

## Three Take-Aways

- 1) Israel's strike avoiding Iran's oil facilities cap Oil's surge.
- 2) Fed restraint on ISM Services outrun subject to jobs data.
- 3) Firmer USD, yields, oil's surge and geo-politics restrain risk.

## MACRO THEME: Between Retaliation & Restraint

- **Markets** appear to be **caught between geopolitical retaliation and Fed policy restraint**. But **even accounting for the tensions between these two rather disparate drivers**, not all of the finer inconsistencies are ironed out.

- **Israel's retaliation**: The geopolitical elephant in the room is escalatory Israel-Iran conflict (migrating from proxy attacks to direct conflict). For now, Israel's strike on Hezbollah in Beirut buys times to control the escalation. But it probably has not put to bed **fears that Israel will target Iran's oil production capabilities**.

- **Oil**: **Volatile oil markets with Brent crude surging from low-\$70 to near-\$78** since the start of October is revealing. Brent crude jumping more than 10% arguably expresses elevated geo-political worries. But it **falls short of all-out conflict fears**. Rule of thumb says that **10% jump in crude "only" accounts for a ~2% supply shock**. And in any case, sub-\$80 crude is not quite "conflict price".

- **US Elections an Oil Dampener**: One source of consolation may be **particularly acute US aversion to expensive oil into US elections**, and the **attendant intervention**. Fact is, typically, in an election year, the US administration (regardless of Party) tends to dampen risks of oil price shocks. So, it is not at all inconceivable that the Biden Administration is piling pressure on Netanyahu not to attack Iran's oil facilities. But **relief** ought to be recognized as a **borrowed and unstable**. And so, **latent volatility in Oil may be far greater** as Israel-Iran tensions mount.

- **Fed Restraint**: At the same time, a **more restrained** (25bp, not 50bp cut) **iteration of Fed easing leans in favour of tactically trimming long UST and short USD bets**. This is leaning into higher UST yields, which otherwise also appear to be prioritizing oil-implied inflation risks over haven demand.

- **ISM Inconvenience**: Especially as a blockbuster outrun in ISM Services makes it inconvenient for overly dovish Fed response.

- **Jobs Volatility**: Nonetheless, the soft jobs details (slipping to 48.1 from 50.2) of ISM Services with outright contraction, **sets markets up for greater volatility if NFP jobs report swings out of "Goldilocks" range**. **Between Fed restraint and Israel-Iran retaliation**, the propensity for (two-way) volatility is accentuated.

**Yields (2Y: +6.3bps; 10Y: +6.4bps; 30Y: +4.8bps)**

- Bear steepening in UST yields mostly reflect higher Oil prices and incrementally dialled-back Fed cuts ("25, not 50" type calibration). Markets may continue to be fairly nervy ahead of US jobs report given the tensions between exceptionally strong US headlines (ISM Services), but oddly weak jobs details (of ISM). Front-end may be

exposed to a greater volatility if geopolitical risks remain under wrap.

## Crude Yield Triggers

- **UST yields are facing a good deal of tensions as latent geopolitical risks thicken**. On one hand, the *"flight to safety" instincts* often associated with "risk off" from geopolitics *suggest yields will have lower to go*. Yet, on the other, *higher oil prices* amid fears that the escalating Israel-Iran will inevitably impair the production and/or passage of crude (whether intended or inadvertent), *square with higher yields*. What's more the **expression of geopolitical "risk off"** in financial markets is fraught amid desensitized markets **prone to dislocations rather than seamless (and gradual) pricing**.

**Equities (Nasdaq: -0.0%; S&P: -0.2%; Dow: -0.4%)**

- Wall Street is in the red ahead of US jobs report and amid elevated geopolitical tensions. The latter is telling from the S&P500 energy counter defying the overall drag to rise 1.6%.

- Speaking of bucking trend, it is not just geo-politically charged oil, but the Nikkei in positive territory despite Europe and US down the day before. Japanese equities are at least partly reflecting buoyancy lent by a weaker JPY after PM Ishiba flipped his position to suggest preference for BoJ to defer hikes.

**FX (DXY: +0.3%)**

- A firmer USD reflects geo-political risk and possible Fed cut restraint; aided by weaker JPY.

## China: High Bars

- Given the confluence of **monetary bazookas backed by fiscal arsenal** and **pump-priming directed at asset markets**, the **outburst of China market optimism is hardly surprising**. *Especially from a valuation valley replete with low-hanging fruits*. **But now the bar is set to get higher**. And *unequivocal China exuberance* is potentially *vulnerable to being tempered to qualified China optimism*.

- To be sure, the **die-hard liquidity devotees** (who "follow the money") may **be happy to chase valuations higher**. Especially **given the deep relative discount** at which Chinese equities at prices (especially vis-a-vis the US). But there will **inevitably be the more cautious camp**, with a finger on (and some fretting about) the pulse of the underlying economy. And it is precisely this, poised to raise the bar on extending stimulus-driven exuberance. In particular, with **RMB10trln being bandied about as the size of the fiscal firepower** at Beijing's disposal, **the bar is arguably already raised**. Point being, **anything that falls significantly short of this high bar could inevitably disappoint**. And this *not only pertains to the size of the various programs* announced in the headlines. Instead, it also applies to the *execution of these programs in terms of timeline* (of the spending) and target(ed beneficiaries). Crucially, **whether and how these programs are to be (fully) funded** will also feature as a key factor that **determines confidence in the stimulus**. For now, *CNH bulls have reasons to be more cautious, if not stand down* as Fed restraint and geopolitical risks underpin the Greenback in any case.

## DATA/EVENTS

Yesterday/Overnight	Actual	Exp.	Prior
(AU) Trade Balance (Aug)	A\$5644m	A\$5500m	A\$5636m
(US) Initial Jobless Claims	225k	221k	219k
(US) Durable Goods Orders (Aug F)	0.0%	0.0%	0.0%
(US) ISM Services Index (Sep)	54.9	51.7	51.5
(US) ISM Services Prices Paid (Sep)	59.4	56.0	57.3
(US) Factory Orders (Aug)	-0.2%	0.1%	4.9%
(EZ) PPI YoY (Aug)	-2.3%	-2.3%	-2.2%

## Today/Over the weekend

(SG) Retail Sales/Ex Auto YOY (Aug)	0.2%/	1.0%/-2.3%
(PH) CPI YoY (Sep)	2.5%	3.3%
(US) Change in Nonfarm Payrolls (Sep)	150k	142k
(US) Unemployment Rate (Sep)	4.2%	4.2%
(VN) Trade Balance (Sep)	\$2425m	\$4530m
(VN) Industrial Production YoY (Sep)	--	9.5%/7.9%
(VN) Retail Sales YoY (Sep)	--	6.9%
(VN) CPI YoY (Sep)	2.7%	3.5%
(VN) GDP YoY (3Q)	6.0%	6.9%

## FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	146.93	146.82	+0.31%	144.50 - 149.00
EURUSD	1.1031	1.1036	▼0.13%	1.0950 - 1.1150
GBPUSD	1.3124	1.3131	▼1.09%	1.2950 - 1.3250
AUDUSD	0.6840	0.6850	▼0.65%	0.6800 - 0.6900
DX	102.0	--	+0.31%	101.4 - 102.5
USDCNY	7.0187	--	+0.00%	6.9800 - 7.0500
USDCNH	7.0515	7.0480	+0.21%	7.0200 - 7.0900
USDHKD	7.7642	7.7654	+0.01%	7.7500 - 7.7800
USDSGD	1.2974	1.2966	+0.43%	1.2840 - 1.3100
USDKRW	1333	1335	+0.00%	1310 - 1345
USDTWD	31.85	--	+0.00%	31.60 - 32.20
USDINR	83.97	--	+0.18%	83.70 - 84.10
USDIDR	15420	--	+1.02%	15250 - 15550
USDMYR	4.222	4.221	+1.10%	4.180 - 4.260
USDPHP	56.39	--	+0.39%	56.10 - 57.00
USDTHB	33.10	33.12	+1.01%	32.80 - 33.60
USDVND	24755	24756	+0.43%	24650 - 24900

\*Open is as at 8am HKT/SGT.

## MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.706	3.847	6.3	6.4
JGB (JP)	0.360	0.819	-0.5	0.0
Bunds (GE)	2.077	2.143	4.2	5.4
Gilts (UK)	3.965	4.015	-4.9	-1.0
AGB (AU)	3.606	4.010	4.2	5.8
SGS (SG)	2.515	2.681	4.5	4.6
CGB (CN)	1.432	2.168	0.0	0.0
KGB (KR)	2.959	2.802	4.8	6.3
SDL (IN)	6.776	6.655	-0.2	-0.5

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	162.09	162.03	+0.20%
GBP/JPY	192.844	192.775	▼0.76%
JPY/SGD (100yen)	0.883	0.8832	+0.10%
JPY/HKD (100yen)	5.2838	5.2892	▼0.31%
CNH/JPY	20.918	20.915	+0.39%
CNH/HKD	1.1065	1.1064	+0.00%
EUR/GBP	0.84048	0.84049	+0.96%
AUD/NZD	1.101	1.1018	+0.15%
EUR/CNH	7.7805	7.7785	+0.09%
GBP/CNH	9.2547	9.2544	▼0.87%

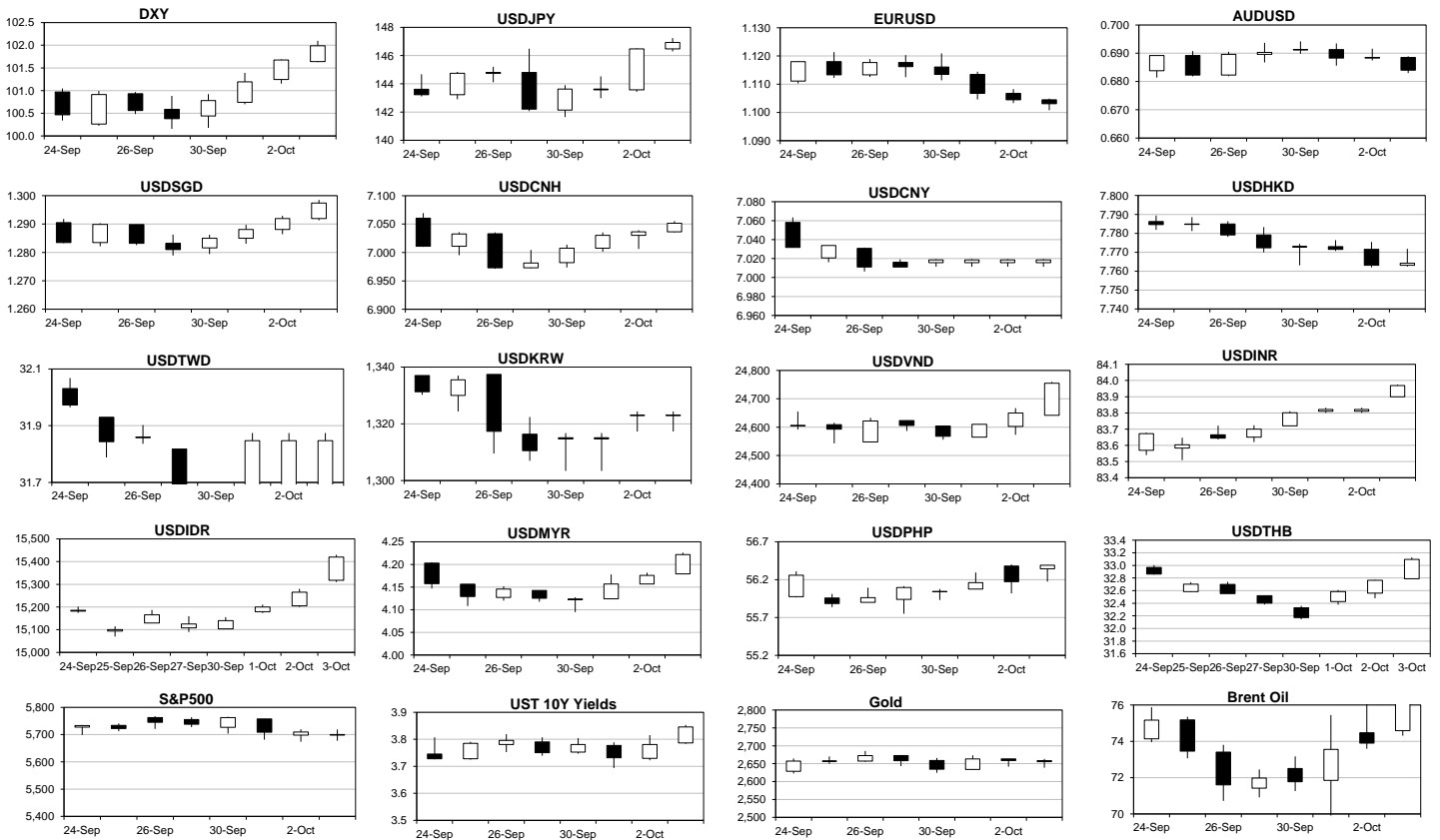
\*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5699.94	-9.60	▼0.17%
Nasdaq (US)	17918.47	-6.65	▼0.04%
DJIA (US)	42011.59	-184.93	▼0.44%
N225 (JP)	38552.06	743.30	+1.97%
STOXX50 (EU)	4921.33	-41.96	▼0.85%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4523.17	-4.97	▼0.11%
STI (SG)	3577.43	-7.24	▼0.20%
SHCOMP (CN)	3336.497	0.00	+0.00%
SZCOMP (CN)	1927.476	0.00	+0.00%
HSI (HK)	22113.51	-330.22	▼1.47%
SENSEX (IN)	82497.1	-1769.19	▼2.10%
JSE (ID)	7543.828	-19.43	▼0.26%
KLSE (MY)	1641.55	2.24	+0.14%
PSE (PH)	7388.92	-13.89	▼0.19%
SET (TH)	1442.73	-8.67	▼0.60%
VNINDEX (VN)	1278.1	-0.01	▼0.76%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,717.92	-225.42	▼2.27%
IRON ORE (CN)	109.12	15.89	+0.79%
GOLD	2,655.89	-2.80	▼0.11%
SILVER	32.02	0.08	+2.91%
OIL (BRENT)	77.62	3.72	+5.03%
OIL (WTI)	73.71	3.61	+5.15%
NATURAL GAS	2.97	0.19	+0.58%

## CHARTS



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