MIZUHO

DAILY MARKET REPORT

04-Oct-2023 Wednesday

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	149.78	149.02	▼0.84	▼0.05
EUR	*1.0483*	1.0467	▼0.0010	▼0.0105
AUD	*0.6320*	0.6302	▼0.0061	▼0.0095
SGD	*1.3737*	1.3731	+0.0001	+0.0042
CNY	*7.2983*	7.2980	+0.0000	▼0.0132
INR	*83.20*	83.21	+0.16	▼0.03
IDR	*15581*	15580	+50	+90
MYR	*4.7248*	4.7238	+0.0066	+0.0330
PHP	*56.81*	56.80	+0.01	▼0.17
THB	*37.06*	37.04	+0.10	+0.67

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.796%	+11.7 bp	+26.0 bp
JPY (10YR)	0.767%	▼1.0 bp	+2.6 bp
EUR* (10YR)	2.968%	+4.6 bp	+16.0 bp
AUD (5YR)	4.167%	+2.3 bp	+5.7 bp
SGD (5YR)	3.340%	+0.5 bp	▼1.4 bp
CNY (5YR)	2.525%	+0.0 bp	▼1.5 bp
INR (5YR)	7.254%	+2.6 bp	+8.4 bp
IDR (5YR)	6.728%	+8.6 bp	+23.4 bp
MYR (5YR)	3.742%	+1.3 bp	+1.8 bp
PHP (5YR)	6.183%	▼0.1 bp	+6.5 bp
THB (5YR)	2.842%	▼4.8 bp	▼3.9 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	33,002.38	▼1.29%	▼1.83%
N225 (JP)	31,237.94	▼1.64%	▼3.33%
STOXX 50 (EU)	4,095.59	▼1.02%	▼0.81%
ASX (AU)	4,043.72	▼0.70%	▼2.25%
STI (SG)	3,192.35	▼0.51%	▼0.71%
SHCOMP (CN)	3,110.48	+0.00%	+0.26%
SENSEX (IN)	65,512.10	▼0.48%	▼0.66%
JSE (ID)	6,940.89	▼0.30%	+0.25%
KLSE (MY)	1,420.01	+0.09%	▼1.77%
PSE (PH)	6,305.99	+0.02%	+0.67%
SET (TH)	1,447.30	▼1.51%	▼3.13%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	281.49	▲0.35%	▲1.14%
COPPER (LME)	7,929.00	▲0.61%	▲1.31%
IRON ORE (CN)	119.02	▲1.22%	▲1.15%
GOLD	1,823.02	▲0.27%	▲4.08%
OIL (WTI)	89.23	+0.46%	▼1.28%

Three Take-aways:
1) Resilient labour demand ignite inflation worries to impart bear steepening of UST yield curve.
2) Longer end UST yield sensitivity accentuated by higher for longer inflation.
3) US derives relief from partial domestic oil supply offset but it is not a panacea for energy shocks.

Of Levels and Duration

- Thus far, **US jobs market appear to persist in a state of imperturbability in the face of the tighter monetary policy.** US JOLTS report showed **substantial increase in job openings to indicate firm labour demand.** Consequently, **UST yield curve bear steepened** (2Y: +4.6bp; 10Y +11.7bp).
- At this juncture **nearing peak policy rates, front end yield sensitivity to policy rates have perhaps been dampened.** That said, **longer end UST yield sensitivity** is being accentuated by concerns over **how much higher and how much longer will longer term inflation persist above 2% concerns** as a resilient labour market and sticky oil prices underpin.
- Nonetheless, this will not be a full subscription to extend bear steepening.
- **US equities were plummeted (Nasdaq: -1.9%; S&P500: -1.4%; Dow: -1.3%) by the threat of higher yields** alongside hawkish Fed talk by Atlanta Fed President Bostic who pushed back on rate cut bets while Cleveland Fed's Mester leaned towards the need for another hike this year.
- Riding on higher UST yields and souring risks sentiments, the **Greenback maintained traction against all G10 peers saved for the JPY.** The USD/JPY closed lower near 149 following a sharp plunge towards mid-147 after testing 150 which set off speculation of intervention. Specifically, rather than refuting speculation, the MOF has declined to comment if intervention was carried out.
- While EUR trading sideways just above mid-1.04, AUD dropped towards 63 cents after the RBA's decision to keep policy rates on hold. Ahead of the OPEC meeting, **oil prices remain squeezed above US$90/barrel** despite higher yields and a stronger Greenback.

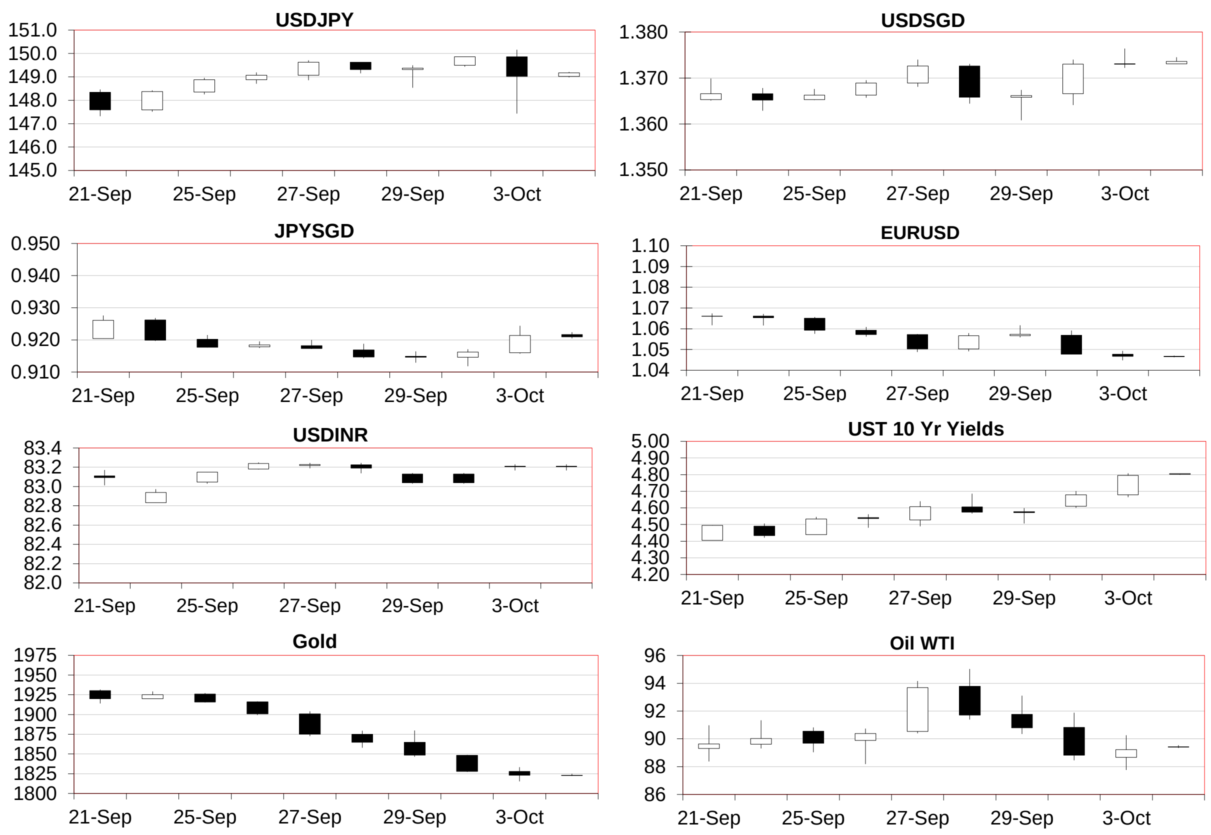
Oil: US Pain Relief, Not Panacea

- Admittedly, the **extremely strong pick-up in US crude output**, close to record highs, *ought to help dampen potential energy* shocks from resurgent global crude prices.
- But US response to OPEC+ supply curbs is **at best pain relief, not panacea.**

OVERNIGHT RESULTS

(SG) PMI / Electronics Sector Index (Sep): 50.1/49.8 (Mkt: -; Prior: 49.9/49.5) | (AU) Building Approvals MoM (Aug):7.0% (Mkt:2.5%-; Prior: -8.1%; Rev: -7.4%)| (IN) PMI Mfg (Sep): 57.5 (Prev: 58.6) | **(US) JOLTS Job Openings (Aug): 9610k (Mkt: 8815k ; Jul: 8827k)**

*** Past Two Weeks Movement ***



TODAY'S COMMENTS & FORECAST

Open

USD/JPY	149.19	EUR/USD	1.0469
USD/SGD	1.3735	USD/THB	37.11
JPY/SGD	0.9207	USD/MYR	4.722

Forecast

USD/JPY	148.00	-	150.00
EUR/USD	1.0450	-	1.0700
AUD/USD	0.6300	-	0.6400
USD/SGD	1.3620	-	1.3720
JPY/SGD	0.9080	-	0.9270
USD/CNH	7.3100	-	7.3400
USD/INR	83.10	-	83.45
USD/IDR	15550	-	15640
USD/MYR	4.720	-	4.730
USD/PHP	56.70	-	57.00
USD/THB	36.90	-	37.20

Today's Direction

	Bull	:	Bear
USD/SGD	2	:	1
USD/JPY	1	:	2

- To misappropriate a phrase from Star Trek, the ***strength*** (of US output ramp-up) ***is irrelevant and resistance*** (to brutal OPEC+ supply cut) ***is futile***; as **US supply response will inevitably be overwhelmed by OPEC+ will to impose tight supplies.**
- **Not merely because OPEC+ is over three times US output**, but more importantly as OPEC+ accounts for a disproportionately larger exports share and marginal supply. In effect, the ability of OPEC+ to influence a shortfall in effective global supply is far greater than that of the US.
- Especially as **aggressive Saudi-led OPEC+ methodically maintains tight global supply**; further **accentuated by a significant draw-down of inventories*** this year, which has been engineered by the purposeful supply cuts (with Saudi leaning in with additional "voluntary cuts).
- What's more, **Saudi's incentives are aligned to ensuring tight supplies** *that keep crude prices*, to steal a phrase from global central banks, *"higher for longer"* (well over $90). **Especially given the Kingdom has very recently downgraded its fiscal outlook** to reveal deficits through 2026 (from projected surplus earlier), and conspicuously benefits from higher oil revenues.
- **In contrast** to the purposeful spare capacity for Saudi, **US oil production** is already **straining at the seams**, with Shale limited by falling efficiencies/profitability constraints. In turn, **US' ability to sway oil markets** is **diminished**. Unlike OPEC+ grip further strengthened by geo-politics.
- The upshot is that **US' ability to overturn higher oil prices imposed by** brutal **OPEC+** supply curbs is **severely constrained**. *At best*, US derives *pain relief* from partial domestic supply offset. But this is *certainly not a panacea* **for related energy shock/inflation risks**. Less so elsewhere.

FX Daily Outlook

- EUR/USD: Consolidation around mid-1.04 should retail sales firm.
- USD/JPY: Re-ascendency toward 150 faced with much higher sense of caution after push back.
- USD/SGD: Buoyancy off 1.37 as UST yields set to remain elevated.
- AUD/USD: Attempts to bounce off 63 cents remain weak on commodity worries.

TODAY'S EVENTS

(KR) Industrial Production YoY (Aug): (Mkt: -5.8%; Jul: -8.0%)
(US) Durable Goods Orders/Non-def Ex Air (Aug F): (Mkt: 0.2%/--; Prelim: 0.2%/0.9%)
(US) ISM Services Index/Prices Paid (Sep): (Mkt: 53.5/--; Aug: 54.5/58.9)
(EZ) Retail Sales YoY (Aug): (Mkt: -1.0%; Jul: -1.0%)
Central Banks: Fed's Bowman and Goolsbee Speaks