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Three Take-Aways

1) While chipmakers led the broader sell-off in global equities, a **wider conspiracy of risks** may be the **bigger worry posing a more enduring threat to risk sentiments**.

2) Point being, **AI-credit jitters** casting a glare on *stretched valuations* and *strains of capital market issuances* conspire with **elevated geo-political risks/shocks** and **surging long-end yields**.

3) All of which **stifle propensity for quick rebound in risks sentiments**. Especially as any ***relief from Fed restraint is compromised*** – Asia is particularly vulnerable, and *BI's hold on tactical soft USD cover means rupiah risks are not eliminated.*

MACRO THEME: A Conspiracy of Stress

A Gathering, *even if Not Perfect,* Storm

Risk sentiments have been **dented** by a **confluence of** *elevated US-Iran tensions*, consequent *lift in Oil/energy*, *surging long-end yields* and *AI-credit jitters*. *Trouble is,* these are not isolated, static risks, but rather **dynamic stress factors that** may **feed off**, ***and into***, **one another** – posing the **threat of "risk off"** being amplified as stress factors interact. Crucially, an even **greater threat** is from an **adverse re-pricing** being **amplified via leverage** channels colliding with **collateral stress**. It appears that **worries of a gathering storm** may be creeping in, **potentially stifling scope for quick rebound** in risk sentiments/assets. Point being, there ***need not be a "perfect storm"*** of geo-politics, AI shake-down and bond vigilantes **to begin taking the shine off remarkably insulated equity/risk markets**.

Tech-Led p-AI-n

To be sure, **chipmakers have led the drag in global equities in recent sessions** on warnings of ***softer pricing power amid diminishing demand acceleration***. Notably, **as unqualified AI euphoria** from earlier **has now evolved into greater circumspection** about *stretched valuations* amid *more challenging liquidity conditions.* In particular, the slew of capital market activity to fund the wider AI eco-system means that at the very least, **re-pricing is now on the menu**. In a worse case, ***if funding-valuation stress continues to mount***, this **could tip over as more emphatic capitulation** entailing **value destruction**.

But Bulls Waver, if Not Stumble, on Wider Risks

But the *big picture* is that *global equities* are *confronting a conspiracy of stress factors* giving cause for **equity bulls** to **waver**, and *in some cases,* **stumble**. For one, **multi-decade highs in long-end yields**, which *tend to hurt balance sheets most acutely,* is front and center, **cascading via correlated pain in global equities**. Furthermore, this is conspiring with **elevated geopolitical tensions** as **Trump adopts a more pugilistic and unyielding stance** *(pun intended)* **on Iran**. Notably, as the shipping/supply disruption from the "Iran-Hormuz crisis" extends, the *consequent* ***exhaustion of global buffer*** *of energy* and *key industrial inputs* are ***prone to hurt equities/wider risk sentimentsto a greater degree***.

Dwindling Shock Insulation

Notably, **as the shipping/supply disruption from the "Iran-Hormuz crisis" extends**, the *consequent* ***exhaustion of global buffer*** *of energy* and *key industrial inputs* are ***prone to hurt equities/wider risk sentiments to a greater degree***. Point being, **dwindling shock insulation** on a few of fronts are likely to **asymmetrically amplify negative risk sensitivities** ahead. Which **necessarily means** that the **perceived resilience in global equities experienced in May/June** (as Iran-Hormuz risks were shrugged off, to print records in some cases) **was overstated**. Whereas *vulnerabilities ahead may be more pronounced.*

Oil's "$90 is the new $150"

Conspicuously, as **the impact of "Iran-Hormuz" oil stress**/shock continues to be **chronically understated**. Fact is, with *cracks of refined products* such as diesel (jet fuel) *exceptionally elevated* at ~$85, the **effective price of diesel** (jet fuel) **at $175-180** , which **is ~80% higher** than pre-Iran levels ***compared to the 25% lift in Brent***. And so, ***for consistent, effective fuel price risk corresponding to Brent***, it is no exaggeration to say that ***"$90 is the new $150"*** once the surge in diesel cracks (from $20-25 to ~$85) is accounted for. What's more, add in the *exorbitant shipping* and *insurance costs,* and this *could arguably become "$80 is the new $160".*

Fed & Bond Vigilantes

What's more, **scope for finding any solace**, **if not boost, from Fed restraint** (with regards to rate hikes), is **hijacked by surging long-end yields**. That's to say, *Fed's ability to rein in rates/yields* – by extension boost **attendant risk sentiments** from constructive "discount factor" effects – via policy (in)action has been *compromised by bond vigilantes.* Worse, ***further Fed restraint may backfire*** if **bond vigilantes perceive this as loss of Fed credibility**/independence, thereby accentuate surge in long-end yields on ***inflation fears*** and *ultimately,* ***debasement risks*** further out. The upshot is that the **Fed is in a bind, whereby the ability to alleviate pain via rates is compromised** for now. *Jackson Hole will be watched closely* to see if Warsh can eke out some policy space.

***Yields** (2Y: -0.5bp; 10Y: -1.8bp; 30Y: -2.4bp)*

***Equities** (Nasdaq: -1.3%; S&P500: -0.7%; Dow: -0.2%)*

***FX** (DXY: +0.02%)*

Asia's Acute Vulnerabilities

Notably, the ***combination of these risks*** – with *AI re-pricing,* strains from *Iran/energy* and *surging global yields* suggest **Asia's asset markets are particularly vulnerable**. For one, **North Asia is highly exposed to the AI capex bonanza**, which is now ***subject to a likely dimming of (over-hyped) optimism****.* Especially if the correction (led by Kospi) falls short of washing out accentuated risks from leverage.

Meanwhile, **sharply higher yields long-end yields** alongside, **higher "all-in" oil stress** are likely to **intensify stress on higher-yielding Asian assets**. In that vein, ***while* the cover of a softer USD might provide room for BI to hold** policy at this meeting, rupiah depreciation pressures have not been decisively put to bed.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(US) Housing Starts/Building Permits (Jul/Jul P	1239k/1443k	1345k/1375k	1415k/1374k
(US) Import Price Index MoM (Jul)	-0.4%	0.1%	-0.3%
(US) Industrial Production MoM (Jul)	0.2%	0.3%	0.3%
(US) Pending Home Sales MoM (Jul)	-2.3%	0.0%	-4.8%
(GE) ZEW Survey Current Situation/Expectatio	-61.1/34.2	-69.3/30.0	-77.6/26.3

Today	Actual	Exp.	Prior
(EZ) CPI/Core YoY (Jul F)		**2.9%/2.5%**	**2.9%/2.5%**
(JP) Core Machine Orders MoM (Jun)	9.7%	7.2%	-12.4%
(US) FOMC Meeting Minutes			
(AU) Wage Price Index QoQ (2Q)		0.8%	0.8%
(ID) BI-Rate		**5.75%**	**5.75%**
(PH) BoP Overall (Jul)		--	$3403m

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast		
USDJPY	159.61	159.56	+0.09%	158.60	-	160.30
EURUSD	1.1576	1.1575	▼0.03%	1.1500	-	1.1650
GBPUSD	1.3532	1.3535	▼0.09%	1.3450	-	1.3630
AUDUSD	0.7088	0.7081	▼0.24%	0.7030	-	0.7120
DXY	99.7	--	+0.02%	99.1	-	100.2
USDCNY	6.7442	--	+0.05%	6.7000	-	6.7900
USDCNH	6.7463	6.7470	+0.05%	6.7000	-	6.7900
USDHKD	7.8441	7.8439	▼0.00%	7.8200	-	7.8500
USDSGD	1.2782	1.2785	+0.05%	1.2700	-	1.2860
USDKRW	1411	1414	+0.00%	1405	-	1425
USDTWD	31.96	--	+0.37%	31.70	-	32.15
USDINR	95.68	--	+0.07%	94.90	-	96.30
USDIDR	17857	--	+0.18%	17750	-	18000
USDMYR	4.060	4.060	▼0.03%	4.030	-	4.090
USDPHP	61.78	--	+0.48%	61.30	-	62.20
USDTHB	33.07	33.12	+0.23%	32.9	-	33.4
USDVND	26177	26179	▼0.10%	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)	4.172	4.705	-0.5	-1.8
JGB (JP)	1.685	2.944	0.0	3.0
Bunds (GE)	2.849	3.258	4.9	3.8
Gilts (UK)	4.376	5.079	1.2	2.0
AGB (AU)	4.615	5.097	4.3	5.4
SGS (SG)	1.678	2.347	3.5	6.4
CGB (CN)	1.223	1.667	-0.7	-1.1
KGB (KR)	3.689	4.390	4.5	7.7
SDL (IN)	6.188	6.827	-0.1	2.0

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	184.76	184.69	+0.05%
GBP/JPY	216	215.963	+0.01%
JPY/SGD (100yen)	0.8009	0.8012	▼0.04%
JPY/HKD (100yen)	4.9143	4.916	▼0.10%
CNH/JPY	23.667	23.659	▼0.04%
CNH/HKD	1.1631	1.1631	▼0.06%
EUR/GBP	0.85543	0.85521	+0.05%
AUD/NZD	1.2063	1.2058	+0.20%
EUR/CNH	7.809	7.8098	+0.00%
GBP/CNH	9.1304	9.132	▼0.02%
CNY/HKD	1.1631	1.1631	▼0.06%
EUR/HKD	9.0805	9.0795	▼0.06%
SGD/HKD	6.1357	6.1354	▼0.07%

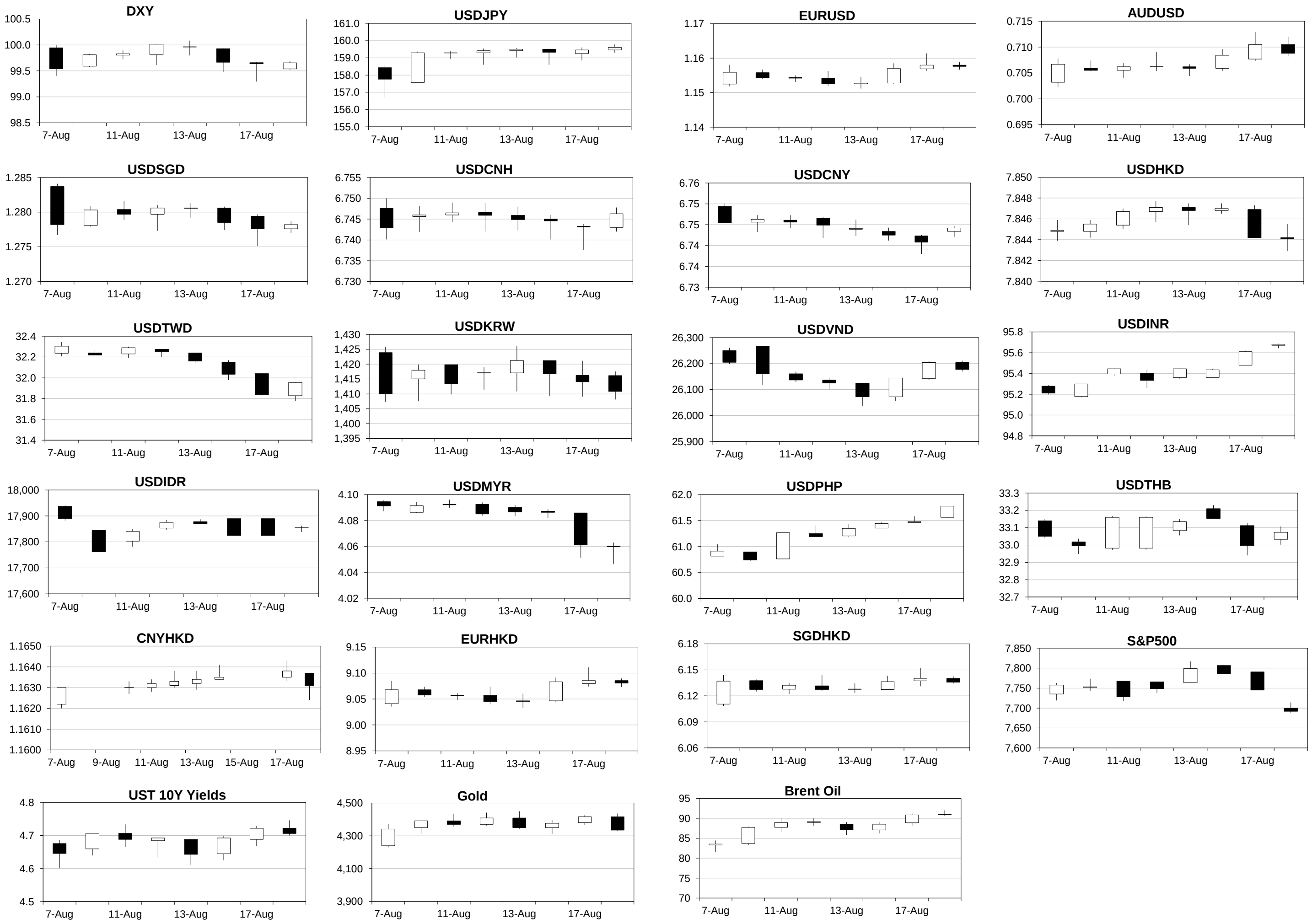
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	7691.76	-53.30	▼0.69%
Nasdaq (US)	26289.71	-355.20	▼1.33%
DJIA (US)	53343.4	-116.38	▼0.22%
N225 (JP)	67460.73	-1759.52	▼2.54%
STOXX50 (EU)	6468.17	-62.28	▼0.95%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5786.4	-0.42	▼0.01%
STI (SG)	5701.4	-67.06	▼1.16%
SHCOMP (CN)	3990.304	7.65	+0.19%
SZCOMP (CN)	2635.335	-11.94	▼0.45%
HSI (HK)	25471.15	17.92	+0.07%
SENSEX (IN)	77235.46	-492.70	▼0.63%
JSE (ID)	6449.83	47.94	+0.75%
KLSE (MY)	1733.36	7.47	+0.43%
PSE (PH)	6264.7	2.90	+0.05%
SET (TH)	1621.62	-4.82	▼0.30%
VNINDEX (VN)	1732.02	0.00	+0.26%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	14,234.50	-359.48	▼2.46%
IRON ORE (CN)	95.60	0.26	+0.53%
GOLD	4,334.50	-81.49	▼1.85%
SILVER	63.37	0.09	+3.20%
OIL (BRENT)	91.02	0.15	+0.17%
OIL (WTI)	84.94	0.44	+0.52%
NATURAL GAS	2.78	-2.42	▼3.68%

CHARTS



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