MIZUHO DAILY MARKET REPORT

12-Oct-2023 Thursday

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	148.75	149.17	+0.46	+0.05
EUR	1.0600	1.0620	+0.0015	+0.0116
AUD	0.6419	0.6414	▼0.0018	+0.0089
SGD	1.3632	1.3633	+0.0002	▼0.0088
CNY	7.2988	7.3007	+0.0067	+0.0027
INR	83.19	83.19	▼0.07	▼0.05
IDR	15704	15693	▼42	+61
MYR	4.7258	4.7163	▼0.0117	▼0.0137
PHP	56.76	56.79	▼0.08	+0.07
THB	36.43	36.42	▼0.33	▼0.65

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.558%	▼9.5 bp	▼17.5 bp
JPY (10YR)	0.769%	▼1.4 bp	▼4.0 bp
EUR* (10YR)	2.718%	▼5.7 bp	▼20.1 bp
AUD (5YR)	4.049%	+0.8 bp	▼19.1 bp
SGD (5YR)	3.305%	▼3.4 bp	▼12.5 bp
CNY (5YR)	2.589%	+3.7 bp	+6.4 bp
INR (5YR)	7.348%	▼4.2 bp	+9.1 bp
IDR (5YR)	6.661%	▼9.4 bp	▼22.7 bp
MYR (5YR)	3.756%	▼4.4 bp	▼7.0 bp
PHP (5YR)	6.255%	▼0.6 bp	+5.5 bp
THB (5YR)	2.896%	▼2.3 bp	▼2.3 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	33,804.87	+0.19%	+2.04%
N225 (JP)	31,936.51	+0.60%	+4.62%
STOXX 50 (EU)	4,200.80	▼0.11%	+2.46%
ASX (AU)	4,118.20	▼0.16%	+2.67%
STI (SG)	3,192.87	▼0.19%	+1.45%
SHCOMP (CN)	3,078.96	+0.12%	▼1.01%
SENSEX (IN)	66,473.05	+0.60%	+1.91%
JSE (ID)	6,931.75	+0.14%	+0.66%
KLSE (MY)	1,436.49	+0.09%	+1.46%
PSE (PH)	6,253.96	▼0.16%	▼0.70%
SET (TH)	1,455.99	+1.50%	+0.33%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	277.38	▲0.89%	+0.71%
COPPER (LME)	7,946.50	+0.02%	+0.91%
IRON ORE (CN)	116.43	+1.23%	▲1.37%
GOLD	1,874.36	+0.75%	+2.91%
OIL (WTI)	83.49	▼2.88%	▼0.87%

Three Take-aways:
1) FOMC minutes re-iterated the case of a restrained Fed being cautious of two way risk.
2) Ahead of US CPI, sentiments are far from risk-on as USD retains allure and UST haven demand persist.
3) Food led dis-inflation is welcomed relief but far from a catalyst for the RBI to back down.

Restrained, Not Risk On

- FOMC minutes revealed shifting of **risks to becoming more two-sided** in their attempts to achieve their inflation mandate and was aligned to Fed Chair Powell's allusion to being careful at this stage of the tightening cycle. While **market reactions might not have been outsized, the response is more of a balanced one rather than being muted.**
- First, 2Y UST yields ended up a mild 1.3bp higher from an initial surge on the **back of a stronger than expected PPI print** which was **tempered** by a **4bp decline after the minutes' release.** In a similar vein, 10Y yields also dropped 6bp (after the minutes release) to close 9.5bp lower.
- Given that **recovery in US equities remain restrained, sentiments are also far from being risk on** considering the **persistence of USD haven allure despite softer UST yields.**
- Admittedly, lower oil prices played a part as commodities weakened against the **Greenback.**
- The EUR managed to hover above 1.06 on narrower yield differentials. In contrast, AUD slipped back toward 64 cents and USD/JPY was buoyed above 149.

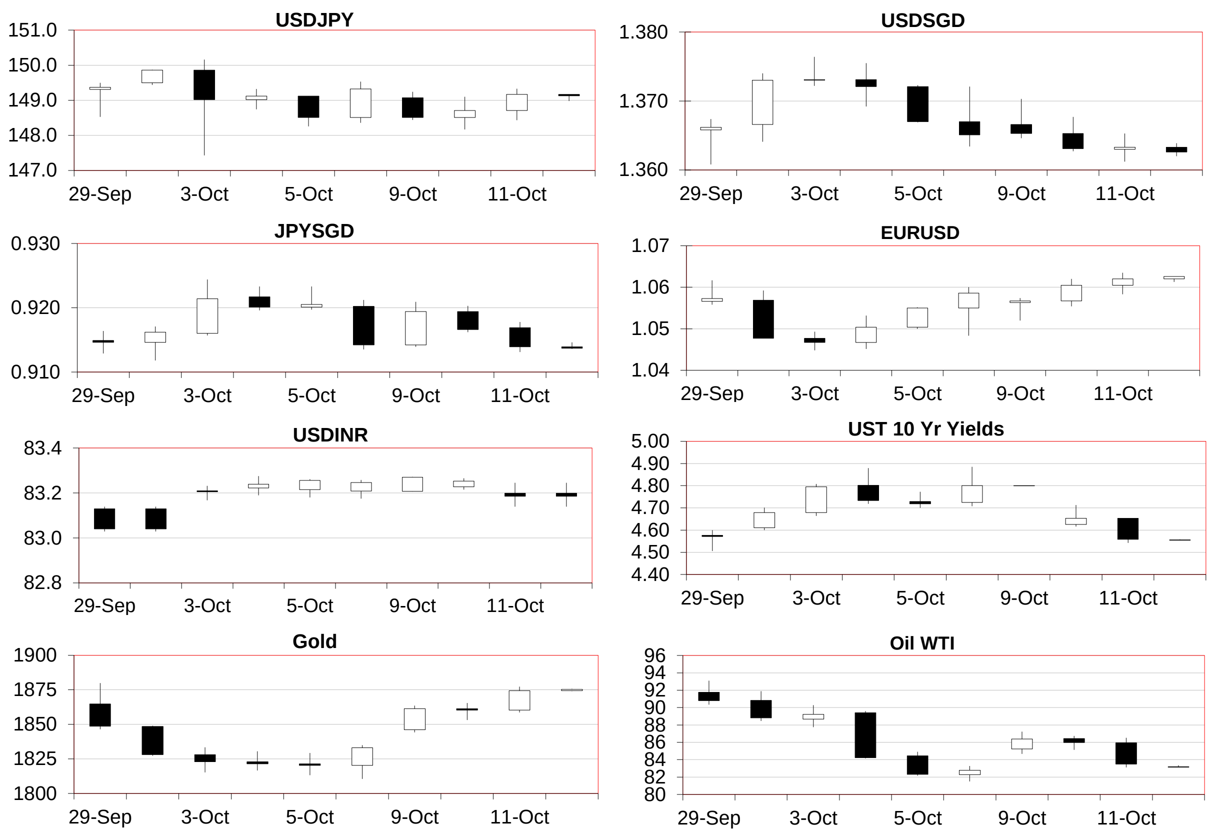
Latent Oil Risks

- The **latent risk of a geo-political flare-up in Oil** is revealed in steady crude (Brent: ~$85) despite projections for record US output (Q4: 13.2MBpD). Why? Because complacency is not an option.
- Especially given that reassurances of the *Israel-Hamas war not impacting oil supply* are *highly conditional on the conflict not spilling over*. And there is just simply *no guarantee of this*.
- Attacks widening out to **Hezbollah** in Lebanon is a **case in point that this war remains fluid.**
- What's more, with **Israel increasingly alluding to not just the complicity, but overt culpability, of Iran**, two-fold threats to Oil supply emerge. First, that of *tighter Iranian sanctions* denting supply. The other, is *more serious disruptions to crude's passage through the Straits of Hormuz*.
- To be sure, our base case is not for **$100-120 crude**. But there is a **real and present danger** (significant) risk of this **concealed under the illusion of a controlled war**.

OVERNIGHT RESULTS

(TW) Trade Balance (Sep): $10.32b (Mkt: $8.35b; Aug: $8.59b)| (JP) Machine Tool Orders YoY (Sep P): -11.2% (Aug: -17.6%)
(US) PPI / Ex Food and Energy YoY (Sep): 2.2%/2.7% (Mkt: 1.6%/2.3%; Aug: 1.6%/2.2%) |

*** Past Two Weeks Movement ***



TODAY'S COMMENTS & FORECAST

Open

USD/JPY	149.04	EUR/USD	1.0624
USD/SGD	1.3627	USD/THB	36.43
JPY/SGD	0.9143	USD/MYR	4.718

Forecast

USD/JPY	147.80	-	149.50
EUR/USD	1.0560	-	1.0690
AUD/USD	0.6360	-	0.6470
USD/SGD	1.3590	-	1.3710
JPY/SGD	0.9090	-	0.9276
USD/CNH	7.2900	-	7.3200
USD/INR	83.15	-	83.45
USD/IDR	15650	-	15750
USD/MYR	4.710	-	4.740
USD/PHP	56.70	-	57.00
USD/THB	36.30	-	36.65

Today's Direction

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

India CPI: Easy Come, Easy Go... but No Easing!

- The bottom-line is that there will be **no imminent compelling scope for easing from "easy come, easy go" inflation humps**; which do not convey enduring dis-inflation to the 4% target.
- To be sure, in the headline, the step-down in CPI could look very encouraging, set to drop by over a whole percentage point to mid-5% (from 6.8% YoY for Aug). All else equal, this "delta" of rate of dis-inflation ought to be a compelling policy catalyst. And "ought" is the operative term, because in effect it is not. Here's the 3 'T's of why the RBI will find relief, but little to delight in.
- Threshold: The first 'T' is threshold. Specifically, *inflation remaining too elevated to trigger a shift in stance*. Point being, even with a large step down to below 5.5%, inflation **merely settles back into the upper half of the RBI's 4+/-2% inflation target**, following a breach above.
- This merely provides **comfort to hold, not cut**; in all likelihood, retaining a mild hawkish bias.
- Technicality: The second 'T' is technicality in the "volatile" details of inflation's decline.
- In particular, **dis-inflation from the spike in food prices being assuaged** argues for *symmetric policy restraint* that looks past both spike and dip. Hence, **not hastening to cut** on the reversal.
- Trigger: Finally, and perhaps most importantly, the **dangers of inflationary triggers** amid *potential for geo-political flare-up in oil*. Especially **in the context of pre-existing stickier core inflation** conspiring with a **hawkish Fed** keeping *downside rupee risks in play*.
- All said, the "*easy come, easy go*" *spurt of dis-inflation* will **not** amount to **leverage for easing**; given the *veiled threat if "easy come, easy go" relative rupee stability*.

FX Daily Outlook

- EUR/USD: US dis-inflation may assist mid-1.05 backstop rather than trigger 1.07 rallies.
- USD/JPY: Risk aversion and US CPI imply limited slippage below mid-148.
- USD/SGD: Ahead of MAS, any attempts to test 1.37 will remain few and shallow.
- AUD/USD: Softer oil prices continue to impart consolidation around 64 cents.

TODAY'S EVENTS

(JP) PPI YoY (Sep) 2.0% (Mkt: 2.4%; Aug: 3.2%) | (JP) Core Machine Orders MoM (Aug): -0.5% (Mkt: 0.6%; Jul: -1.1%)
(IN) CPI YoY (Sep): (Mkt: 5.4%; Aug: 6.8%) | (IN) Industrial Production (Aug): (Mkt: 9.4%; Jul: 5.7%)
(MY) Industrial Production YoY (Aug): (Mkt: -2.0%; Jul: 0.7%)
(US) CPI/Core YoY (Sep): (Mkt: 3.6%/4.1%; Aug: 3.7%/4.3%) | (US) Initial Jobless Claim: (Mkt: 210k; Prev: 207K)