

Aug 13, 2026

Three Take-Aways

- 1) Softer US inflation**, both in the headline and core, provides **comfort** that inflation is **not re-accelerating dangerously**, although pipeline risks from energy and “chip-flation” remain.
- Alongside concerningly soft jobs (NFP) expectations for an **urgent Sep hike** are **diminished**. But measured (1-2bp) drop in UST yields suggest **Warsh has work to do on credibility starting with Jackson Hole**.
- With (USD/JPY) **approaching 160**, intervention risks/expectations rise. Key question though is whether US will “lean in” given US-Japan departure on BoJ (expectations).

MACRO THEME: Inflation Warsh-ing Out September Hike

- Appreciable **cooling in US (core) inflation** is **just the break** that the **FedChair Warsh needed to “unpaint” itself out of the hike corner** (for the September FOMC). Point being, a highly moderated **0.1%/0.2% MoM** pace of headline/core inflation provides sufficient **comfort** that **inflation is not imminently re-accelerating**. Which means the **hawkish narrative of accelerating inflation feeding off, and into, demand-pull risks** is **at least temporarily assuaged**. And arguably **even more so** when **coupled with the distinct soft spots in recent jobs data**. Which in turn means that the **urgency to get ahead of re-accelerating inflation with a September hike** is **sufficiently diminished**. The upshot is that this **provides critical policy space for the Fed** and, in particular, **for Warsh to re-establish credibility without conceding control** over narrative and policy calculus.

Allays, But Does Not Eliminate, “Behind the Curve” Fears

- Consequently, this **should help to rein in aggressive bear steepening as the worst of “behind the curve on inflation” fears are checked**. And **despite softer yields** this should be **accretive for USD**, **diminishing allure for debasement hedges such as Gold**.

- Nonetheless, **diminished Sep hike bets** (from ~50% to below 40%) by forward markets **have not dramatically reduced expectations for cumulative 50bp of hikes by mid-2027**.

- And with good reasons as the **rolling “Iran-Hormuz” crisis** and **“chip-flation”** – the **surge in prices of computers and mobile devices due to AI boom demand** – **warn of persistent pipeline inflaton risks**. Accordingly, the **relief in front-end yields post-CPI has been fairly modest (~2bp softer)**, while the 10Y is only fractionally below 4.7%.

Not a (Jackson) Hole-in-One (for UST bulls)

- This subdued lift in USTs (fall in yields) alongside tentative inflation relief is a **sobering reminder** that **Warsh is not absolved of the need to establish inflation-fighting credibility**. And **without the benefit** - relinquished by his choice - of **“forward guidance”**, this could **arguably prove to be a higher bar**.

- The best **opportunity for this** is at the **Jackson Hole** symposium later this month (27-29 Aug). Where **well though-out view in inflation drivers and assurances that the Fed will not be outsourcing requisite tightening to markets** may be the **bare minimum avert adverse responses to a September hold**.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(US) CPI/Core YoY (Jul)	3.4%/2.5%	3.4%/2.5%	3.5%/2.6%
(US) Real Avg Weekly Earnings YoY (Jul)	0.1%	--	0.2%
(US) Federal Budget Balance (Jul)	-\$432.3b	-\$346.0b	-\$291.1b
(JP) Machine Tool Orders YoY (Jun P)	50.4%	--	52.7%
(IN) CPI YoY (Jul)	4.5%	4.4%	4.4%
(KR) Unemployment rate SA (Jul)	2.8%	2.7%	2.7%
Today	Actual	Exp.	Prior
(US) Initial Jobless Claims		202k	199k
(US) PPI Final Demand/Ex Food and Energy YoY (Jul)		4.8%/4.2%	5.5%/4.7%
(EZ) Industrial Production WDA YoY (Jun)		-0.6%	-1.2%
(JP) PPI YoY (Jul)	7.2%	7.4%	7.3%
(TH) Consumer Confidence Economic (Jul)		--	44.1
(IN) Exports/Imports YoY (Jul)		--	15.5%/31.0%

JPY Intervention Risks (to Markets & MoF)

- **Speaking of policy credibility**, **USD/JPY re-approaching 160** (from post-intervention 156 lows), could **inadvertently** be a **test of commitment to intervention**. Markets may brace for intervention, **given wide-spread perceptions that the MoF is averse to pushing past 160 towards 165**. Inevitably, **Japan's MoF** could find itself **in an unenviable bind** at this juncture. With **BoJ's abstinence from a rate hike last month also subject to unwelcome glare**. **Measured intervention** that only modestly contains/softens may establish the 160 barrier **could entail unduly high cost** and crucially, **risk diminishing efficacy of future intervention**. But **failure to intervene risks**

- **emboldening speculators** to ramp up on future bearish JPY bets – **amplifying JPY stability risks** – and;
- **potentially accentuate adverse JPY reflexivity** – **driving up the costs of future intervention**.

- **Especially if markets suspect** (and hence test) that **US backing for (coordinated) intervention** is diminished

The US-Japan Departure

- This **decoupling of US-Japan coordination** on JPY intervention is **purportedly due to difference in BoJ views/prescriptions**.

- US Treasury Secretary **Bessent's unwelcome public pressure that the BoJ is behind the curve**, **insinuating a need for more catch-up hikes, dangerously undermines the BoJ's credibility and independence**. Whereas **FinMin Katayama** ostensibly **prefers a calibrated BoJ** that is **not unnecessarily hamstrung by the burden of JPY defense** but crucially **stressing on BoJ independence in public comments**. The risk is that if markets **smell BoJ policy differences diluting incentives for coordinated interventions**, **JPY may be subject to fresh pressures** as markets test (MoF) resolve and resource constraints.

... & BoJ Dilemma of “Too Much, Yet Too Little”.

- Trouble is that **arguments of whether the BoJ is behind the curve miss a critical point on whether BoJ hikes would be sufficient to support the JPY**. These are distinctly different issues. And the short answer is “No” – **BoJ hikes are unlikely to help the JPY**.

- The tyranny of the BoJ's sharpening policy trade offs is that **anything between 2-3 rate hikes**, the assumed upper limits of the BoJ's appetite for hikes will be **“too much, yet too little”**. That is, invariable prove to be **too much for the economy to bear, but too little to shore up the JPY**. In fact, consequent **surge in JGB term premium sending long-end yields up another 30-100bps (from 25-75bps of hikes)** could **perversely correspond to further JPY pressures**. Specifically, as **associated fiscal pain** (from debt burden) **overwhelms the expected support from rate differentials** (which will inevitably continue to fall short of being expressly advantageous to JPY).

Yields (2Y: -1.4bp; 10Y: +0.5bp; 30Y: +1.7bp)

Equities (Nasdaq: +0.5%; S&P500: +0.3%; Dow: -0.04%)

FX (DXY: +0.2%)

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	159.42	159.34	+0.09%	158.50 - 160.00
EURUSD	1.1526	1.1528	▼0.14%	1.1460 - 1.1630
GBPUSD	1.3495	1.3497	▼0.09%	1.3390 - 1.3600
AUDUSD	0.7062	0.7063	+0.00%	0.7020 - 0.7110
DXY	100.0	--	+0.19%	99.2 - 100.5
USDCNY	6.7449	--	▼0.01%	6.7100 - 6.8000
USDCNH	6.7459	6.7440	▼0.01%	6.7100 - 6.8000
USDHKD	7.8471	7.8467	+0.01%	7.8200 - 7.8500
USDSGD	1.2806	1.2800	+0.07%	1.2720 - 1.2890
USDKRW	1415	1417	+0.00%	1405 - 1429
USDTWD	32.25	--	▼0.11%	32.10 - 32.50
USDINR	95.33	--	▼0.12%	94.80 - 95.90
USDIDR	17875	--	+0.20%	17750 - 18000
USDMYR	4.085	4.090	▼0.17%	4.060 - 4.120
USDPHP	61.19	--	▼0.12%	60.70 - 61.70
USDTHB	33.16	33.09	+0.00%	32.8 - 33.4
USDVND	26125	26111	▼0.05%	25900 - 26350

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.202	4.695	-1.4	0.5
JGB (JP)	1.638	2.845	2.4	3.6
Bunds (GE)	2.786	3.159	-0.1	0.2
Gilts (UK)	4.314	4.970	0.4	0.6
AGB (AU)	4.575	5.025	-1.3	-1.0
SGS (SG)	1.663	2.270	-2.8	-3.5
CGB (CN)	1.244	1.702	-0.3	-0.4
KGB (KR)	3.647	4.304	0.9	0.0
SDL (IN)	6.117	6.778	-5.4	-0.1

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	7748.5	20.30	+0.26%
Nasdaq (US)	26588.49	143.04	+0.54%
DJIA (US)	53770.27	-21.58	▼0.04%
N225 (JP)	67524.06	553.84	+0.83%
STOXX50 (EU)	6533.99	-17.23	▼0.26%

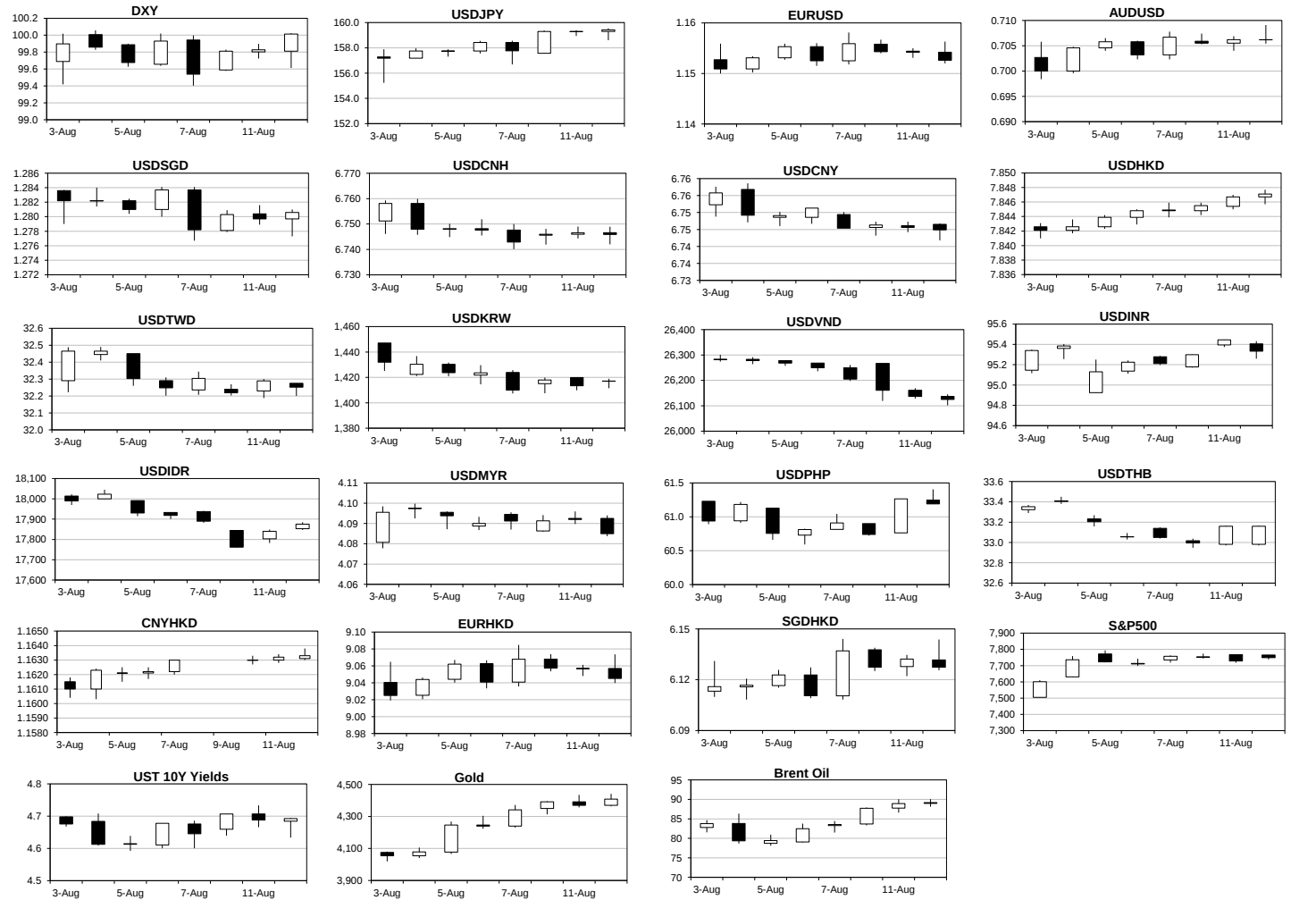
Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	14,294.25	-58.11	▼0.40%
IRON ORE (CN)	95.35	1.25	+0.01%
GOLD	4,408.29	38.18	+0.87%
SILVER	65.32	0.04	+1.34%
OIL (BRENT)	88.98	0.07	+0.08%
OIL (WTI)	83.27	0.07	+0.08%
NATURAL GAS	2.80	0.64	+0.99%

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	183.75	183.68	▼0.05%
GBP/JPY	215.148	215.065	▼0.01%
JPY/SGD (100yen)	0.8033	0.8033	+0.00%
JPY/HKD (100yen)	4.9222	4.9245	▼0.07%
CNH/JPY	23.644	23.621	+0.14%
CNH/HKD	1.1633	1.1632	+0.01%
EUR/GBP	0.854	0.85407	▼0.05%
AUD/NZD	1.2055	1.2054	+0.40%
EUR/CNH	7.7769	7.7743	▼0.13%
GBP/CNH	9.1041	9.1026	▼0.10%
CNY/HKD	1.1633	1.1632	+0.01%
EUR/HKD	9.0452	9.0455	▼0.13%
SGD/HKD	6.1274	6.1303	▼0.08%

*Open is as at 8am HKT/SGT.

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5843.1	-4.80	▼0.08%
STI (SG)	5720.75	-33.42	▼0.58%
SHCOMP (CN)	3946.675	12.58	+0.32%
SZCOMP (CN)	2606.988	29.37	+1.14%
HSI (HK)	25440.17	-212.65	▼0.83%
SENSEX (IN)	77966.35	-187.90	▼0.24%
JSE (ID)	6373.849	105.97	+1.69%
KLSE (MY)	1741.61	10.15	+0.59%
PSE (PH)	6366.64	39.75	+0.63%
SET (TH)	1612.62	0.00	+0.00%
VNINDEX (VN)	1793.18	0.01	+1.11%

CHARTS



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