

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	150.17	149.66	▼0.74	▼0.20
EUR	1.0558	1.0565	+0.0002	▼0.0029
AUD	0.6342	0.6335	+0.0013	+0.0021
SGD	1.3695	1.3698	+0.0003	▼0.0027
CNY	7.3176	7.3174	+0.0006	+0.0023
INR	83.24	83.25	+0.01	+0.13
IDR	15945	15940	+20	+65
MYR	4.7778	4.7782	▼0.0088	+0.0105
PHP	56.96	56.96	▼0.01	+0.12
THB	36.27	36.22	▼0.04	▼0.30

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.835%	▼1.0 bp	▼7.9 bp
JPY (10YR)	0.881%	+0.6 bp	+3.9 bp
EUR* (10YR)	2.832%	▼2.9 bp	▼5.7 bp
AUD (5YR)	4.448%	▼3.3 bp	+9.2 bp
SGD (5YR)	3.302%	▼1.3 bp	▼3.0 bp
CNY (5YR)	2.567%	+0.7 bp	▼5.8 bp
INR (5YR)	7.350%	▼0.8 bp	▼1.0 bp
IDR (5YR)	7.103%	▼6.6 bp	+8.6 bp
MYR (5YR)	3.890%	+1.9 bp	+8.8 bp
PHP (5YR)	6.667%	+9.2 bp	+27.1 bp
THB (5YR)	2.969%	▼0.6 bp	▼4.9 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	32,417.59	▼1.12%	▼2.14%
N225 (JP)	30,991.69	+1.27%	▼0.86%
STOXX 50 (EU)	4,014.36	▼0.87%	▼0.26%
ASX (AU)	3,933.17	▼0.67%	▼1.44%
STI (SG)	3,061.85	▼0.31%	▼0.48%
SHCOMP (CN)	3,017.78	+0.99%	+1.16%
SENSEX (IN)	63,782.80	+1.01%	▼2.47%
JSE (ID)	6,758.79	+0.66%	▼1.32%
KLSE (MY)	1,441.90	+0.09%	+0.06%
PSE (PH)	5,961.99	▼0.94%	▼2.95%
SET (TH)	1,388.23	+1.24%	▼0.79%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	285.10	+1.27%	▲0.32%
COPPER (LME)	8,030.00	+1.50%	+1.91%
IRON ORE (CN)	118.88	+0.49%	+1.32%
GOLD	2,006.37	+1.09%	+1.26%
OIL (WTI)	85.54	+2.80%	▼3.62%

Three Take-aways:

- 1) Risk off sentiments rose as USD retained traction, equities slipped and gold price soared.
- 2) Underlying inflation and fiscal risks imply possible underestimation of UST haven demand flows.
- 3) BoJ meeting has potential for frightening JPY bears and bulls.

Preparations

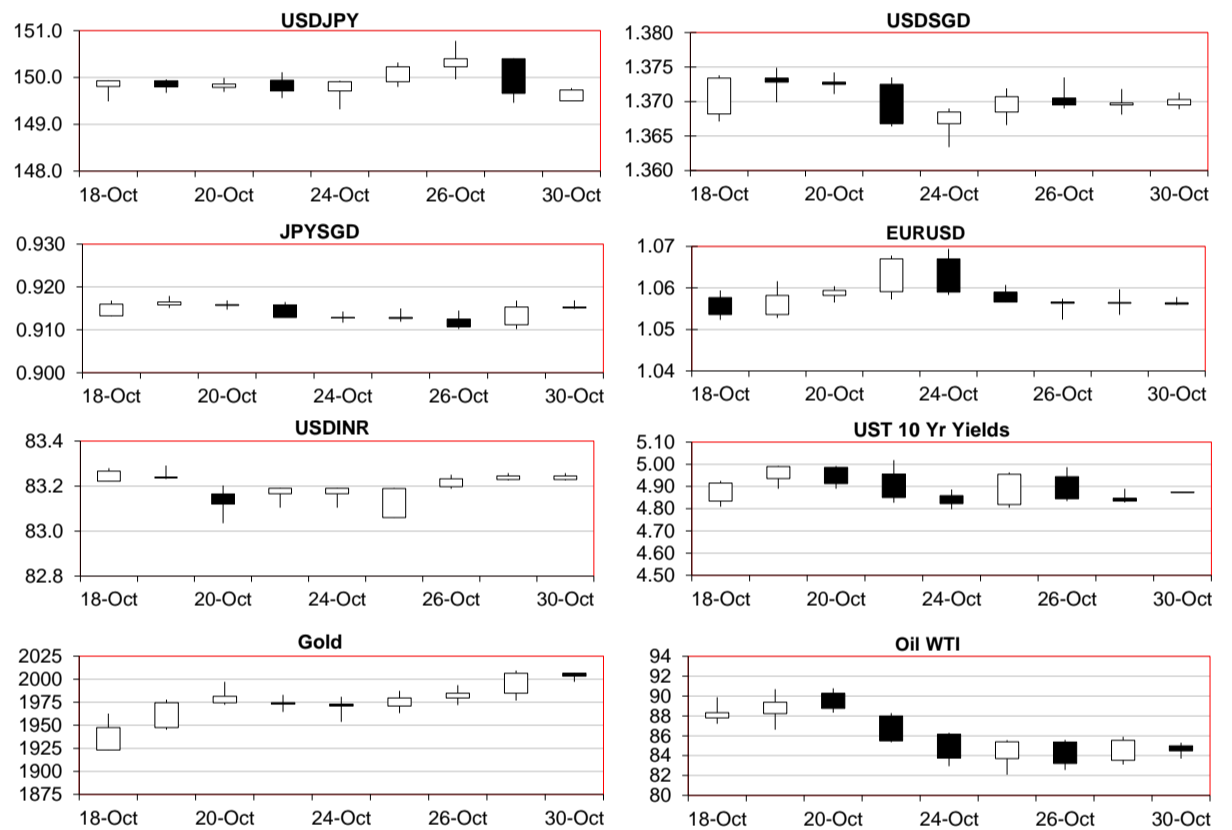
- Markets were **unable to shed off geo-political worries last Friday** as risk-off sentiments grew. On hindsight, there was some **semblance of preparation in view of an escalation of the conflict**.
- **Haven demand for USTs persisted** as yields declined. Notably, 2Y UST yields **slipped towards the 5% mark** even as Uni. of Mich. survey showed an escalation of near term inflation expectations.
- Given policy implications of inflation expectations, albeit a smaller impact from near term ones, **the haven bid may have been underestimated by headline decline in yields especially with FOMC looming alongside fiscal risks**.
- Admittedly, the **declining core deflator** outturn serves to dial back Fed hawks.
- **US equities sold off** with the Dow down by 1.1% while the S&P500 fell 0.5%. The Nasdaq closing 0.4% high was an artefact of being propped up by Amazon's 6.8% rise on stellar earnings.
- Commodities also appeared to be preparing for conflict escalation as **Gold prices soared** above US\$2000/ounce and **Brent crude** rose 2.9% to head back above US\$90/barrel.
- As for FX, the **USD remains bid despite a seemingly mixed performance among G10**. The JPY outperformed on tailwinds of lower UST yields but the USD/JPY falling to mid-149 may also be in part **JPY bears' preparation for plausible BoJ surprises**. (See below)
- Post ECB's pause, EUR weakness persisted as it retreated back towards mid-1.05 after failing to test 1.06 alongside falling EZ yields. Down under, AUD edge mildly higher to hover around mid-63 cents. The CHF being the G10 underperformer yet again reveals the **Greenback's haven allure**.

BoJ: Trick or Treat?

- The **BoJ's "Halloween meeting"**, which has a history of having sprung active surprises, will inevitably have markets wondering if this time will be a **"trick or treat"**.
- What's sobering though, it will be a **scare one way or another**.

OVERNIGHT RESULTS

(AU) PPI YoY (3Q): 3.8% (2Q: 3.9%) | (US) U. of Mich. Sentiment (Oct F): 63.8 (Mkt: 63.0; Prelim: 63.0)
 (US) PCE / Core Deflator YoY (Sep): 3.4%/3.7% (Mkt: 3.4%/3.7%; Aug: 3.5%/3.9%) | (US) U. of Mich. 1Y/5-10Y Inflation (Oct F): 4.2%/ 3.0%
 (Mkt: 3.8%/3.0%; prev: 3.8%/3.0%) | (US) Personal Income / Spending (Sep): 0.3%/0.7% (Mkt: 0.4%/0.5%; 0.4%/0.4%)

*** Past Two Weeks Movement ***

TODAY'S COMMENTS & FORECAST
Open

USD/JPY	149.73	EUR/USD	1.0563
USD/SGD	1.3702	USD/THB	36.12
JPY/SGD	0.9151	USD/MYR	4.773

Forecast

USD/JPY	149.00 - 150.10
EUR/USD	1.0490 - 1.0630
AUD/USD	0.6280 - 0.6400
USD/SGD	1.3680 - 1.3750
JPY/SGD	0.9114 - 0.9228
USD/CNH	7.3100 - 7.3400
USD/INR	83.10 - 83.40
USD/IDR	15850 - 15990
USD/MYR	4.765 - 4.820
USD/PHP	56.65 - 57.20
USD/THB	36.00 - 36.50

Today's Direction

	Bull	:	Bear
USD/SGD	5	:	1
USD/JPY	2	:	4

- The **absence of any calibration to temper** the active dovish stance, spear-headed by YCC (requiring aggressive JGB purchases to anchor yields), **will frighten JPY exposures**.
- Specifically, **as mounting defacto JPY debasement pressures** (on price-led balance sheet expansion) are **compounded by increasingly corrosive** (for JPY) **UST-JGB yield spreads**; especially as UST yields rally brutally on an odd mix of US exceptionalism and debt woes.
- On the flip side, any **dial back of YCC**, will catch **JPY bears** and **JGB bulls wrong-footed**. And an even **more extreme**, albeit **highly unlikely**, iteration of a **complete abandonment of YCC will absolutely terrify fiscal authorities**; even if the initial reaction may be one of a more stable JPY (at the expense of some JGB sell-off).
- Fact is, the **fiscal reckoning could be brutal** if yields are allowed to play catch-up with sovereign bond markets elsewhere in the G4. The **debt servicing could impair, if not cripple, fiscal capabilities**; and jeopardize growth multipliers, with a severe "crowding out".
- Moreover, both the **BoJ and wider financial institutions** will risk a **deleterious hit to their balance sheets** given the ubiquity and depth of JGB holdings.
- So how best to dress up a policy move this Halloween? Well, a clearly communicated **one-off rate adjustment from NIRP* to ZIRP*** alongside a **highly-controlled (25-50bp) of YCC target upside flex** range may be **just the trick to give all involved a treat**.
- And for the purposes of Halloween, ridden with fears of policy mis-steps and geo-political miscalculations, just some **degree of JPY stability**; whilst ensuring that the **fiscal and BoJ/FI balance sheets don't face a meltdown** will have to **qualify as a treat**.

FX Daily Outlook

- EUR/USD: Cautious exploration of 1.06 as growth concerns mounts and lower EZ yields assert.
- USD/JPY: Slippage may persist but buoyancy ought to be retained above 149 heading into BoJ.
- USD/SGD: Consolidation on both side of 1.37 as China property woes appear unrelenting.
- AUD/USD: Commodities and RBA hawks may backstop 63 cents but not overwhelm 64 cents.

TODAY'S EVENTS

(AU) Retail Sales MoM (Sep): (Mkt:0.3%; Aug: 0.2%)
 (EZ) Consumer Confidence (Oct F): (Prelim: -17.9)
 (US) Dallas Fed Mfg Activity (Oct): (Mkt: -16.0; Sep: 19.1)

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