

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	149.96	149.86	+0.06	+0.29
EUR	1.0572	1.0594	+0.0012	+0.0084
AUD	0.6303	0.6314	▼0.0015	+0.0018
SGD	1.3733	1.3725	▼0.0003	+0.0031
CNY	7.3179	7.3151	+0.0047	+0.0101
INR	83.08	83.12	▼0.12	▼0.14
IDR	15870	15875	+60	+192
MYR	4.7686	4.7677	▼0.0023	+0.0394
PHP	56.82	56.85	▼0.02	+0.03
THB	36.55	36.51	+0.05	+0.34

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.914%	▼7.6 bp	+30.1 bp
JPY (10YR)	0.842%	+0.2 bp	+8.1 bp
EUR* (10YR)	2.889%	▼4.2 bp	+15.2 bp
AUD (5YR)	4.356%	▼2.3 bp	+29.2 bp
SGD (5YR)	3.332%	▼5.1 bp	+6.5 bp
CNY (5YR)	2.625%	+0.1 bp	+5.9 bp
INR (5YR)	7.360%	▼1.9 bp	+3.1 bp
IDR (5YR)	7.017%	+13.8 bp	+40.3 bp
MYR (5YR)	3.802%	+0.7 bp	+7.6 bp
PHP (5YR)	6.396%	+5.8 bp	+12.8 bp
THB (5YR)	3.018%	+0.6 bp	+12.0 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	33,127.28	▼0.86%	▼1.61%
N225 (JP)	31,259.36	▼0.54%	▼3.27%
STOXX 50 (EU)	4,024.68	▼1.61%	▼2.69%
ASX (AU)	3,990.56	▼1.26%	▼2.56%
STI (SG)	3,076.69	▼0.74%	▼3.42%
SHCOMP (CN)	2,983.06	▼0.74%	▼3.40%
SENSEX (IN)	65,397.62	▼0.35%	▼1.34%
JSE (ID)	6,849.17	+0.04%	▼1.12%
KLSE (MY)	1,441.04	▼0.11%	▼0.21%
PSE (PH)	6,142.90	▼1.23%	▼1.97%
SET (TH)	1,399.35	▼1.66%	▼3.54%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	286.01	▲0.46%	+0.72%
COPPER (LME)	7,879.76	▲0.61%	+0.05%
IRON ORE (CN)	117.33	▲1.48%	▲0.03%
GOLD	1,981.40	+0.35%	+2.51%
OIL (WTI)	88.75	▼0.69%	+1.21%

Three Take-aways:

- 1) Risk off mood sent US equities tumbling as fears of a wider conflict were not quelled.
- 2) UST yields plunged while USD maintains traction as investors sought haven cover.
- 3) MYR weakness reflect policy-political worries as real rate spreads and political stability risks weigh.

Of Drags and Responses

- Last Friday, **markets had a classic risk off response** to the threat of Lebanon and Hezbollah being dragged into a wider regional conflict. Risk off sentiments were utterly elevated.
- **US equities were sent tumbling** with the Nasdaq plunging 1.5% with the S&P 500 and Dow down 1.3% and 0.9% respectively. The mauling came alongside sharply declining UST yields (2Y: -8.5bp; 10Y: -7.6bp) as investors sought **safety** and the haven seeking playbook was out in full force.
- Providing marginal assistance, **softer Brent crude prices** also aided a toning down of bets for a further hike amid Cleveland Fed's Mester's messaging for rate being "near or at" holding point.
- **The USD retaining traction** despite the lower UST yields underscores the **heightened risk aversion**. The EUR remains pressured below 1.06.
- Meanwhile, with the USD/JPY hovering around 150, **JPY bears** who are already uncertain about BoJ intervention risk, will **be on tenterhooks surrounding reports of possible YCC tweaks**.
- In EM-Asia, USD/SGD stayed buoyed above 1.37. AUD at just above 63 cents remains uninspired by signs of thawing in relations with China as an expedited review of wine tariffs will take up to 5 months.

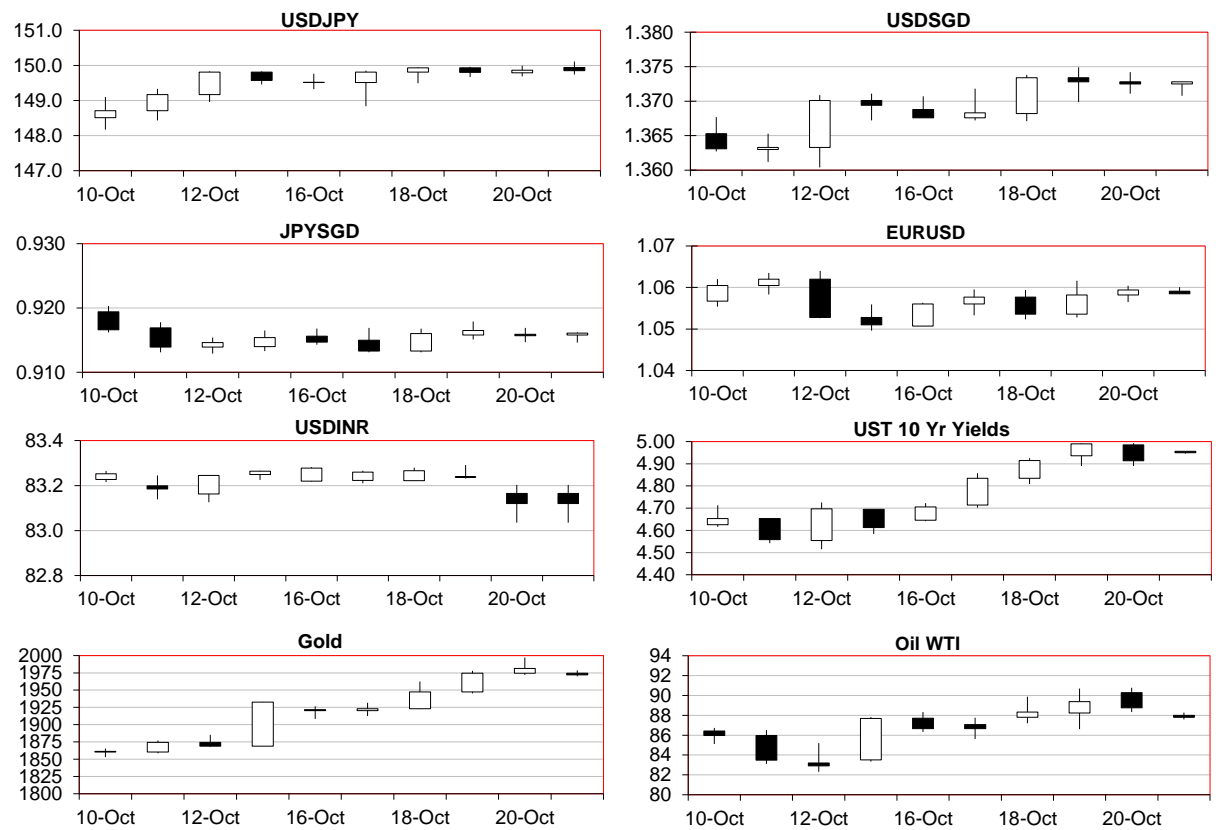
The Ringgit Curiosity-Conundrum

- Sherlock Holmes' "*curious incident of the dog that did not bark*" comes to mind when one tries to **square ringgit under-performance amid surging Oil prices**.
- Especially given that received wisdom dictates that *as the only net oil exporter in the region*, the **MYR typically gains the upper hand**; further **bolstered by obvious and significant fiscal gains** (from both tax and dividend bump-up). Even more puzzlingly, **MYR Ringgit not only failed to out-perform regional currencies, but has decidedly under-performed** defying further implied fiscal boost from major budget overhaul to rein in subsidies, that have followed Oil's surge.

OVERNIGHT RESULTS

(CH) 1-Year/5-Year Loan Prime Rate: 3.45%/4.20% (Mkt: 3.45%/4.20%; prev: 3.45%/4.20%) | (MY) CPI YoY (Sep): 1.9% (Mkt: 2.1%; Aug: 2.0%) | (JP) Natl CPI/Ex Fresh Food, Energy YoY (Sep): 3.0%/4.2% (Mkt: 3.0%/4.1%; Aug: 3.2%/4.3%)

* Past Two Weeks Movement *



TODAY'S COMMENTS & FORECAST

Open

USD/JPY	149.89	EUR/USD	1.0590
USD/SGD	1.3726	USD/THB	36.56
JPY/SGD	0.9158	USD/MYR	4.769

Forecast

USD/JPY	149.30 - 150.40
EUR/USD	1.0500 - 1.0630
AUD/USD	0.6280 - 0.6380
USD/SGD	1.3680 - 1.3760
JPY/SGD	0.9096 - 0.9216
USD/CNH	7.3230 - 7.3480
USD/INR	83.00 - 83.40
USD/IDR	15800 - 15900
USD/MYR	4.760 - 4.788
USD/PHP	56.70 - 56.98
USD/THB	36.35 - 36.60

Today's Direction

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

- Question is, why has the ringgit defied the boost from Oil and scorned purported fiscal fillip to under-perform; hitting record lows in the course of last week?
- Ostensibly, this could reflect **policy-political worries** on several dimensions.
- For a start, it may come down to **real rate spreads** (vs. USD) that could turn a lot **more unfavourable**. And perversely more so as the subsidy rollback hits price pressures, and consequently **higher inflation reveals softer real policy rates**.
- And so, it appears that **medium-term fiscal benefits come at the cost of near-term monetary policy challenges/dilemma**; in turn **manifesting as ringgit headwinds**.
- The "*damned if I do, damned if I don't*" options of a policy response ultimately either concede **economic headwinds** from higher rates, and attendant debt burden on a stretched economy, or **stake macro and ringgit stability**, should monetary response be withheld.
- And to be sure, the fiscal-monetary trade-off is not an entirely myopic zero-sum game. Instead, there is a recognition of embedded political risks; as was evident from the Ringgit's under-performance that started heading in to August state elections.
- Fact is, while the fiscal overhaul to revoke blanket subsidies in favour of targeted cost relief is right way to go, the **concern may be with the execution of such politically-charged fiscal plans in the context of constrained political capital**.
- So aspects of **political stability risks** amid inadvertent fiscal shortfall further complicate near-term real rate headwinds to undermining the ringgit.

FX Daily Outlook

- EUR/USD: Ahead of ECB this week, the temptation may be to test 1.06 repeatedly, durability suspect.
- USD/JPY: YCC speculation adds to upside restraints amid intervention fears.
- USD/SGD: Buoyancy retained as UST yield upside may begin to re-assert.
- AUD/USD: Thaw in relations with China may allow approaches towards mid-63 cents.

TODAY'S EVENTS

(SG) CPI/Core YoY (Sep) : (Mkt: 4.0%/3.0%; Aug: 4.0/3.4%)
 (TW) Industrial Production YoY (Sep): (Mkt: -7.4%; Aug: -10.5%)
 (EZ) Consumer Confidence (Oct P): (Mkt: -18.2; Sep: -17.8)
 (US) Chicago Fed National Activity Index (Sep): (Mkt: -0.14; Aug: -0.16)

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