

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	149.74	149.86	+0.49	+0.98
EUR	1.0573	1.0477	▼0.0096	▼0.0116
AUD	0.6410	0.6363	▼0.0072	▼0.0061
SGD	1.3691	1.3730	+0.0068	+0.0067
CNY	7.2983	7.2980	+0.0000	▼0.0140
INR	83.04	83.04	+0.00	▼0.11
IDR	15528	15530	+75	+130
MYR	4.7125	4.7172	+0.0219	+0.0307
PHP	56.78	56.79	+0.19	+0.01
THB	36.88	36.94	+0.53	+0.81

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.679%	+10.7 bp	+14.5 bp
JPY (10YR)	0.777%	+1.2 bp	+4.1 bp
EUR* (10YR)	2.922%	+8.3 bp	+12.4 bp
AUD (5YR)	4.144%	+0.0 bp	+9.9 bp
SGD (5YR)	3.335%	▼0.4 bp	+0.6 bp
CNY (5YR)	2.525%	+0.0 bp	▼1.8 bp
INR (5YR)	7.228%	+0.0 bp	+4.3 bp
IDR (5YR)	6.642%	+7.4 bp	+23.3 bp
MYR (5YR)	3.729%	+0.6 bp	+2.4 bp
PHP (5YR)	6.184%	+0.4 bp	+5.7 bp
THB (5YR)	2.890%	+0.0 bp	+4.5 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	33,433.35	▼0.47%	▼1.69%
N225 (JP)	31,759.88	▼0.05%	▼2.81%
STOXX 50 (EU)	4,137.63	+0.31%	▼0.71%
ASX (AU)	4,072.35	+0.22%	▼1.61%
STI (SG)	3,208.86	+0.32%	▼0.20%
SHCOMP (CN)	3,110.48	+0.00%	▼0.16%
SENSEX (IN)	65,828.41	+0.49%	▼0.30%
JSE (ID)	6,961.46	+0.03%	▼0.53%
KLSE (MY)	1,418.76	▼1.11%	▼1.71%
PSE (PH)	6,304.53	▼1.01%	+2.13%
SET (TH)	1,469.46	▼0.72%	▼2.51%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	282.48	▲0.72%	▲0.86%
COPPER (LME)	7,978.00	▲2.86%	▲1.21%
IRON ORE (CN)	120.49	▲0.25%	▲0.14%
GOLD	1,828.03	▲1.11%	▲4.59%
OIL (WTI)	88.82	▼1.00%	+0.84%

Three Take-aways:

- 1) Hawkish Fed speak and upside surprise to US ISM employment lend credence to Fed hawks.
- 2) Amid stubborn inflation and downside growth risks, MAS on hawkish hold next week.
- 3) Indonesia's inflation print suggests fading disinflationary effects in EM-Asia.

Higher Notes in the (Hawkish) Tune

- As we have pointed out in our Week Ahead 2 Oct, the last minute spending deal to avert the shutdown sent **UST yields higher** (10Y USTs: +10.7bps) as it provided an illusionary fiscal cover for Fed hawks.

- Fed Reserve Governor Bowman reiterated her stance that "...**further rate increases** would likely be needed", while Barr viewed rates as "likely at or very near" a sufficiently restrictive level and the question was to how long rates were going to be there.

- Since last Friday, the **probability of a rate hike by Jan FOMC has increased from 40% to 55%**.

- The USD continued its climb post-Fedspeak, gaining momentum from the surprise expansion to US ISM employment numbers (51.2), beating expectations of remaining in contractionary territory, lending credence to the Fed's **wage-price spiral fears**. Amid broad USD strength, AUD plunged towards mid-0.63 cents alongside the softer commodity prices while EUR broke mid-1.05. USD/JPY buoyed around the upper-half of mid-149 while USD/SGD tended towards mid-1.37.

MAS: Currency of a Hawkish Hold

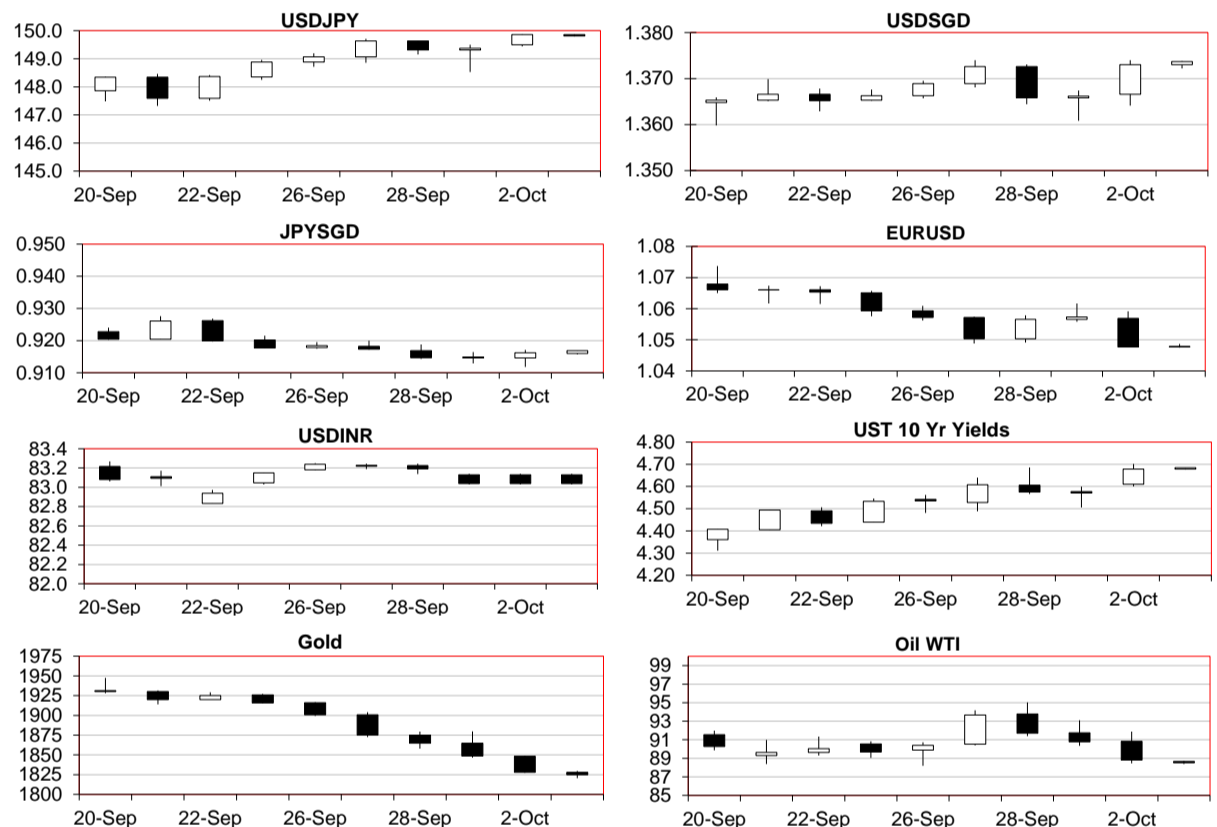
- **Disproportionately large USD-based invoicing** flag the risk that during **episodes of exceptional inter-meeting USD strength**, the (imported) **inflation dampening capabilities** of **S\$NEER policy settings** may be **temporarily overstated**. And more often than not, proportional to the degree of SGD (vs. USD) underperformance vis-à-vis corresponding S\$NEER gains.

- To be sure, **even in the absence of the current outburst of USD strength**, our **base case would have converged on the MAS staying the course on a hawkish hold**; as it navigates the cross-currents from **stubborn inflation and downside growth risks**.

- Nonetheless, the **bar to relax policy restriction to pre-emptively insure against mounting downside risks to growth remains high**; **as anchoring inflation expectations remains as the policy priority**.

OVERNIGHT RESULTS

(ID) CPI/Core YoY (Sep): 2.3%/2.2% (Mkt: 2.2%/2.1%; Aug: Aug: 3.3%/2.25) | (EZ) Unemployment Rate (Aug): 6.4% (Mkt: 6.4%; Jul: 6.5%) | (US) ISM Manufacturing/Prices paid (Sep): 49.0/43.8 (Mkt: 47.9/49.0; Aug: 47.6/48.4)

*** Past Two Weeks Movement ***

TODAY'S COMMENTS & FORECAST
Open

USD/JPY	149.86	EUR/USD	1.0480
USD/SGD	1.3735	USD/THB	37.04
JPY/SGD	0.9165	USD/MYR	4.715

Forecast

USD/JPY	148.80 - 150.10
EUR/USD	1.0450 - 1.0550
AUD/USD	0.6300 - 0.6460
USD/SGD	1.3680 - 1.3760
JPY/SGD	0.9114 - 0.9247
USD/CNH	7.2850 - 7.3250
USD/INR	82.95 - 83.25
USD/IDR	15450 - 15600
USD/MYR	4.690 - 4.725
USD/PHP	56.50 - 57.10
USD/THB	36.60 - 37.10

Today's Direction

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

- Crucially, **as sweeping USD strength inevitably translates into significantly higher imported inflation**. Specifically, as the **overwhelming and disproportional dominance of USD-invoicing exposes inflation vulnerabilities from exceptional USD strength**; which is invariably not sufficiently addressed by corresponding strength in the trade-weighted S\$NEER.

- Upshot being, **while exceptional USD strength highlighted in a >400bp SGD undershoot (vs. S\$NEER) is not a stand-alone factor for MAS to retain a hawkish bias despite mounting growth risks**, it certainly **underscores the default hawkish bias a priori** (vis-à-vis growth risks).

- Above all, the **exchange rate focus of policy dictates the reality of inflation threat flaring on resurgent USD** conspiring with food and energy cost shocks simply cannot be ignored.

Indonesia CPI: A Preamble to Fading Disinflationary effects in EM-Asia

- **The disinflationary process in EM-Asia is showing signs of stalling**. The moderation of Indonesia's headline inflation (2.3% vs 3.3% in Aug'23) belied the high base effects and accelerating food inflation (4.2% vs 3.5% last month).

- Absent the ~30% increase in fuel prices last Sep, Indonesia's headline number is estimated to be 3.4%, a marginal uptick after six consecutive months of disinflation. The slew of CPI releases on Thu are likely to portray a similar story with Brent crude prices averaging US\$92.8/bbl in Sep'23 (vs US\$90.6 in Sep'22) on tighter supply.

- That food and energy constitute material weights in CPI baskets across EM-Asia risks unmooring inflation expectations, which could manifest into sticky, if not resurgent, inflation in the coming months. (See more in Mizuho Week Ahead - 2 October 2023)

FX Daily Outlook

- EUR/USD: Consolidation at mid-1.05 with weakening bias.

- USD/JPY: Continue to test 150 amid higher UST yields and BOJ's bonds-buying announcement.

- USD/SGD: Breaking mid-1.37 possible on knee-jerk reaction to hawkish JOLTS.

- AUD/USD: Hawkish RBA rhetoric could prompt stronger AUD but gains unlikely to be sustained.

TODAY'S EVENTS

(SG) PMI / Electronics Sector Index (Sep): (Mkt: -; Prior: 49.9/49.5)

(AU) Building Approvals MoM (Aug): (Mkt:2.5%; Prior: -8.1%)

(IN) PMI Mfg (Sep): (Mkt: -; Prev: 58.6)

(US) JOLTS Job Openings (Aug): (Mkt: 8815k; 8827k)

Central Bank Decision: RBA Cash Rate Target

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.