

Three Take-Aways

1) Markets getting carried away from extreme fear, even if not in full-throated "greed" mode.

2) That said, risk resumption will be more discerning. CNY/China resilience may have been flattered.

3) But JPY funded carry remains far more fraught amid heightened JPY-BoJ volatility.

MACRO THEME: Greed and Fear

- Forgive the cliché, but it appears that greed-fear pendulums continue to do what pendulums do. Oscillate. But perhaps not all in sync. Pulling back from the brink of an overdone, indiscriminate fear tailspin is sensible. Afterall, cash by the sidelines must seize opportune bargain hunting. Especially amid more cool-headed admissions of overblown (oversold) US recession fears (risk assets).

- But equally, what's worth watching is the de-coupling between wider risk sentiments and "carry" and resultant nuances across risk markets. Point being, despite risk appetite recovering, it is far from conducive for JPY-funded carry trades to swing back into business-as-usual mechanics, much less, "greed" mode.

- Especially as heightened uncertainty around Fed-BoJ divergence elevates JPY volatility, thereby compromising JPY-funded carry trade interest. But JPY carry unwind need not correspond to a meltdown in global equities and credit.

- Specifically, more measured JPY carry squeeze coinciding with weakened JPY-Nikkei negative correlations may entrench such a divergence. This is turn would mostly likely differentiate more sharply between quality/IG and high-yielding EM assets.

Yields (2Y: +5.5bps; 10Y: +10.4bps; 30Y: +10.7bps)

- With the fears of a US recession being reined in, UST yields have bounced more distinctly in bear steepening fashion with a 10Y rise of ~10bp to 3.89% putting it within spitting distance of the 2Y now at 3.98% after a 5.5bp pick-up.

- Steepening might have legs left in it, although front-end volatility may be somewhat more heightened as markets dynamically re-price US recession risks and projected Fed rate cut bets.

- Markets are less sure about a 50bp rate cut in September, And rightly so, we assess the bar is much higher for the Fed to do an upsized cut. Nonetheless, there is a sense that the Fed might end up having to cut significantly more into H1 2025 than the June 'Dot Plot' envisaged. Hence, the stall and partial reversal from sharper drop in yields will probably not fully reverse course on coming weeks.

Equities (Nasdaq: +1.0%; S&P500: +1.0%; Dow: +0.8%)

- A modest recovery on Wall St, but with futures back in red highlight three key points. First, is that positions were probably oversold, and sustained plunge will reflect reflexivity, not reason.

-Second, is that regardless of bargain opportunities a sense of caution could still persist given burnt fingers. Finally, forays back into risk assets/equities will probably remain an exercise in discrimination and scrutiny as markets make their way from "fear" towards (but still not quite at) "greed".

FX (DXY: +0.3%)

- USD has regained some ground, in tandem with moderated assessment of US recession. Correspondingly, EUR has dipped (from 1.10 test to 1.09+) and CNH is now just off 7.16 from as high as 7.10 (on Monday). Between a weaker USD post-NFP that has only partly regained ground and JPY crosses still on the back foot, caution ought to prevail. USD/JPY at 144-145 range is admittedly off 142 lows, but a long way down from pre-BoJ 152-154

China: Circumspect About CNY Vindication

- Which is precisely why we are more circumspect of the apparent relative insulation enjoyed by the CNY and EM Asia FX (AXJ) generally in the past few sessions. Yes, sharply lower UST yields alongside a broadly weaker Greenback have buoyed the CNY (and AXJ).

- But the argument of subsiding "carry"-driven pressures on the CNY, while valid, is merely pain-relief, not a panacea. Point being, CNH woes were not exclusively built on higher UST yields. So softer yields do not absolve the CNH of all the risks. Whereas on-going demand-side economic challenges, confidence deficit and geo-economic threats may hold the CNY's feet to fire.

Attendant AXJ Risks

- Lingering CNY risks means that downside risks in the wider EM Asia FX space may not be unequivocally dulled by softer UST yields.

- Fact is, trade and financial correlations between CNH and other AXJ remains inconveniently high. So de-coupling from risks of CNY drag is simply not viable near-term. What's more, a steeper UST yield curve creeping in may turn out to be relatively less supportive of higher yielding EM assets as credit and term premia re-price after a prolonged period of exceptional suppression.

- One way or another, it is worth noting that even as the blanket of oppressive global fear lifts, greed may not evenly fill the vacuum

Post RBA: Examining Not Ruling "In" or "Out"

- The RBA's statement stuck to not ruling anything "In" or "Out" in their decision to keep rates unchanged as **projections for inflation's return to target was delayed slightly while excess demand was assessed to be higher than previously thought**. Notably, RBA Governor Bullock said that **near term (next six months) cuts are off the table while hikes were discussed**. Admittedly, the **asymmetry of not ruling anything "in" or "out" is stark and** ought to backstop AUD bulls amid the likelihood of easing among peers. Nonetheless, it remains a worry that given record high labour force participation rates, it appears that employment is the more likely source of adjustment to rebalance the current dynamics even if it does not happen in the near term.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(PH) CPI YoY (Jul)	4.4%	4.1%	3.7%
(AU) RBA Cash Rate Target (Jul)	4.35%	4.35%	4.35%
(PH) Exports/Imports YoY (Jun)	-17.3%/ -7.5%	-5.4%/ -1.5%	-3.1%/ 0.0%
(TW) CPI/Core YoY (Jul)	2.5%/ 1.8%	2.5%/ 1.9%	2.4%/ 1.8%
(JP) Labour/Real Earnings YoY (Jun)	4.5%/ 1.1%	2.4%/ -0.9%	2.0%/ -1.3%
(EZ) Retail sales YoY (Jun)	-0.3%	0.1%	0.5%
(US) Trade Balance (Jun)	-\$73.1b	-\$72.5b	-\$75.1b

Today

(PH) Unemployment Rate (Jun)	--	4.1%
(KR) Current Account Balance (Jun)	--	\$8.9b
(TH) CPI/Core YoY (Jul)	0.7%/ 0.4%	0.6%/ 0.4%
(CH) Exports/Imports YoY (Jul)	9.5%/ 3.2%	8.6%/ -2.3%
(JP) Coincident Index	113.8	117.1
(JP) Leading Index Cl	108.9	111.2

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	144.34	144.71	+0.11%	143.00 - 148.00
EURUSD	1.0931	1.0925	▼0.19%	1.0890 - 1.1000
GBPUSD	1.2691	1.2683	▼0.67%	1.2650 - 1.2780
AUDUSD	0.6520	0.6512	+0.34%	0.6470 - 0.6580
DXY	103.0	--	+0.27%	102.0 - 104.5
USDCNY	7.1558	--	+0.23%	7.1000 - 7.2000
USDCNH	7.1590	7.1597	+0.29%	7.1000 - 7.2000
USDHKD	7.7950	7.7948	+0.08%	7.7700 - 7.8100
USDSGD	1.3254	1.3257	+0.02%	1.3200 - 1.3310
USDKRW	1375	1378	+0.00%	1340 - 1380
USDTWD	32.70	--	+0.16%	32.50 - 32.85
USDINR	83.96	--	+0.14%	83.75 - 84.00
USDIDR	16165	--	▼0.12%	16000 - 16250
USDMYR	4.475	4.470	+1.08%	4.430 - 4.500
USDPHP	57.83	--	▼0.11%	57.70 - 58.20
USDTHB	35.53	35.49	+0.86%	35.30 - 35.70
USDVND	25135	25135	+0.14%	25100 - 25250

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.977	3.893	5.5	10.4
JGB (JP)	0.288	0.894	0.1	11.0
Bunds (GE)	2.383	2.197	3.7	0.9
Gilts (UK)	3.659	3.919	5.8	5.1
AGB (AU)	3.760	4.020	-4.1	-3.1
SGS (SG)	2.695	2.753	5.0	8.1
CGB (CN)	1.505	2.146	0.6	0.8
KGB (KR)	3.009	3.056	10.7	5.5
SDL (IN)	6.877	6.754	1.0	0.1

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	157.79	158.1	▼0.07%
GBP/JPY	183.18	183.536	▼0.56%
JPY/SGD (100yen)	0.9182	0.9166	▼0.11%
JPY/HKD (100yen)	5.4002	5.3865	▼0.04%
CNH/JPY	20.276	20.223	+0.75%
CNH/HKD	1.0891	1.0893	▼0.16%
EUR/GBP	0.86135	0.86139	+0.49%
AUD/NZD	1.0951	1.091	+0.12%
EUR/CNH	7.8266	7.822	+0.12%
GBP/CNH	9.086	9.0806	▼0.38%

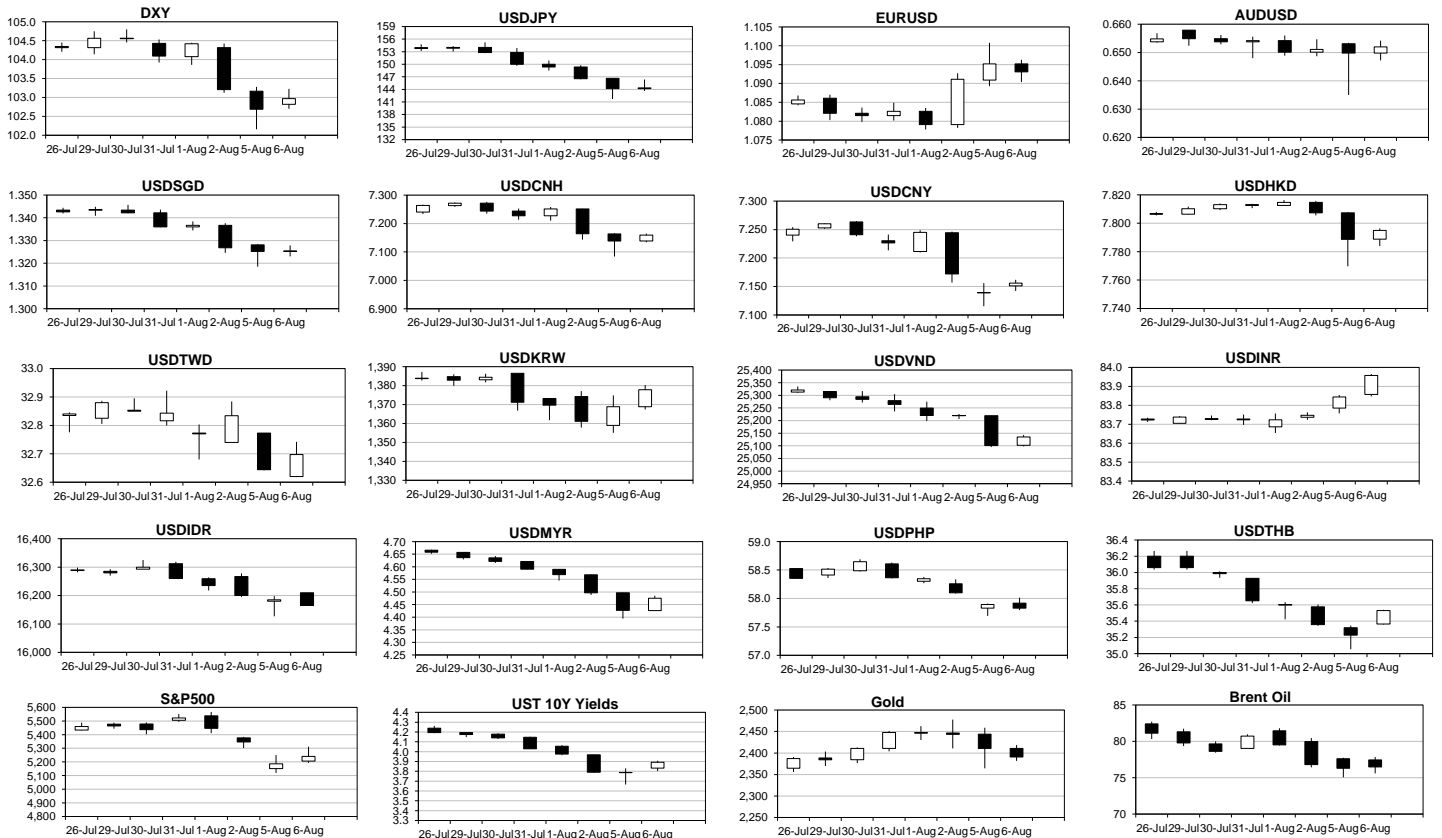
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5240.03	53.70	+1.04%
Nasdaq (US)	16366.85	166.77	+1.03%
DJIA (US)	38997.66	294.39	+0.76%
N225 (JP)	34675.46	3217.04	+10.23%
STOXX50 (EU)	4575.22	3.62	+0.08%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4390.77	13.03	+0.30%
STI (SG)	3198.44	-45.23	▼1.39%
SHCOMP (CN)	2867.284	6.59	+0.23%
SZCOMP (CN)	1567.033	18.20	+1.18%
HSI (HK)	16647.34	-51.02	▼0.31%
SENSEX (IN)	78593.07	-166.33	▼0.21%
JSE (ID)	7129.215	69.56	+0.99%
KLSE (MY)	1574.39	37.91	+2.47%
PSE (PH)	6433.24	-1.49	▼0.02%
SET (TH)	1274.01	-0.66	▼0.05%
VNINDEX (VN)	1210.28	0.02	+1.87%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	8,804.02	38.70	+0.44%
IRON ORE (CN)	102.66	-3.18	▼1.01%
GOLD	2,390.82	-19.97	▼0.83%
SILVER	76.48	0.18	+0.24%
OIL (BRENT)	76	0.18	+0.24%
OIL (WTI)	73.20	0.26	+0.36%
NATURAL GAS	26.98	-0.28	▼1.03%

CHARTS



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