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Three Take-Aways

1) **In-principle Hormuz passage agreed on by Iran-Oman**, keeps **crude prices subdued** (sub-$80 Brent). But Iran's allusion to "*certain third parties .. obstruct(ing)*" an imminent deal stall further drop in Oil.

2) **Resilience in US ISM services** data, while a welcome relief, **does not absolve the stagflation-type risks** buried in surging price sub-index amid softening employment sub-index.

3) Meanwhile Fed response function evolves (but tensions do not resolve) with in-coming data. But softer UST yields buy space for USD/JPY to acclimatize 157-158.

MACRO THEME: Hormuz Passage Deal Anticipation

- **Iran and Oman** have reportedly **agreed on a proposed shipping route through** the Straits of **Hormuz**.

- The good news is that Iran has described the **negotiations on the Hormuz shipping route** with Oman as "*forward moving*", **helping to hold sub-$80 Brent price**.

- But Iran's allusion to the deal being delayed by "*certain third parties … (that) obstruct this process*" reveal **unresolved underlying tensions** – partly explaining absence of more significant slide in crude prices. Which suggests that there may be **some residual risks premium even when the Iran-Oman Hormuz shipping passage deal is made**.

But Relief May Be Conditional & Temporary

- Especially with **Iran qualifying** that the **deal on a Hormuz route is a precondition for**, *not a guarantee of,* **imminent Hormuz re-opening**. Specifically, suggesting that **unfettered Hormuz re-opening remains conditional on** "*a change in US behavior*".

- What's more, **Iran's Deputy Foreign Minister Gharibabadi** has warned that any Iran-Oman agreed Hormuz passage will be a "*temporary route*" for 2-4 months.

- The bigger picture being that Hormuz passage **may persist as a flash point as Iran flaunts it as** a key bargaining chip in broader, on-going negotiations with the US.

Crude Papering Over Cracks

- Crucially, *even without considering shipping risks,* **crude** (**Brent**) **paints too optimistic a picture of realized relief** from ***effective* energy price risks**.

- Point being, *cracks* (premium for refined products over crude) are *far stickier than crude* despite prospects of re-opening the Hormuz.

- Notably, effective **diesel and jet fuel costs remain remarkably elevated** (~$145/bbl), *consistent with $120-125 Brent crude* (controlled for $20-25 pre-Iran cracks).

- Upshot: "**Energy shock" relief is overstated by paper crude**, whereas the ***grimmer realities*** *of delivery lags, refining capacity constraints* (or compromised) are ***better captured in cracks****.*

- In turn, this could mean **greater near-term front-end yield volatility** based on evolving policy response expectations, while a **steeper curve takes shape on stickier effective energy costs**.

(US ISM) Service Without a Smile

- Meanwhile, ***apart from "Hormuz relief" hopes***, **resilient US ISM Services headline** (steadying around 54.1 vs. 54.0 in June) lent itself to the **Dow Jones pushing another record close**.

- For the record, **S&P500 (-0.2%)** and **Nasdaq (-0.8%) slipped**, but this was **on marginal tech jitters** edging out macro-optimism.

- Nonetheless, the **details of US ISM Services revealing** an **accentuation**, rather than alleviation, **of stagflation-type forces *wipes the smile off the service***.

- Specifically, as the *prices paid sub-index* defying expectation of softening to *surge* (to 70.3 from 67.7) while the *employment sub-index slumped to a contraction of 47.4* (from 51.2).

Accentuating Fed Conundrum

- Effectively, the **opposing (inflation-jobs) risks** inferred from stagflation-type US-ISM details **further cloud the Fed's calculus**.

- **But** trouble is, *after July's stumbling post-FOMC presser* that **inadvertently undermined Fed credibility** (in pre-emptively and resolutely tackling inflation), the **Fed's space to patiently better assess in-coming evidence** is **arguably compromised** at the margin.

- Point being, **markets' 55% probability pricing of a September hike has incrementally drifted from perdition to policy pressure**.

- In turn, this means that **in a worse case scenario**, a failure to hike now carried implicit threat of long-end yield surge.

- *Unless* a *sharp decline in oil prices* from significantly alleviated "Iran-Hormuz" risks *provide solid grounds to convincingly dial-back assessed forward-looking inflation risks.*

- Given that policy optionality is any central bank's most precious asset, having to rely on geo-political externalities for this is not ideal.

Post-Intervention JPY Relief & Perverse Reassurance

- To be sure, softer **UST yields on Oil's decline has help post-intervention USD/JPY** (JPY) **organically acclimatize at softer** (firmer) **157-158 levels**.

- Nonetheless, and *perversely,* the **Fed's conundrum** *accentuating risks of further long-end UST yield surge* may be deemed **as reassuringly greater deterrence for JPY bears**.

- Point being, **a US Treasury that is more sensitive to sell-off in USTs** (surge in US yields) may be **more inclined to engage in coordinated JPY intervention**.

- Specifically, **so as to prevent Japan's MoF from selling USTs to fund unilateral intervention**.

Yields (2Y: 1.0bp; 10Y: 0bp; 30Y: -1.0bp)

Equities (Nasdaq: -0.8%; S&P500: -0.2%; Dow: +0.5%)

FX (DXY: -0.2%)

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(US) ADP Employment Change (Jul)	44k	65k	98k
(US) ISM Services/Prices Paid (Jul)	54.1/70.3	54.5/65.0	54.0/67.7
(CH) RatingDog China PMI Services (Jul)	5040.0%	5370.0%	5410.0%
(ID) GDP YoY/QoQ (2Q)	5.3% /3.6%	5.1%/3.6%	5.6%/-0.8%
(IN) RBI Repurchase Rate	**5.25%**	**5.25%**	**5.25%**
(PH) CPI YoY (Jul)	**6.2%**	**6.4%**	**6.4%**
(TH) CPI/Core YoY (Jul)	**2.0%/1.3%**	**2.4%/1.3%**	**2.4%/1.2%**
Today	**Actual**	**Exp.**	**Prior**
(US) Initial Jobless Claims		**--**	**197k**
(US) Wholesale Inventories MoM (Jun F)		--	0.3%
(EZ) ECB Publishes Economic Bulletin			
(EZ) Retail Sales MoM (Jun)		0.1%	0.2%
(AU) Trade Balance (Jun)		-A$1080m	-A$3018m
(KR) BoP Current Account Balance (Jun)		--	$38607.4m
(PH) Unemployment Rate (Jun)		**--**	4.8%
(TW) PPI YoY (Jul)		--	15.1%
(TW) CPI/Core YoY (Jul)		**2.5%/2.3%**	**2.6%/2.5%**

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast		
USDJPY	157.75	157.62	+0.00%	156.50	-	159.00
EURUSD	1.1553	1.1557	+0.19%	1.1460	-	1.1630
GBPUSD	1.3468	1.3469	+0.12%	1.3360	-	1.3550
AUDUSD	0.7058	0.7057	+0.17%	0.6990	-	0.7100
DXY	99.7	--	▼0.18%	99.2	-	100.5
USDCNY	6.7491	--	▼0.00%	6.7300	-	6.8100
USDCNH	6.7482	6.7468	+0.00%	6.7300	-	6.8100
USDHKD	7.8439	7.8436	+0.02%	7.8200	-	7.8500
USDSGD	1.2810	1.2808	▼0.09%	1.2750	-	1.2880
USDKRW	1423	1421	+0.00%	1410	-	1430
USDTWD	32.30	--	▼0.50%	32.10	-	32.60
USDINR	95.13	--	▼0.27%	94.70	-	95.60
USDIDR	17930	--	▼0.52%	17800	-	18050
USDMYR	4.094	4.089	▼0.09%	4.070	-	4.110
USDPHP	60.76	--	▼0.70%	60.30	-	61.20
USDTHB	33.21	33.07	▼0.61%	32.9	-	33.3
USDVND	26268	26266	▼0.04%	26100	-	26450

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.183	4.615	-1.0	0.0
JGB (JP)	1.569	2.809	0.6	-3.2
Bunds (GE)	2.728	3.110	1.5	0.4
Gilts (UK)	4.238	4.890	0.5	-0.6
AGB (AU)	4.499	4.907	-5.1	-6.4
SGS (SG)	1.655	2.273	-3.5	-6.6
CGB (CN)	1.247	1.706	-0.5	0.2
KGB (KR)	3.716	4.335	0.0	0.0
SDL (IN)	6.128	6.772	-5.1	-4.3

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	7723.55	-12.97	▼0.17%
Nasdaq (US)	26363.44	-221.55	▼0.83%
DJIA (US)	54349.12	263.24	+0.49%
N225 (JP)	66300.44	2342.91	+3.66%
STOXX50 (EU)	6476.98	-9.72	▼0.15%

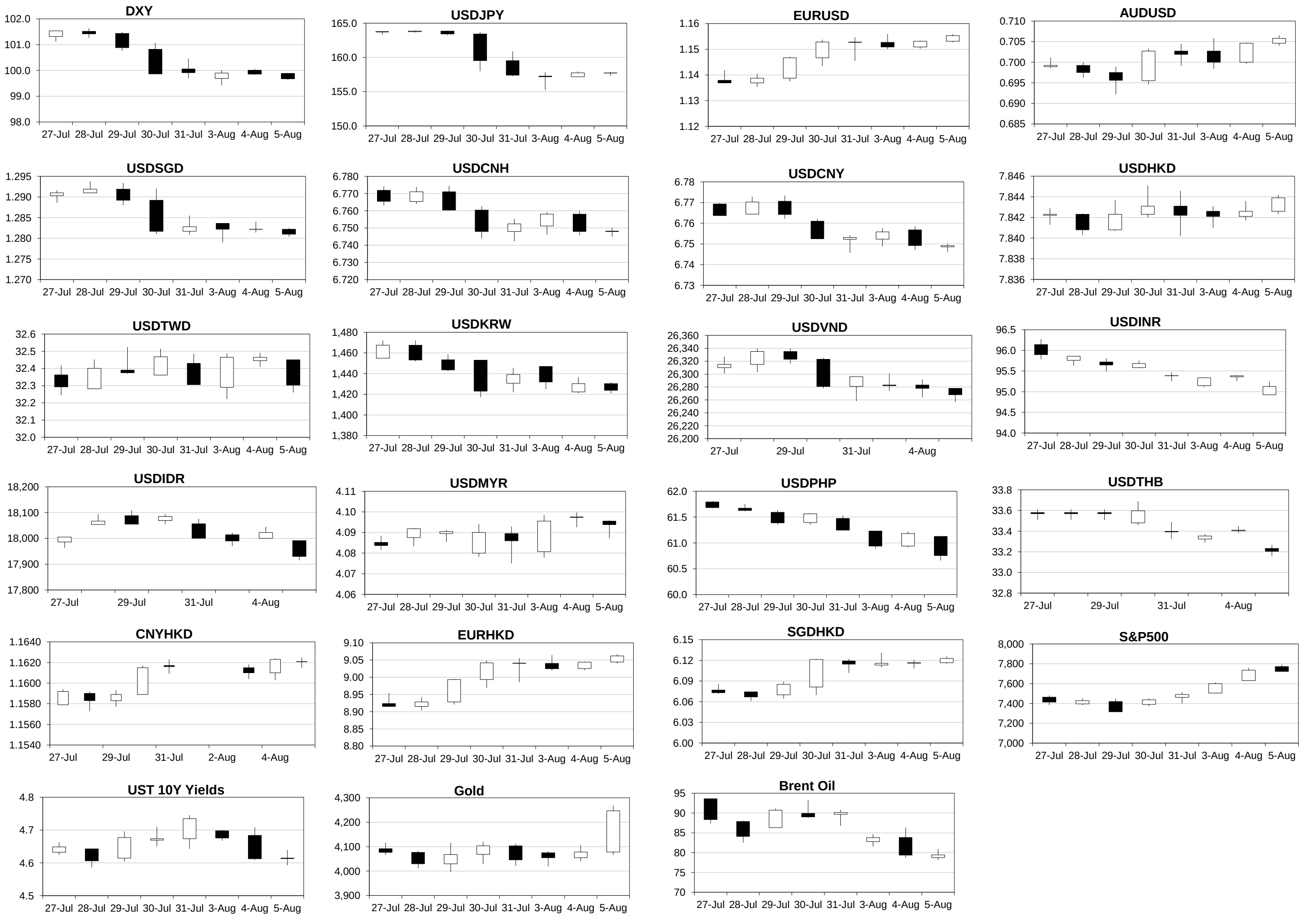
Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	14,218.65	49.77	+0.35%
IRON ORE (CN)	94.10	-4.10	+0.48%
GOLD	4,246.82	168.83	+4.14%
SILVER	62.05	0.01	+0.22%
OIL (BRENT)	79.45	0.09	+0.11%
OIL (WTI)	75.22	-0.55	▼0.73%
NATURAL GAS	2.69	2.49	+4.19%

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	182.26	182.16	+0.21%
GBP/JPY	212.461	212.298	+0.13%
JPY/SGD (100yen)	0.812	0.8127	▼0.11%
JPY/HKD (100yen)	4.9718	4.9763	▼0.00%
CNH/JPY	23.359	23.353	▼0.01%
CNH/HKD	1.1621	1.1621	▼0.02%
EUR/GBP	0.85783	0.85804	+0.07%
AUD/NZD	1.1988	1.1987	+0.28%
EUR/CNH	7.7964	7.7973	+0.19%
GBP/CNH	9.0883	9.0873	+0.12%
CNY/HKD	1.1621	1.1621	▼0.02%
EUR/HKD	9.0621	9.0648	+0.20%
SGD/HKD	6.1228	6.1237	+0.10%

*Open is as at 8am HKT/SGT.

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5864.06	8.89	+0.15%
STI (SG)	5581.37	-30.88	▼0.55%
SHCOMP (CN)	3878.43	56.15	+1.47%
SZCOMP (CN)	2537.553	51.45	+2.07%
HSI (HK)	25915.82	62.90	+0.24%
SENSEX (IN)	78581	152.05	+0.19%
JSE (ID)	6351.139	31.53	+0.50%
KLSE (MY)	1748.17	15.51	+0.90%
PSE (PH)	6286.31	-10.33	▼0.16%
SET (TH)	1609.78	-7.35	▼0.45%
VNINDEX (VN)	1776.46	0.00	▼0.04%

CHARTS



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