

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	156.78	157.04	▼0.44	▼1.02
EUR	1.0887	1.0891	+0.0009	▼0.0003
AUD	0.6665	0.6643	▼0.0042	▼0.0117
SGD	1.3449	1.3460	+0.0007	+0.0022
CNY	7.2739	7.2738	+0.0039	+0.0155
INR	83.66	83.67	+0.01	+0.06
IDR	16221	16220	+30	+50
MYR	4.6811	4.6820	▼0.0038	+0.0085
PHP	58.39	58.39	+0.03	▼0.09
THB	36.30	36.28	+0.00	+0.07

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.253%	+1.4 bp	+2.3 bp
JPY (10YR)	1.055%	+1.1 bp	▼1.0 bp
EUR* (10YR)	2.495%	+2.8 bp	+2.3 bp
AUD (5YR)	4.021%	+1.3 bp	▼3.1 bp
SGD (5YR)	3.055%	+1.9 bp	+1.7 bp
CNY (5YR)	1.919%	▼4.0 bp	▼5.1 bp
INR (5YR)	6.933%	+1.0 bp	▼2.7 bp
IDR (5YR)	6.900%	+6.0 bp	+3.1 bp
MYR (5YR)	3.597%	+0.0 bp	▼2.6 bp
PHP (5YR)	6.144%	+0.9 bp	+8.3 bp
THB (5YR)	2.377%	+0.0 bp	+0.3 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	40,415.44	+0.32%	+0.51%
N225 (JP)	39,599.00	▼1.16%	▼3.86%
STOXX 50 (EU)	4,897.44	+1.45%	▼1.72%
ASX (AU)	4,495.46	+0.49%	+0.12%
STI (SG)	3,437.26	▼0.30%	▼1.79%
SHCOMP (CN)	2,964.22	▼0.61%	▼0.33%
SENSEX (IN)	80,502.08	▼0.13%	▼0.20%
JSE (ID)	7,321.98	+0.38%	+0.59%
KLSE (MY)	1,622.07	▼0.88%	▼0.48%
PSE (PH)	6,712.05	▼1.17%	+0.34%
SET (TH)	1,317.14	+0.00%	▼0.78%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	283.09	+0.97%	▲1.84%
COPPER (LME)	9,090.68	▲0.97%	▲5.82%
IRON ORE (CN)	106.79	▲0.38%	▲2.40%
GOLD	2,396.59	▲0.18%	▲1.06%
OIL (WTI)	79.78	▼0.44%	▼2.60%

Three Take-Aways:

1. Risk appetite has resumed as Harris replacement of Biden is digested alongside tech-driven "lean in".
2. PBoC's rate cuts are welcome but woefully deficient to meaningfully spur credit/wider demand
3. The CNY Conundrum remains the elephant in the room. Expect JPY-CNY wedge to entrench.

Sol(j)d

- Risk sentiments and Democrat support for Kamala Harris appear to be (at least on the way to) **solid**. **Whether markets are indeed sold on durable "risk on" is quite another question.**

- Regardless, the Democrat convergence, **getting behind Kamala Harris as the Presidential candidate**, appears to have restored back-to-(bullish) business in equity markets. Moreover, earnings and tech cheer-leading coming into focus Tech stock led the 1.1% gains on S&P500, with Nasdaq surging 1.6%. UST yields and USD little changed though. What remains to be seen is **whether a bull rotation will see gains cascading down from the "Magnificent 7"**, more broadly into smaller cap. But **what's not solid is faith in Beijing's stimulus** thus far. The **CNH is struggling to hold below 7.30**, while PBoC rate cuts have been snubbed.

Why the PBoC's Cut Don't Impress

- Admittedly, the **PBoC's unexpected 10bp cuts***, applied across 7-day Reverse Repo, 1Y/5Y LPR - was a **welcome signal of stimulus**. Especially given that PBoC has assessed weak credit demand, not supply, as the impediment; thereby **justifying rate cuts** (lower price of credit) and not just liquidity boost (increased supply). **But it falls woefully short** of what may reasonably be expected to have an appreciable boost for credit-driven growth boost. Size matters. And obviously, a **10bp cut is not particularly inspiring**. Certainly, **nowhere in the vicinity of "big gun" stimulus**, which is arguably what the economy needs. And sooner rather than later. But there are **three critical reasons** beneath the hood as to **why the PBoC will struggle to impress at this rate** (pun intended).

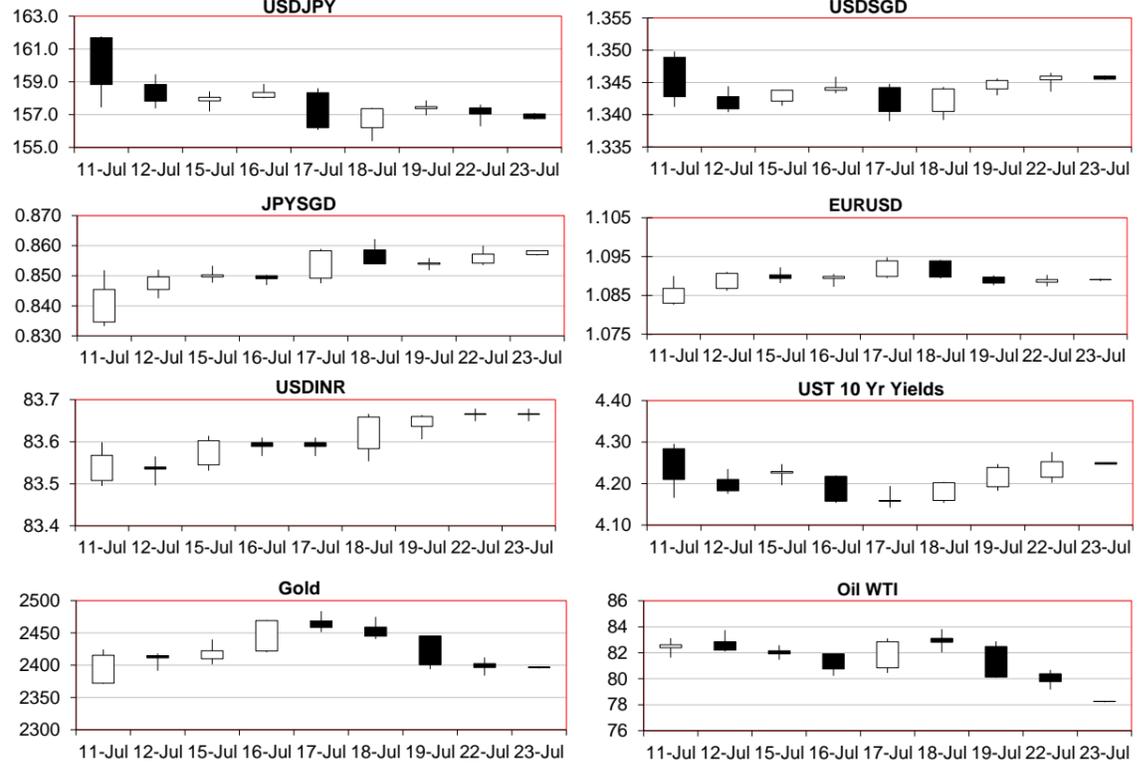
- **First**, in a case of form over substance, the **rate cuts may not effectively lower borrowing costs, especially mortgage rates**. Fact is, with the **floor on mortgage rates abolished in the worst-hit provinces**, means rate cuts may not lower mortgage rates further.

- **Second**, **existing mortgage rates that are locked in at appreciably higher rates** do not benefit from these cuts. And so, households are incentivized to continue paying down/pre-paying mortgage liabilities, hobbling net credit demand.

OVERNIGHT RESULTS

(KR) Exports/Imports 20 Days YoY (Jul): 18.0%/14.2% (Jun: 8.5%/-0.6%) | (TW) Export Orders YoY (Jun): 3.1% (Mkt: 12.3%; May: 7.0%) |

(TW) Import YoY (Jun): 1.1% (Mkt: 1.1%; May: 3.4%) | (US) Chicago Fed Nat Activity Index (Jun): 0.1 (Mkt: -0.1; May: 0.2)

FX Daily Movement*

TODAY'S COMMENTS & FORECAST
Open

USD/JPY	156.91	EUR/USD	1.0889
USD/SGD	1.3459	USD/THB	36.31
JPY/SGD	0.8578	USD/MYR	4.680

Forecast

USD/JPY	154.50 - 158.50
EUR/USD	1.0810 - 1.0940
AUD/USD	0.6580 - 0.6750
USD/SGD	1.3410 - 1.3510
JPY/SGD	0.8461 - 0.8744
USD/CNH	7.2700 - 7.3100
USD/INR	83.50 - 83.90
USD/IDR	16100 - 16350
USD/MYR	4.660 - 4.700
USD/PHP	58.20 - 58.60
USD/THB	36.00 - 36.70

Today's Direction

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

- Finally, and most importantly, the **unresolved confidence deficit** in the economy remains as the bugbear. Fact is, credit demand must follow confidence in the economy/jobs/housing markets. Whereas gloom about job/income growth and housing market inevitably then credit appetite is naturally crimped. *7-day repo lowered to 1.70% (from 1.80%) | 1Y LPR lowered to 3.35% (from 3.45%) | 5Y LPR lowered to 3.85% (from 3.95%)

The Renminbi Rub

- Which is why we **expect bigger cuts to come. But not without the pain of sharp policy trade-offs**. Notably, the **"renminbi rub"** is that rate cuts may entail the **threat of financial turbulence resulting from attendant CNY depreciation pressures**. To be sure, the PBoC's dilemma is intense enough to start with. Striking a delicate balance between **reviving growth** and **averting a "Minsky moment"** given risks inherited from the post-GFC debt blot.

- On the latter, the silver lining may be that China's structure of state bank dominance may allow greater buffer for financial stability. But that is not a silver bullet for policy dilemma as CNY depreciation risks have far lower tolerances for (policy) error. And so, the **most pressing/daunting issue for the PBoC is to find a sweet spot between inherently incompatible rate cuts and CNY stability**. With this, there is an unspoken (and perhaps hard-to-admit) reliance on a sufficiently complaisant USD for the PBoC to have greater latitude to cuts rates. But Trump 2.0 complicates the policy scenario ahead. Crucially, it may **impress the importance and (policy) priority of CNY stability**. For now though, the PBoC's predicament (stimulus vs. CNY stability) compounded by US trade antagonism will underpin the JPY-CNY wedge^.

** A reference to a sudden tipping point when sharp debt accumulation comes home to roost as a financial crisis.

^ Please see our recent publication on JPY-CNY wedge. [mizuho-flash_trump-jpy_cny_wedge_240718.pdf (mizuhogroup.com)]

FX Daily Outlook

- EUR/USD: Oscillations with downside bias as Sep decision remains "wide open" amid French woes.
- USD/JPY: May see durable rebound above 157 as US elections stabilise and amid higher UST yields.
- USD/SGD: CNH softness could sustain traction above mid-1.34.
- AUD/USD: Consolidation above 66 cents as PBoC's LPR cut and hawkish RBA tussle.

TODAY EVENTS

(KR) PPI YoY (Jun): 2.5% (May: 2.3%) | (SG) CPI/Core YoY (Jun): (Mkt: 2.7%/3.0%; May: 3.1%/3.1%) | (TW) Industrial Productin YoY (Jun): (Mkt: 17.0%; May: 16.1%) | (US) Existing Home Sales (Jun): (Mkt: 3.99m; May: 4.11m) | (US) Richmond Fed Mfg Index (Jul): (Mkt: -6; Jun: -10) | (EZ) Consumer Confidence (Jul P): (Mkt: -13.5; Jun: -14.0) | (JP) Machine Tool Orders YoY (Jun F): (prelim: 9.7%)

India Budget

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