

Economic Calendar

G3

Date	Country	Event	Period	Survey*	Prior
03 Jul	US	ISM Manufacturing	Jun	47.2	46.9
	EZ	Mfg PMI	Jun F	43.6	43.6
	JP	Tankan Large Mfg Index/Outlook	2Q	5.0/9.0	1.0/3.0
	JP	Tankan Large All Industry Capex	2Q	13.4%	3.2%
05 Jul	US	Durable Goods Orders/Nondef Ex Air	May F	1.7%/--	1.7%/0.7%
	EZ	Services PMI	Jun F	52.4	52.4
	EZ	PPI YoY	May	-1.4%	1.0%
	JP	Services PMI	Jun F	--	54.2
	US	FOMC Meeting Minutes			
06 Jul	US	ADP Employment Change	Jun	240k	278k
	US	JOLTS Job Openings	May	9968k	10103k
	US	Initial Jobless Claims		245k	239k
	US	ISM Services Index	Jun	51.3	50.3
	EZ	Retail Sales YoY	May	-2.7%	-2.6%
07 Jul	US	Change in Nonfarm Payrolls	Jun	225k	339k
	US	Unemployment Rate	Jun	3.6%	3.7%
	JP	Coincident/Leading Index CI	May P	97.1/97.6	97.3/96.8
	JP	Labor/Real Cash Earnings YoY	May	1.2%/-2.7%	0.8%/-3.2%

Week-in-brief: Of Minutes, Misses & Mayhem

- **FOMC Minutes** are unlikely to excite. Reason being, after digesting June's 'Dot Plot' 50bp step-up and Powell's testimony to the Congress, the bar for **policy revelation** appears to be higher.

- Perhaps an exaggeration, but one could arguably give the *Minutes* a miss and not miss much.

- To be more specific though, **nothing in the Minutes** will distract from the propensity of the Fed to hike, and the corresponding pick-up in hard-landing risks as the Fed raises the rates hurdle.

- In short, you *can't miss the Fed's tightening bias*. And markets may be fretting that the Fed may miss early warnings of economic sputter, that may lead to a messier splatter of red.

- But for now, the **misses that worry markets** have more to do with **China data**, led by Caixin PMIs, **after NBS PMIs miss**; with unrelenting manufacturing contraction and deceleration in services.

- And the fear is that there may be more downside left in China's data. In turn, this **could keep markets swinging** (sometimes wildly) **between worries about ailing economic momentum and hopes of policy stimulus** as Beijing tries to get the economy on track for growth "around 5%".

- On that note, the nomination of PBoC deputy Governor, Pan Gongsheng as party chief of the PBoC points to a transition for Pan to take over from Governor Yi Gang.

- The "half full" version is that **policy (easing) continuity** may provide degree of relief, perhaps even confidence, to markets. But the more sobering reality is that **policy continuity misses the point about binding constraints** that render "policy solutions" are all but elusive.

- For now though, the bar is lower, *although the urgency is higher*, with the **PBoC set on just averting mayhem from CNH sell-off**. From last week, the PBoC's hand in the markets to stabilize CNH, if not dissuade depreciation pressures, has been evident. That could of course dampen CNH pressures for the time being; but it is however to stop short of forcefully curbing CNH bears.

- Fact is, the breadth and depth of China-related headlines and uncertainties are exceptional.

- From **bumpy policy transitions, to mounting geo-political tensions to structural trends of economic decline, cheer about stimulus misses the binding challenges of geo-economic headwinds**; more worryingly, **growing risks from financial and/or geo-political flare-ups**.

- Post-Minutes, markets will assess US jobs data; given the cooling in headline PCE is not adequate to dent hawkish Fed views. And the risk may be that jobs underpins rather than dilutes Fed hike bets.

- Down Under, there is **no missing the RBA's hawkish inclination**, regardless of whether it pauses this **and the BNM**, despite a high bar to hike, **might consider insuring against MYR mayhem**.

- All said, FOMC Minutes may miss approaching risks and the threats of mayhem on miscalculations.

EM Asia FX: Beware CNH Drag



- Recent CNH under-performance is remarkable. Admittedly, for its depth: 4-5% against the USD since mid-May. But arguably, more for its dampened effect on EM Asia FX as a whole; which is fairly visible in the sharp upswing in AXJ/CNH (consistent with AXJ out-performing CNH).

- That's to say, the **sway of CNH sell-off** on other Asia FX (as well as AUD) have been far more muted than historically high (positive) correlations would have otherwise suggested.

- Specifically, the **(positive) correlation between CNH moves and Asia FX** (including AUD) has been significant and consistent; to the order of some 68% since 2018, and with a tendency for reversion from dips. What's more, with over 70% sensitivity (of AXJ to CNH), CNH impact is material.

- Admittedly, there are one-off and cyclical China-specific triggers and pressures at work undermining the CNH currently, accounting for relative AXJ out-performance vis-à-vis the CNH.

- Nonetheless, inextricable and enlarged supply-chain and investment linkages between China and the rest of Asia, which dwarfs almost all other bi-lateral commercial linkages, underpin the intertwined fates of the CNH and other EM Asia currencies.

- Broader point being, the **buffer that EM Asia FX have against drag from CNY** pressures is likely temporary and partial dampener, not a durable departure from entrenched positive correlation.

- Point being, any **weakening in correlations** between CNH and other AXJ currencies have been brief, and crucially, the **reasserted CNH impact** on other AXJ has been significant.

- What's more, this suggests it is that it is reckless to assume the same degree of buffer on further bouts of CNH pressures. In fact, it is too presumptuous to even have confidence that current AXJ out-performance against CNH will be retained should risks sentiments sour.

- Upshot being, if CNH soft spots show further signs of stress, accentuated by greater pressures for capital outflows, it will lay bare dangers of more generalized and sympathetic AXJ sell-off.

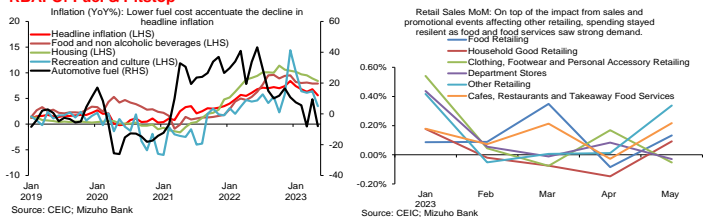
*Survey results from Bloomberg, as of 30 June 2023: The lists are not exhaustive and only meant to highlight key data/events

Asia

Yellow highlight indicates actual data

Date	Country	Event	Period	Survey*	Prior
03 Jul	CH	Caixin China PMI Mfg	Jun	50.0	50.9
	SG	Purchasing Managers/Elect. Sector Index	Jun	--	49.5/49.1
	AU	Building Approvals MoM	May	3.0%	-8.1%
	ID	CPI/Core YoY	Jun	3.7%/2.7%	4.0%/2.7%
	TH	Business Sentiment Index	Jun	--	49.7
04 Jul	AU	RBA Cash Rate Target		4.10%	4.10%
	KR	CPI/Core YoY	Jun	2.8%/-	3.3%/4.3%
05 Jul	CH	Caixin China PMI Services	Jun	56.2	57.1
	SG	Retail Sales/ Ex Auto YoY	May	--	3.6%/4.2%
	TH	CPI/Core YoY	Jun	0.2%/1.4%	0.5%/1.6%
	PH	CPI YoY	Jun	5.50%	6.1%
06 Jul	AU	Trade Balance	May	A\$10700m	A\$11158m
	MY	BNM Overnight Policy Rate		3.00%	3.00%
	TW	CPI/ Core YoY	Jun	1.8%/-	2.0%/2.6%
07 Jul	KR	BoP Current Account Balance	May	--	-\$792.6m
	PH	Unemployment Rate	May	--	4.5%
	TW	Trade Balance	Jun	\$4.99b	\$4.89b

RBA: Of Fuel & Pitstop



- The question for the RBA will surround the policy implications of a sharper than expected decline in May's headline inflation to 5.6% from 6.8% in April.

- It would be hard not to notice that the key driver behind the decline was an 8% YoY decline on fuel costs. As such, inflation measures excluding volatile items (fruit and vegetables, fuel) and holiday travel stood rather firm at 6.4% YoY (down marginally from 6.5% in April).

- Apart from these historical data, the RBA's concern will be inevitably be a forward looking one to determine if the lower transportation cost will pass on to dent upside in price pressures.

- The likely answer is that the passthrough impact on businesses will be insufficient considering continued labour cost concerns and impending electricity tariff increases.

- In fact, aside from statistical base effects, further fuel price declines are in doubt.

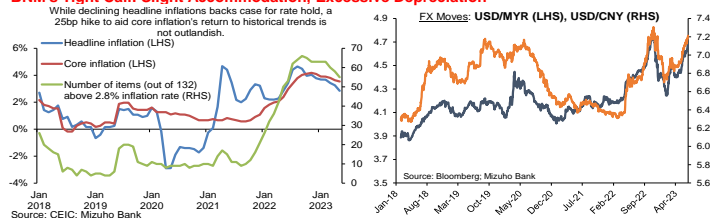
- Furthermore, the Australian household's purchasing power looks resilient with retail sales staying buoyant on food and food services such as cafes, restaurant and takeaway food services on top of discretionary occasional promotional retail events.

- Thus far, RBA's hawkish tones and successive hikes have shifted the markets' perceptions of their rate hike path. Specifically, markets are pricing in another 40bps of hikes in H2 2023 compared to expecting (as at early May) prolonged rate hold followed by rate cuts at the end of 2023. This inflation print alone will not and should not revert expectations for policy easing.

- As for the policy calculus, the RBA Minutes' documented fears of price and wage setting behaviours based on recent inflationary trends have certainly not faded in this short span. If anything, these fears continue to be backed by tight labour market conditions displaying strong employment gains.

- That said, the Minutes's allusion to reconsider pausing at subsequent meetings is now on the cards. On balance, we think that the RBA may not have run out of hawkish fuel at their 4 July meeting despite the looming sight of a pit stop ahead.

BNM's Tight Call: Slight Accommodation, Excessive Depreciation



- While we had expected the BNM to hold rates at their next meeting on 6 July, this call to stand pat on policy is now admittedly very tight amid recent (end-June) signals of FX intervention by the BNM's Financial Markets Committee to stem excessive volatility.

Admittedly, insofar that the previous hike in May was intended to "withdraw" monetary stimulus related to the Covid-19 pandemic, there might have been scope to tighten.

- But the bar for a further hike to remove the current "slightly" accommodative stance has been since raised higher given ongoing global manufacturing headwinds.

- The manufacturing troubles were laid bare as industrial production declined on both a year ago basis and sequentially and PMIs continued sinking in contractionary territory.

- Furthermore, headline inflation's continued decline dampens the case for further hikes. Nonetheless, elevated core inflation at 3.5% (in May) remains a key challenge for the BNM.

- Specifically, under the hood examination reveals that 55 out of 132 item categories in the CPI basket remains above the headline inflation of 2.8% and points to still evident price pressures.

- The recent complication stems from MYR underperformance alongside the CNH/CNY complex which has been deemed excessive by the BNM. The ringgit's weakening throws up unwelcome imported inflation challenges.

- While it is certainly not outlandish to suggest that a 25bp hike to improve rate differentials may help MYR stability, it should not be mistakenly extrapolated as a trigger for MYR outperformance.

- All in, while our base case is for the overnight policy rate to be unchanged at 3.00%, it is worth flagging that the odds for a further 25 hike is at a non-negligible 35%.

Forex Rate

	Close*	Chg [^]	% Chg [^]	Week Forecast	
USD/JPY	144.31	0.610	0.42%	142.80	~ 145.30
EUR/USD	1.0909	0.0015	0.14%	1.078	~ 1.105
USD/SGD	1.3524	0.000	0.04%	1.3420	~ 1.3600
USD/THB	35.455	0.235	0.67%	34.50	~ 35.40
USD/MYR	4.6665	-0.012	-0.25%	4.628	~ 4.700
USD/IDR	14993	-1	-0.01%	14,800	~ 15,100
JPY/SGD	0.937	-0.004	-0.44%	0.924	~ 0.952
AUD/USD	0.6664	-0.002	-0.24%	0.662	~ 0.690
USD/INR	82.04	0.006	0.01%	81.0	~ 82.8
USD/PHP	55.206	-0.564	-1.01%	55.0	~ 56.0

[^]Weekly change.

FX Outlook: The Undecided Dollar

- In past editions, we have stressed that the **USD continues to traffick in the Fed and fear**.
- That position of ours is unchanged. What is fluid however, is how markets are reading Fed (intentions) further out as well as the exact fears that markets are focussing on at any one point.
- For now, on both counts, there are reasons to equivocate.
- On the first (Fed cues), the point is that the **USD** (more precisely the bets and positions on the USD) **appears to be painfully undecided between;**
 - i) a **currently hawkish Fed** that ought to fuel upside, and;
 - ii) arguably setting itself up for a sharper dovish pivot the more aggressively hawkish it is at this point, which is consistent with short USD bets down the road.
- The **Minutes** from June meeting, where the 'Dot Plot' upped the ante with 50po more (likely over 2 instalments of 25bp hikes) **has some USD backstop left in the bag**, if one iss inclined to dig deep.
- But at the margin, **short USD bets are beginning to emerge as markets might construe aggressive hikes are elevating risks of a hard-landing and consequent policy correction**. This lines up as versions of 'peak USD' bets along a spectrum. And so, on the Fed, two-way volatility remains in place.
- On the **second factor of trading "fear"**, there is a **far wider berth**.
- On one hand, China risks, geo-political uncertainty and arguably, even global recession risks (partly manufactured from rare hikes), could infuse some preference for the Greenback.
- But equally, any soothsaying by way of policy talk or even whispers that gets the "risk on" bets excited amid underlying AI-driven boost, could drag the USD a little more.
- The upshot is that the USD is undecided; and may well remain that way for some time.

USD/JPY: Glimmer, Not Fireworks

- The Tankan survey displaying improvement in sentiments sparked a glimmer of hope for economic stability and recovery. Nonetheless, **JPY bulls are far from a fireworks display** with the BoJ showing little signs of pivoting.
- Inevitably, buoyancy will likely be retained above 143 given that policy divergence and sticky oil price remain structural underpinnings.
- All in, the pair is projected to trade in the mid-143-145 range.

EUR: Core Troubles

- Core inflation remaining sticky offsets relief from a declining headline inflation.
- While the ECB appears unrelenting for another 25bp hike this month, EUR rallies have relented more often than not.
- At the core of the issue, divergence in EZ economic fundamentals sets off growth worries with various indicators far from convincing..
- We expect the EUR ought to trade sideways in the 1.08-1.103 range amid possible cautious testing of 1.10.

SGD: Recession Risks

- Talks of technical recession, possibly something stickier, working its way through S\$NEER valuations and expectations is something that markets appear to be receptive to.
- To be sure, the S\$NEER remains rich, and dovish MAS response is not the base case.
- Nonetheless, recession risks being digested prompt SGD slippage (USD/SGD traction).
- This is further accentuated by soft spots in the CNH; although last week's support for CNH from PBoC guidance, helps to stall downside and diminish pressures on SGD.
- for now, wee expect sub-1.35 slip to be shallow through mid-1.34 amid hawkish Fed/FOMC Minutes while CNH backstop falls short of a recovery boost.
- Moreover, weaker global manufacturing readings are likely to exert bouts of pressure on the SGD prospects of exports drag and capital outflow risks.

AUD: RBA's Fleeting Flex?

- As alluded to last week, hawkish Fed and ECB appear to have taken some edge off AUD ascendancy; more so as earlier buffer from CNH soft spots risks being stress-tested.
- With FOMC Minutes likely to display the inner working of hawkish intent and sticky European inflation set to underpin ECB's hawkish notes at Sintra, AUD may be coy about over-extending upside purely on hawkish reiterations (that are fairly well-telegraphed).
- Nonetheless, if the RBA surprises with another follow-up hike, instead of a hawkish pause that is being expected by the consensus, then there could be some upside reflex testing 0.67-0.68.
- Response to the RBA's hawkish flexm (action rather than talk) though may be fleeting.
- Unless a bout of CNH rallies removes some of the CNH impediments to fire up some of the commodity-driven fillip. One way or another 0.66 to sub-0.69 looks like a range, stretched at the upside.

Bond Yield (%)

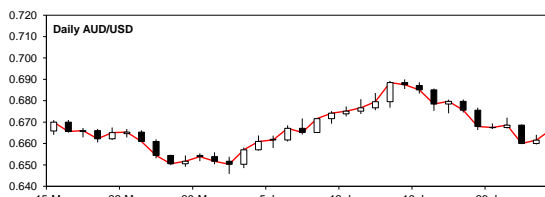
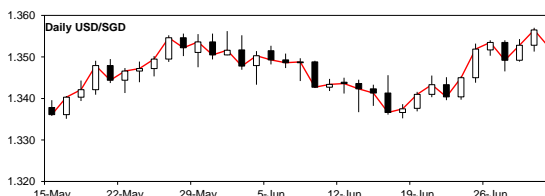
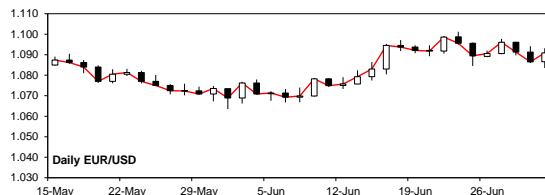
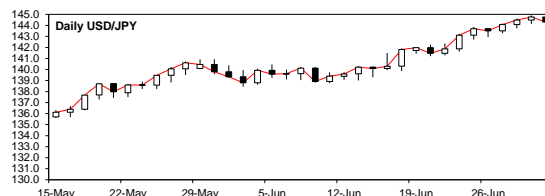
30-Jun	2-yr	Chg (bp) [^]	10-yr	Chg (bp) [^]	Curve
USD	4.895	15.4	3.837	10.2	Flattening
GER	3.179	8.7	2.388	3.7	Flattening
JPY	-0.078	0.6	0.386	3.3	Steepening
SGD	3.549	16.4	3.043	6.4	Flattening
AUD	4.210	2.2	4.021	0.1	Flattening
GBP	5.233	9.3	4.378	6.7	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	4,450.38	2.35
Nikkei (JP)	33,189.04	1.24
EuroStoxx (EU)	4,399.09	2.98
FTSE STI (SG)	3,205.91	0.45
JKSE (ID)	6,661.88	0.33
PSEI (PH)	6,468.07	1.17
KLCI (MY)	1,376.68	-1.02
SET (TH)	1,503.10	-0.16
SENSEX (IN)	64,718.56	2.76
ASX (AU)	7,203.30	1.47

US Treasuries: High Bars

- Considering the tighter labour market reflected by lower initial jobless claims, the **surge in UST yields** was not outlandish given how GDP deflator print remaining elevated alongside upwardwarding revised GDP provided more policy space for elevated rates.
- With 2Y yields up 15.4bp, the **bar is now high** for a further surge barring an outsized improvement in NFP print at the end of this week. The implication being that **opportunistic case of buying back** USTs has grown stronger.
- As such, while buoyed above 4.75%, 2Y UST yields may see cautious testing of the 5.0% mark rather than outright surges.
- For this week, FOMC minute would serve as a backstop for UST yields rather than bring further damage to UST bulls.
- In a mood of relief, **recession fears may rear its head** to temper 10Y yields attempt to breach 4%.



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