

Three Take-Aways

- 1) BoJ hikes and cuts bond purchases; but JPY squeeze spares adverse risk reactions.
- 2) FOMC flag cuts and risks re-balancing to downside in jobs
- 3) Risk sentiments boosted on Fed easing prospects and less acute JPY liquidity squeeze.

MACRO THEME: Goldilocks Convergence

- A hawkish BoJ surprise (hike, although taper was arguably less so) and a relatively dovish FOMC hold have both fuelled risk appetite. Despite apparent policy divergence, markets are basking in a "Goldilocks Convergence" of (FX) stability and (policy) support.

Yields (2Y: -10.2bps; 10Y: -10.8bps; 30Y: -9.1bps)

- Rally in USTs as yields fall 9–12bp across the curve. 2-10Y part of the curve exhibiting mild bull flattening while 5-30Y bull steepened.

Equities (Nasdaq: +2.6%; S&P500: +1.6%; Dow: +0.2%)

- US equity markets rally led by Nasdaq's surge.

FX (DXY: -0.4%)

- Slips from fleeting post-FOMC rebound but is backstopped; with the DXY index finding tentative traction at 104, the support which appeared to emerge in the earlier post-BoJ slide.

Today's Highlights: "Good Place", but More Distinct "Behind the Curve" Risks

- If there was one notable take-away from the post-FOMC press conference it is a starkly more emphatic focus on whether the Fed may be "behind the curve" on rate cuts. To be sure, the overall assessment is that the Fed is in "a good place" where the economy is "neither overheating nor sharply weakening".

- But "better" dis-inflation, which has evolved from unsustainable dis-inflation narrowly in goods to a "broader" dis-inflation, re-balances policy focus more evenly between inflation and jobs. The Fed continues to "weigh the risks of going too soon against going too late". The trade-offs now though are arguably a lot sharper. Between the lines: Policy transmission lags though could understate the prominence of jobs driven downside risks to the economy and rates.

Today's Highlights: Evolving Policy Risks (in the Fed's words) – Jobs Now the Potential Swing Factor

- Gaining "confidence" about dis-inflation: "We did gain confidence. ... data will allow us to gain more confidence ..."

- Accentuated by Quality of Dis-inflation: "Quality of (dis-inflation) is higher" with sustainable dis-inflation in goods, and crucially, dis-inflation across both housing and non-housing services.

- Job Market Softening Significantly: "close to 2019 conditions .. that was not inflationary economy." Crucially, Jobs No Longer an Inflation Risk: "don't think the labour market in its current state as a likely source of inflation."

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(CH) Mfg/Non-Mfg PMI (Jul)	49.4/50.2	49.4/50.3	49.5/50.5
(AU) CPI YoY (Jun)	3.80%	3.8%	4.0%
(TW) GDP YoY (2Q A)	5.1%	4.8%	6.6%
(SG) Unemployment Rate SA (Jun)	2.0%	2.1%	2.1%
(US) ADP Employment Change (Jul)	122k	150k	150k
(US) MNI Chicago PMI (Jul)	45.3	45.0	47.4
(US) Pending Home Sales Mom (Jun)	4.8%	1.5%	-2.1%
(EZ) CPI Estimate/Core YoY (Jul)	2.6%/2.9%	2.5%/2.8%	2.5%/2.9%
Today			
(CH) Caixin China PMI Mfg (Jul)		51.5	51.8
(AU) Trade Balance (Jun)		A\$5000m	A\$5773m
(ID) CPI/Core YoY (Jul)		2.4%/1.9%	2.5%/1.9%
(KR) Exports/Imports YoY (Jul)	13.9%/10.5%	18.4%/13.4%	5.1%/-7.5%
(US) Initial Jobless Claims		236k	235k
(US) ISM Mfg/Prices Paid (Jul)		48.8/51.8	48.5/52.1
(EZ) Unemployment Rate (Jun)		6.4%	6.4%

- Restoring Balance between Inflation and Jobs Mandates: "When we were far away from our inflation mandate we had to focus on that. Now we are back to closer to an even focus"

- In fact, Jobs Flips to be a Potential Dovish Trigger: "Downside risks to employment mandate are real now ... would not like to see material further significant cooling in the labour market"

Today's Highlights: BoJ Nuances

- Despite a double-barreled tightening shot of (15bp) rate hike (to 0.25%) and bond buying reduction plan, the question is whether it was a "dovish hike". We think not. And apparently, nor does the JPY, judging from the sub-150 tests (from 152+ levels pre-BoJ). Or for that matter, JGBs, given 10Y yields defied global trends to rise 5-6bp (to 1.04%) is not quite a dovish accent. Admittedly, the BoJ's policy shift was far more nuanced, delicately balancing "impossible policy tensions". Specifically, those between economic fragilities, JPY stability threats, JGB/ratings impact and BoJ balance sheet risks. But three key points may be worth considering to fully appreciate BoJ stance and forward looking policy risks.

- Calibration: First, the double-barreled (hike and taper) was tempered by bond purchases reduced more gradually (than expected). This does not mechanically translate into a dovish hike. But it mitigates risk of adverse liquidity shocks/yield volatility.

- Focus: Second, laying out a pre-determined bond reduction plan through Q1 2026 helps re-focus policy guidance to rates (hikes). This arguably helps to enhance JPY traction, especially as BoJ and Fed policy divergence are set to kick in.

- FX (JPY) Levers: Finally, JPY stability featured as an implicit policy priority given allusions to potential for imported inflation risks.

Today's Highlights: Averting Adverse JPY Correlations

- What's remarkable is that a sharp JPY squeeze has not been detrimental to risk appetite. Specifically, as adverse negative correlations from sharp JPY have been averted.

- First, the Nikkei (+1.5%) was spared the usual negative correlation with JPY (rising despite JPY surge). Arguably, this has translated into support, if not a corresponding, sympathetic lift in EM Asia equities. And sets the stage for Asian equities to take cues from the post-FOMC, Nasdaq-led surge in US equities as well.

- Second, JPY-AXJ correlations remain positive, with Asia FX riding a higher JPY against, rather than succumbing to "carry" unwind.

- But this is situational relief on "Goldilocks" convergence of policy (BoJ-FOMC) and prevailing sentiments. Whereas, the threat of JPY-AXJ correlations flipping negative on sustained JPY and attendant carry trade squeeze cannot be dismissed prematurely.

China: Of PMIs and Perversion

- China sentiments were perversely boosted despite and because of underwhelming PMIs. The former on stimulus hopes and the latter on unseasonable weather discounted. Underlying caution though may not be dispensed with, especially if wider risk sentiments fade.

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	149.98	149.75	▼1.83%	149.00 - 153.00
EURUSD	1.0826	1.0824	+0.10%	1.0790 - 1.0880
GBPUSD	1.2856	1.2853	+0.16%	1.2750 - 1.2950
AUDUSD	0.6542	0.6547	+0.06%	0.6480 - 0.6600
DXY	104.1	--	▼0.44%	103.8 - 104.5
USDCNY	7.2267	--	▼0.20%	7.2100 - 7.2800
USDCNH	7.2270	7.2250	▼0.23%	7.2000 - 7.2700
USDHKD	7.8125	7.8128	▼0.01%	7.8040 - 7.8160
USDSGD	1.3360	1.3363	▼0.46%	1.3320 - 1.3450
USDKRW	1369	1371	+0.00%	1360 - 1380
USDTWD	32.84	--	▼0.03%	32.60 - 33.00
USDINR	83.73	--	+0.00%	83.60 - 83.90
USDIDR	16260	--	▼0.25%	16100 - 16350
USDMYR	4.591	4.590	▼0.68%	4.570 - 4.660
USDPHP	58.37	--	▼0.48%	58.20 - 58.50
USDTHB	35.65	35.51	▼0.93%	35.50 - 36.00
USDVND	25264	25248	▼0.08%	25200 - 25300

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.258	4.032	-10.2	-10.8
JGB (JP)	0.449	1.050	7.7	5.4
Bunds (GE)	2.524	2.301	-2.2	-3.6
Gilts (UK)	3.813	3.969	-5.4	-7.4
AGB (AU)	3.875	4.115	-22.2	-16.5
SGS (SG)	2.924	2.867	-1.7	-6.2
CGB (CN)	1.514	2.143	-0.5	0.6
KGB (KR)	3.072	3.194	-9.1	-10.2
SDL (IN)	6.926	6.827	1.6	7.7

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	162.36	162.08	▼1.75%
GBP/JPY	192.818	192.467	▼1.71%
JPY/SGD (100yen)	0.8906	0.8924	+1.35%
JPY/HKD (100yen)	5.2088	5.2174	+1.84%
CNH/JPY	20.827	20.721	▼2.39%
CNH/HKD	1.0811	1.0811	+0.19%
EUR/GBP	0.84209	0.84214	▼0.06%
AUD/NZD	1.0995	1.1001	▼0.72%
EUR/CNH	7.8233	7.8203	▼0.14%
GBP/CNH	9.2907	9.2863	▼0.08%

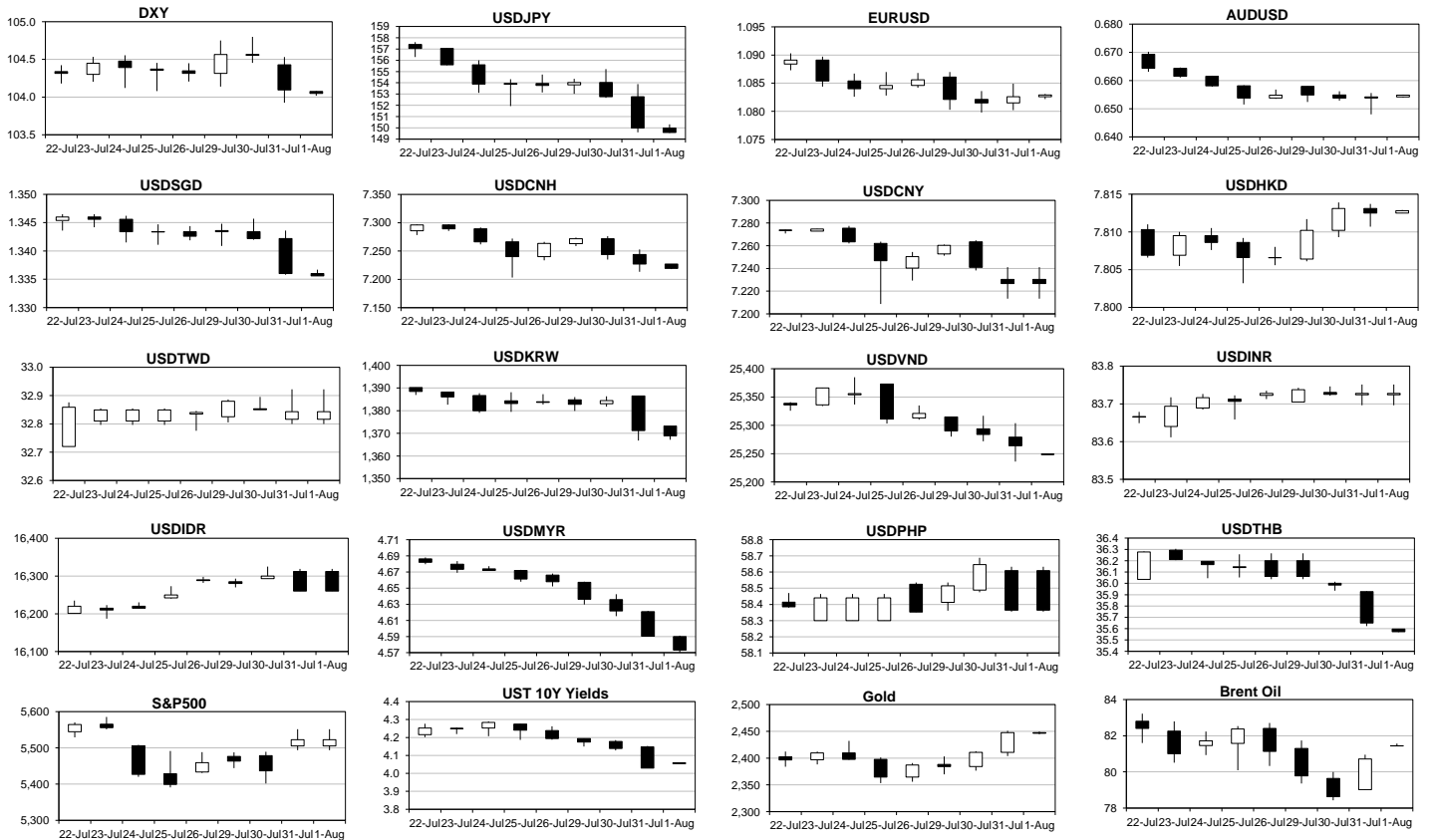
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G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5522.3	85.86	+1.58%
Nasdaq (US)	17599.4	451.98	+2.64%
DJIA (US)	40842.79	99.46	+0.24%
N225 (JP)	39101.82	575.87	+1.49%
STOXX50 (EU)	4872.94	31.94	+0.66%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4588.31	48.82	+1.08%
STI (SG)	3455.94	14.17	+0.41%
SHCOMP (CN)	2938.749	59.45	+2.06%
SZCOMP (CN)	1610.782	51.27	+3.29%
HSI (HK)	17344.6	341.69	+2.01%
SENSEX (IN)	81741.34	285.94	+0.35%
JSE (ID)	7255.762	13.90	+0.19%
KLSE (MY)	1625.57	13.63	+0.85%
PSE (PH)	6619.09	12.73	+0.19%
SET (TH)	1320.86	12.77	+0.98%
VNINDEX (VN)	1251.51	0.01	+0.52%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,102.28	259.42	+2.93%
IRON ORE (CN)	105.94	-0.02	+0.09%
GOLD	2,447.60	36.82	+1.53%
SILVER	80.72	2.09	+2.66%
OIL (BRENT)	81	2.09	+2.66%
OIL (WTI)	77.91	3.18	+4.26%
NATURAL GAS	29.01	0.62	+2.18%

CHARTS



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