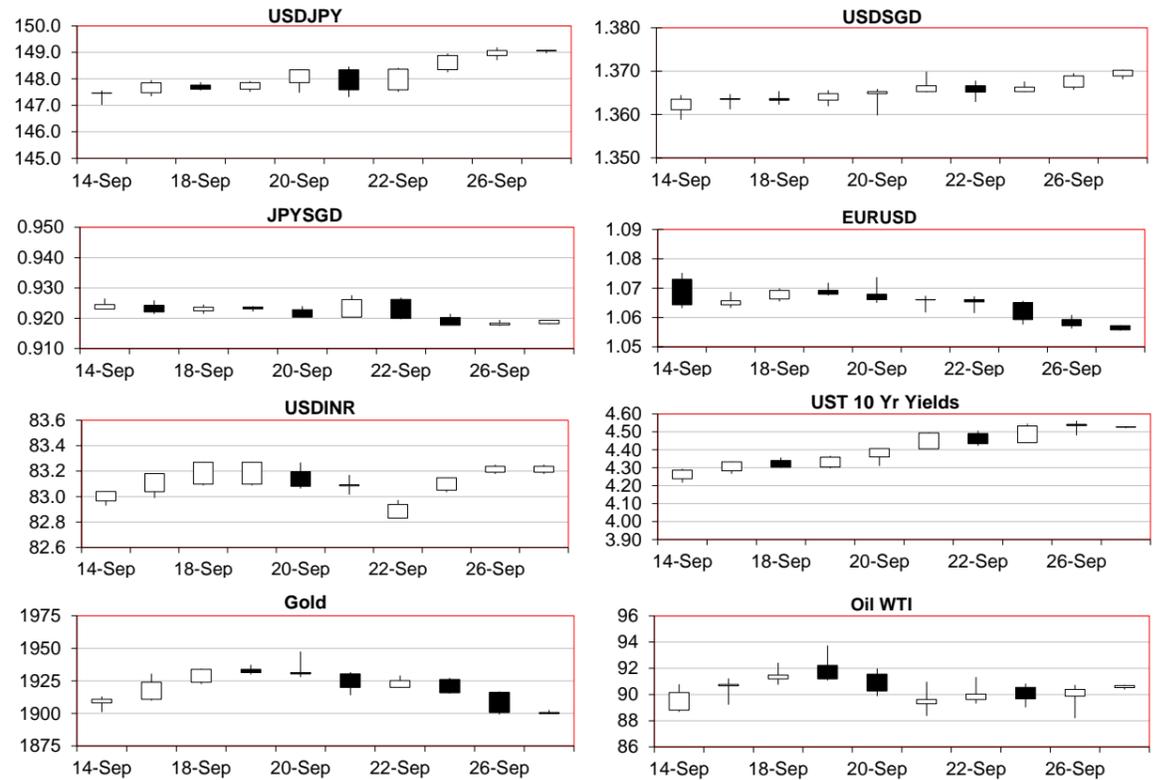
BoT: Not Doing, But Not Done Either

- After seven successive hikes this year to lift rates to 2.25%, the **BoT is likely not doing any more at this meeting**; especially given that inflation remains well contained (3- and 6-month core CPI averaging 1.0% and 1.3% YoY respectively). **Yet, the BoT may not be done either.**

OVERNIGHT RESULTS

(SG) Ind Pctn (Aug): -12.1% (Mkt: -3.3%; Jul: -1.1%) | (US) New Home Sales (Aug): 675K (Mkt: 699k; Jul: 714k) | (US) Conf. Board Consumer Confidence (Sep): 103.0 (Mkt: 105.5; Aug: 106.4) | (US) Richmond Fed Mfg Index (Sep): 5 (Mkt: 7; Aug: 7)

Past Two Weeks Movement



- Fact is, with **risks of inflation resurgence**, amid **pockets global food/energy price shocks** colliding with **tourism revival**, **juxtaposed against a hawkish Fed**, it is premature to conclusively call an end to the hiking cycle; be it ensure price- or macro-stability objectives.

- To be sure, there are **fiscal/supply-side offsets to inflation risks** into Q4; by way of **cuts in diesel prices and electricity tariffs** and **pipeline negotiations between the government and manufacturers to lower prices of food** items ranging from eggs to pork.

- Nonetheless, these should be rightly recognized as **price pressures transferred to the fiscal account** (either the government or SOEs); and so **substituting inflation risks for fiscal risks**.

- On that note, the ambitious, **digital wallet plan that entails large, direct fiscal transfers to consumers** (with short expiry digital cash), threatens to lift inflation in 2024.

- Which further underlines the point that the BoT cannot discard tightening bias on a whim despite enviably low sub-1% core inflation (for August). So, **BoT hawks are not quite done**.

- But equally, there is **no need for the BoT to jump the gun** and pre-empt projected inflation from the cash transfer subsumed in the government's digital wallet push either. Consumer spending may not explode as short-expiry cash transfers may prompt income savings.

- Although, the related **fiscal worries** (associated with enlarged borrowings) for populist cash transfers/subsidies **may require compensatory monetary tightening; at least to backstop THB**.

- **Not doing** anything on account of low, anchored inflation is first pass policy calculus. **But fiscal slippage and associated THB pressures**, which may be ultimately destabilizing, **suggest the BoT's job is clearly not done yet**, as it navigates the delicate balance between stability and costs.

FX Daily Outlook

- EUR/USD: Struggling to regain traction from sub-1.06; likely suppressed for now.
- USD/JPY: 149 tempts intervention; ought to stave off 150 alongside "risk off" support for JPY.
- USD/SGD: 1.37 beckons as USD strength and CNH doubts conspire in a high UST yield environment.
- AUD/USD: Boost from any CPI out-run likely to be shallow and short.

TODAY'S EVENTS

(AU) CPI YoY(Aug): (Mkt: 5.2%; Jul: 4.9%) |
 (JP) Coincident Index/Leading Index Cl (Jul F): (Mkt: --; Jun: 114.5/107.6)
 (CH) Industrial Profits YoY (Aug): (Mkt: --; Jul: -6.7%)
 (US) Durable Goods Orders/Nondef Ex Air(Aug P): (Mkt: -1.1%/--; Jul: 5.2%/0.1%)
 Central Banks: **BoT Monetary Policy Decision**

Important Information

This publication has been prepared by Mizuho Bank, Ltd. ("Mizuho") and represents the views of the author. It has not been prepared by an independent research department and it has not been prepared in accordance with legal requirements in any country or jurisdiction designed to promote be complete. This publication has been prepared for information purposes only and is not intended by Mizuho or its affiliates to constitute investment, legal, accounting, tax or other advice of any kind and all recipients of this publication are advised to contact independent advisors in order to evaluate the publication, including, without limitation, the suitability of any security, commodity, futures contract or instrument or related derivative (hereinafter, a "financial instrument"), product or strategy herein described. This publication is not intended to be relied upon as advice to investors or potential investors and does not take into account investment objectives, financial situation or needs of any particular investor. It is not intended for persons who are Retail Clients within the meaning of the United Kingdom's Financial Conduct Authority rules nor for persons who are restricted in accordance with US, Japanese, Singapore or any other applicable securities laws.

This publication has been prepared for information purposes only and is not intended by Mizuho to market any financial instrument, product or service or serve as a recommendation to take or refrain from taking any particular course of action or participate in any trading or other strategy. This publication is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or any of the assets, businesses or undertakings described herein, or any other financial instrument, nor is it an offer to participate in any trading or other strategy, nor a disclosure document under applicable laws, rules, regulations or guidelines. Nothing contained herein is in any way intended by Mizuho or its affiliates to offer, solicit and/or market any financial instrument, product or service, or to act as any inducement to enter into any contract or commitment whatsoever. Neither the author, Mizuho nor any affiliate accepts any liability whatsoever with respect to the use of this publication or its contents or for any errors or omissions herein.

Mizuho and its affiliates, connected companies, employees or clients may take the other side of any order by you, enter into transactions contrary to any recommendations contained herein or have positions or make markets or act as principal or agent in transactions in any securities mentioned herein or derivative transactions relating thereto or perform or seek financial or advisory services for the issuers of those securities or financial instruments.

All of the information contained in this publication is subject to further modification without prior notice and any and all opinions, forecasts, projections or forward-looking statements contained herein shall not be relied upon as facts nor relied upon as any indication of future results. Opinions stated in this publication are subject to change without notice. Future results may materially vary from such opinions, forecasts, projections or forward-looking statements. The information contained in this publication may not be current due to, among other things, changes in the financial markets or economic environment. Mizuho has no obligation to update any information contained in this publication. Past performance is not indicative of future performance. This is a strictly privileged and confidential publication. This publication contains information addressed only to a specific individual and is not intended for distribution to, or use by, any person other than the named addressee or any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Save with Mizuho's prior written consent, you may not disclose, divulge, reproduce or furnish any information contained herein to any other party. Please notify the sender immediately if you have mistakenly received this publication.

Singapore: Mizuho is licensed as a bank under the Banking Act (Chapter 19) of Singapore, and is regulated by the Monetary Authority of Singapore.

Japan: Mizuho is authorised and regulated by the Financial Services Agency of Japan.

United Kingdom / European Economic Area: In the UK, Mizuho is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MHBK's regulation by the Prudential Regulation Authority are available upon request. This publication may also be distributed by Mizuho International plc ("MHI"). MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

United States: This publication is not a "research report" as defined in Commodity Futures Trading Commission ("CFTC") Regulations 1.71 and 23.605. The content of publications distributed by Mizuho Securities USA Inc. ("MSUSA") is the responsibility of MSUSA. The content of publications distributed directly to US customers by Mizuho is the responsibility of Mizuho. US investors must effect any order for a security that is the subject of this report through MSUSA.

© 2014 Mizuho Bank Ltd.