Mizuho Daily

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Three Take-Aways

1) Rising geopolitical tensions in the Middle East and climbing long-end UST yields are tightening financial conditions globally, posing renewed headwinds for EM Asia FX.

2) Malaysia's July CPI remains consistent with a BNM hold for now, although emerging food and energy-related pressures suggest inflation risks are gradually tilting higher.

3) BI is likely to remain on hold amid a leadership transition, relying on FX stabilisation tools but future tightening is likely required should IDR pressures re-emerge.

MACRO THEME: Deadlines and Duration

- US equities fell overnight and oil gained with Brent crude touching US$90 per barrel after **President Trump signaled he was in no rush to end the war with Iran**, citing the effectiveness of the US naval blockade and warning that Oman could become a target if it obstructs US operations.

- Trump also confirmed **he would not extend the June MoU** that had provided a 60-day window for the negotiation of a lasting truce after it expired last night.

- Meanwhile, talks between Iran and Oman continued, with Iranian officials indicating that a "shipping map" for Hormuz transit routes has been finalised as part of a broader framework, although **negotiations remain ongoing and do not necessarily imply a reopening of the waterway.**

- Coupled with renewed fighting in Lebanon over the weekend, the absence of direct US-Iran engagement and Trump's threat against Oman point to **growing risks of a broader regional conflict.**

Long End Under Pressure

- **Long-dated Treasury yields continued to climb, with the 30Y UST yield rising above 5.3%, its highest level since 2007,** amid concerns over persistent inflation and heavy long-end supply, resulting in a further bear steepening of the curve.

- This comes amid **increased competition for capital** as AI hyperscalers tap bond markets in record size, potentially diverting investor demand away from government debt.

- This runs counter to expectations that the Trump administration's fiscal agenda would lower long-term interest rates through reduced government spending and inflation, with **higher rates rippling through to higher mortgage rates for households and increased borrowing costs for corporates.**

- On the fiscal side, higher UST yields could **exacerbate concerns over the sustainability of the US fiscal trajectory**, with net interest payments on federal debt rising 14% YoY in the first ten months of FY2026 to US$963bn, exceeding military spending over the same period by around US$200bn.

- The combination of **elevated Treasury yields and firmer oil prices is likely to weigh on EM-Asia FX**, particularly among net energy importers such as the INR, PHP and IDR.

***Yields** (2Y: +0.6bp; 10Y: +3.0bp; 30Y: +4.7bp)*

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

***FX** (DXY: -0.03%)*

Malaysia July CPI: Inflation Risks Tilt Modestly Higher

- **Malaysia's July CPI printed at 1.8% YoY** and was unchanged MoM, coming in slightly below expectations.

- **Higher food prices were the main driver of inflation**, with food at home and food away from home contributing 0.20%-pt and 0.44%-pt respectively, partly reflecting higher chicken prices amid rising feed costs.

- Housing and utilities also contributed 0.41%-pt to the print, largely due to a second month of increases in automatic fuel adjustment surcharges for domestic electricity users with higher consumption.

- **These pressures were partly offset by softer transport inflation**, driven by lower unsubsidised fuel prices and the reintroduction of the BUDI diesel subsidy programme nationwide.

- While the latest inflation print remains consistent with a hold by BNM, the **balance of risks appears to be shifting modestly to the upside**. with potential El Nino-related disruptions potentially placing further pressure on food prices.

- Upside in GDP growth in recent quarters provides **BNM with the policy space to respond should inflationary pressures intensify.**

BI: Patience Amid Change in Leadership

- We expect BI to **hold its policy rate** at this meeting, in line with consensus expectations. The decision comes **amid a leadership transition**, with Acting Governor Destry Damayanti widely expected to succeed Perry Warjiyo after emerging as the sole nominee for the role.

- In the near term, **Damayanti's priority is likely to be reinforcing policy credibility and stability.** The nomination of senior BI officials to fill positions vacated by her promotion also reflects a broader preference for continuity. **Maintaining a measured stance would be consistent with balancing monetary and financial stability against the government's growth ambitions.**

- Such an approach is also supported by **the absence of compelling reasons for tightening at this meeting.** The IDR has posted a modest gain since the previous BI meeting, although this was likely aided by softer oil prices.

- Meanwhile, **domestic conditions also point against further tightening**. Growth moderated to 5.3% YoY in Q2 due to softer private consumption and a larger drag from imports, while inflation remains contained. Inflation is also likely to stay within the upper end of BI's target range in the near term.

- Amid this backdrop, **BI can afford to remain patient and rely on complementary measures** such as heavier SRBI issuance and a lower hedging swap rate to support the currency. That said, we view **the hold as a pause rather than the end of the tightening cycle, and continue to expect two further rate hikes to support the IDR.**

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(US) Empire Manufacturing (Aug)	**20.6**	10.0	15.6
(JP) GDP SA QoQ (2Q P)	0.3%	0.5%	0.5%
(CH) Industrial Production/Retail Sales Yo'	4.5%/0.6%	5.0%/1.5%	5.3%/1.0%
(CH) New/Used Home Prices MoM (Jul)	-0.2%/-0.3%	--	-0.2%/-0.3%
(CH) FAI Ex Rural/Property Investment YTD Yo	-6.7%/-19.2%	-6.2%/-18.9%	-5.7%/-18.0%
(MY) CPI YoY (Jul)	**1.8%**	**1.9%**	**1.9%**
(TH) GDP YoY/SA QoQ (2Q)	**1.9%/-0.2%**	**1.8%/-0.4%**	**2.8%/0.6%**
(PH) Overseas Cash Remittances YoY (Jun)	1.7%	2.0%	2.0%

Today	Actual	Exp.	Prior
(US) Housing Starts/Building Permits (Jul/Jul P)		1348k/1367k	1427k/1374k
(US) Import Price Index MoM (Jul)		0.1%	0.3%
(US) Industrial Production MoM (Jul)		0.3%	0.1%
(US) Pending Home Sales MoM (Jul)		-0.4%	-5.4%
(GE) ZEW Survey Current Situation/Expectations (Aug)		-69.8/30.0	-77.6/26.3

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast		
USDJPY	159.46	159.34	+0.09%	158.50	-	160.20
EURUSD	1.1580	1.1583	+0.09%	1.1500	-	1.1650
GBPUSD	1.3544	1.3550	+0.04%	1.3450	-	1.3630
AUDUSD	0.7105	0.7108	+0.30%	0.7050	-	0.7150
DXY	99.6	--	▼0.03%	99.1	-	100.2
USDCNY	6.7408	--	▼0.03%	6.7100	-	6.8000
USDCNH	6.7431	6.7429	▼0.02%	6.7100	-	6.8000
USDHKD	7.8442	7.8443	▼0.04%	7.8200	-	7.8500
USDSGD	1.2776	1.2774	▼0.07%	1.2700	-	1.2850
USDKRW	1412	1415	+0.00%	1405	-	1425
USDTWD	31.84	--	▼0.61%	31.60	-	32.10
USDINR	95.61	--	+0.18%	94.90	-	96.20
USDIDR	17825	--	+0.00%	17700	-	17950
USDMYR	4.061	4.060	▼0.62%	4.030		4.090
USDPHP	61.48	--	+0.06%	61.00	-	61.90
USDTHB	33.00	33.03	▼0.47%	32.8	-	33.3
USDVND	26204	26207	+0.23%	26000	-	26400

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.177	4.723	0.6	3.0
JGB (JP)	1.685	2.914	2.6	4.2
Bunds (GE)	2.800	3.220	0.4	1.7
Gilts (UK)	4.364	5.059	1.1	2.3
AGB (AU)	4.572	5.043	2.1	3.6
SGS (SG)	1.642	2.282	0.2	2.3
CGB (CN)	1.229	1.678	-0.7	-0.3
KGB (KR)	3.644	4.313	0.0	0.0
SDL (IN)	6.189	6.807	4.9	4.9

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	7745.06	-40.70	▼0.52%
Nasdaq (US)	26644.91	-84.25	▼0.32%
DJIA (US)	53459.78	-272.63	▼0.51%
N225 (JP)	69220.25	506.45	+0.74%
STOXX50 (EU)	6530.45	-9.14	▼0.14%

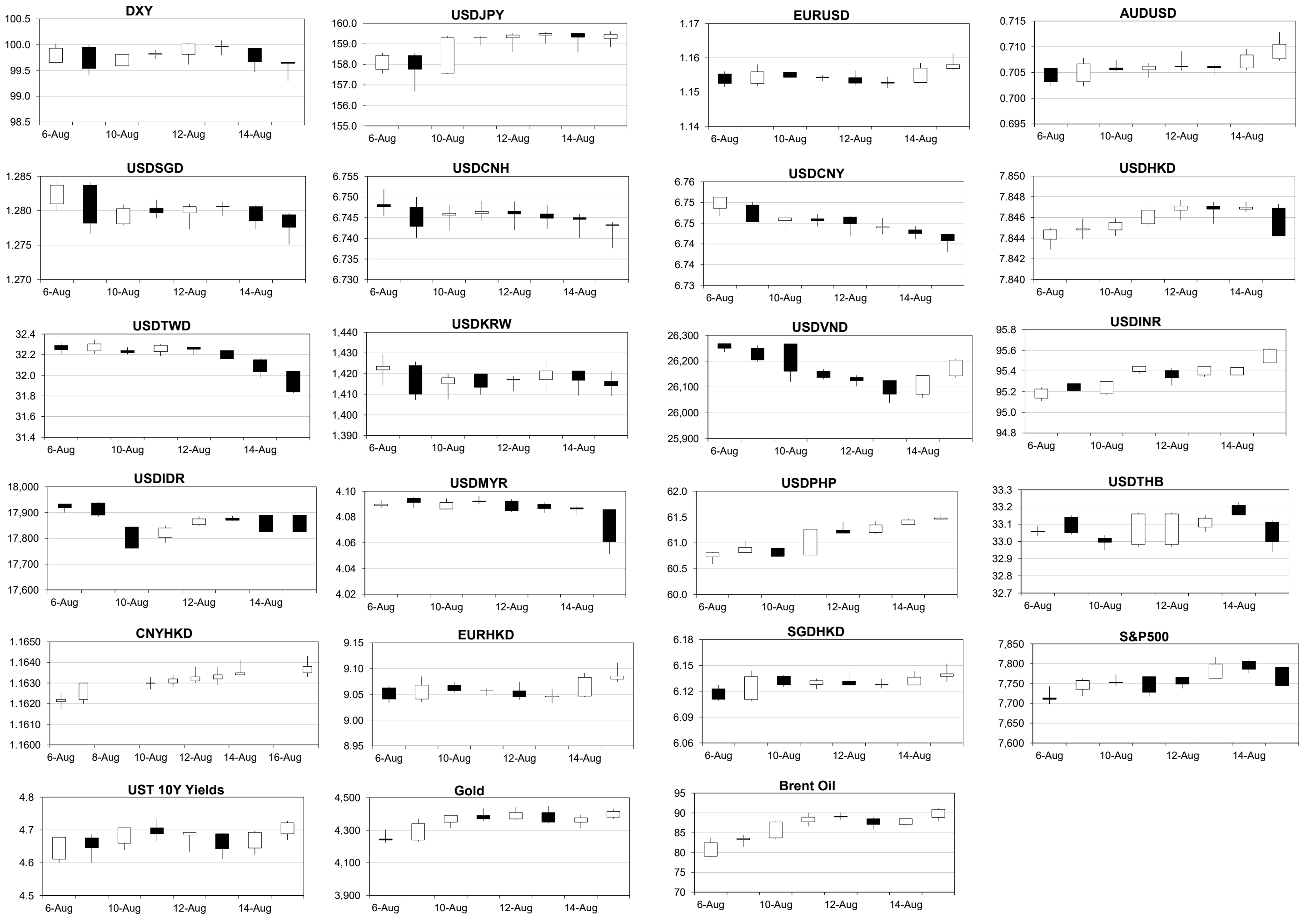
Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	14,593.98	17.69	+0.12%
IRON ORE (CN)	95.10	0.30	▼0.42%
GOLD	4,415.99	39.59	+0.90%
SILVER	65.79	-0.04	▼1.57%
OIL (BRENT)	90.87	2.35	+2.65%
OIL (WTI)	84.50	2.10	+2.55%
NATURAL GAS	2.69	1.10	+1.71%

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	184.67	184.56	+0.18%
GBP/JPY	215.97	215.911	+0.14%
JPY/SGD (100yen)	0.8012	0.8017	▼0.21%
JPY/HKD (100yen)	4.9192	4.9229	▼0.14%
CNH/JPY	23.676	23.639	+0.19%
CNH/HKD	1.1638	1.1637	+0.03%
EUR/GBP	0.85503	0.8548	+0.04%
AUD/NZD	1.2039	1.2037	+0.12%
EUR/CNH	7.8089	7.8101	+0.09%
GBP/CNH	9.1322	9.1368	+0.04%
CNY/HKD	1.1638	1.1637	+0.03%
EUR/HKD	9.0855	9.0858	+0.03%
SGD/HKD	6.1402	6.1408	+0.06%

*Open is as at 8am HKT/SGT.

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5786.82	-18.40	▼0.32%
STI (SG)	5768.46	24.87	+0.43%
SHCOMP (CN)	3982.654	55.48	+1.41%
SZCOMP (CN)	2647.279	57.07	+2.20%
HSI (HK)	25453.23	336.38	+1.34%
SENSEX (IN)	77728.16	-281.09	▼0.36%
JSE (ID)	6401.888	0.00	+0.00%
KLSE (MY)	1725.89	-1.50	▼0.09%
PSE (PH)	6261.8	-35.50	▼0.56%
SET (TH)	1626.44	17.38	+1.08%
VNINDEX (VN)	1727.46	0.00	▼0.09%

CHARTS



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