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Three Take-Aways

1) A **resumption of kinetic US-Iran conflict** has lifted oil (Brent above $90) along with UST yields (3-5bp). ***But*** *USD* and *Gold have slipped* **bereft of haven demand**.

2) Bessent risks greater bond market blowback *(surging long-end yields)* **from misguided BoJ interventionism**, **compounding frustration with "Treasury Twist" undermined**.

3) Elsewhere, **India's (CY) Q2 GDP 7.8% outrun** *defying geo-political headwinds* may **partly conceal risks** and certainly **compounds pressures for RBI hike(s)**.

MACRO THEME: Kinetic US-Iran Antagonism

- **Kinetic conflict between US and Iranian forces** have **resumed**, *dialing up geo-political risks* and sending Brent prices higher (above $90). **US struck Iranian rocket launchers Larak island**, with **Iran retaliating with missile/drone attacks on US' regional bases** (Jordan, UAE). Crucially, *President Trump has warned that the US will respond* (to Iranian retaliation) setting up **risks of antagonistic dynamics of escalation**.

- Unsurprisingly, *markets* are *in "risk off" mood,* with **US equities slipping** and **UST yields surging** (3-5bp), led by the long-end.

- ***Oddly*** though, *USD* and *Gold have both slipped,* suggesting that (assumed) **haven demand was overwhelmed** by conflicting **Fed-Treasury dynamics**.

The Fed-Treasury Paradox

- To be sure, the **hawkish Jackson Hole** performance by Fed Chair Warsh **props up the USD**, *all else equal.* Although this is **at the expense of Gold's allure**. Whereas the **600-pound Gorilla in the room** was *how a hawkish Fed (and hikes) may be reconciled with Bessent bent on containing long-end yields*.

- The **short answer** is that the **Fed and Treasury objectives** are **at least partly incompatible**. The **give was Bessent's (post-Jackson Hole) passionate arguments against rate hikes**.

- The resultant sense of conflicted objectives, if not compromised policy credibility, has only been exacerbated by US-Iran risks (that amplify cost shocks and fiscal/debt risks).

- Consequently, ***USD is weaker from Fed credibility risks at the margin,*** which **diminishes support from geo-politics/yields**.

- Whereas ***Gold is softer*** *on surging UST yields,* **which dent the zero-yielding asset** whilst scope for structural USD debasement boost takes a backseat.

The "Bessent-BoJ Backfire" Threat

- But **Bessent's frustrations** with his **attempts to suppress long-end yields undermined** by *hawkish Jackson Hole Fed* and *US-Iran antagonism* **risk being exacerbated**. Notably, **from his misguided BoJ interventionism**, **telling BoJ Governor Ueda** "*to do the right thing*" (i.e. hike rates to stabilize JPY and anchor long-end JGB yields). What **Bessent hopes** to accomplish from this **extra-territorial jawboning** is *JPY traction*** and *ultra long-end JGB yield anchor*– *aimed at dampening upside pressures on UST yields*. ***But this could inadvertently backfire***, further exacerbating the setback to Bessent's "Treasury Twist"* aimed at containing long-end yields.

- Specifically, as the **empirical evidence suggest accentuated ultra-long premiums** from BoJ hikes, ***resulting in BoJ-driven bear steepening*** (and attendant UST spillover) rather than long-end yield pullback on inflation expectations being contained. This **as the adverse Rates(BoJ Hike)-Fiscal-JPY-JGB dynamics overwhelm** textbook arguments for long-end yields contained alongside inflation expectations.

* See our recent publication on Bessent long-end UST buyback program ("Treasury Twist").

** So that Japan will not have to sell USTs to fund JPY intervention (to prevent excessive JPY depreciation

Yields ***(2Y: -0.2bp; 10Y: +3.1bp; 30Y: 3.5bp)***

Equities ***(Nasdaq: -0.1%; S&P500: -0.3%; Dow: -0.7%)***

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

India Growth – Defying (Headwinds) & Deferring (Pain)

- **India's consensus-beating 7.8% growth out-run** (0.5%-pt above expectations of 7.3%) is cause for **emerging consternation**, **not unbridled cheer**. Point being, *while* in the headlines *it appears that India has defied the Iran-Hormuz* (and wider geo-political) *headwinds, in reality it may have merely only deferred at least part of the pain.*

- For one, the **unresolved Iran-Hormuz crisis continues to cast a shadow** given *India's accentuated vulnerabilities to energy, food and financial shocks.* Whereas **growth outrun is at least partly perversely flattered by financial services** (+12.1% YoY), alongside manufacturing (+9.2% YoY). Trouble is, the which arguably enjoyed a boost **from the RBI's aggressive interventions to support the rupee**, *led by the high-cost FCNR program*.

- So, **part of this growth boost was** ***borrowed from the future*** (subject to reversals if the FCNR inflows) and ***paid for by the RBI*** (which is heavily subsidizing/absorbing hedging costs/risks).

- What's more, **pipeline inflation risks threaten to** impose higher costs on the economy and **slow growth** from both *demand friction*) as well as from *GDP arithmetic**. Crucially, **stronger growth could challenge the RBI's propensity to hold** (rather than hike) as it weakens the premise of prioritizing risks to growth.

- In other words, not only is *growth flattered in its headline*, but more importantly is *susceptible to downside risks* amid **lingering geopolitical headwinds**, **policy risks and surging global yields**.

- Policy Implication: A confluence of pipeline inflation (as monsoon and energy shocks conspire) growth out-run and a hawkish Fed could keep 50-75bp of hikes on the cards into Q1 2027.

- Market Implication: Expect a *bias for bear steepening in GOI bonds to follow any initial bear flattening* in the yield curve. Rupee downside risks to be accentuated on RBI hesitancy to hike.

* India's (real) GDP measure is based on nominal tabulations backed out with a GDP deflator, which is bound to be more erosive on Iran-Hormuz supply shocks exacerbated by monsoon deficiencies.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(US) Dallas Fed Manf. Activity (Aug)	11.6	1.6	1.3
(JP) Industrial Production MoM (Jul P)	0.1%	-0.7%	1.9%
(JP) Retail Sales YoY (Jul)	4.0%	3.3%	0.6%
(CH) Mfg/Non-mfg PMI (Aug)	49.8/49.0	49.5/49.4	49.2/49.0
(IN) GDP YoY (2Q)	7.8%	7.3%	8.6%
(TH) Exports/Imports YoY (Jul)	22.3%/35.5%	--	21.1%/48.9%

Today	Actual	Exp.	Prior
(US) JOLTS Job Openings (Jul)		7380k	7359k
(US) ISM Manufacturing/Prices Paid (Aug)		55.2/72.0	55.6/71.1
(EZ) Unemployment Rate (Jul)		6.2%	6.3%
(EZ) CPI/Core YoY (Aug P)		**3.3%/2.5%**	**2.9%/2.5%**
(CH) RatingDog China PMI Mfg (Aug)		5130.0%	5090.0%
(AU) BoP Current Account Balance (2Q)		-A$30.0b	-A$27.1b
PMI Mfg (AU, ID, IN, KR, MY, TH, PH, TW) (Aug)		--	
(ID) Exports/Imports YoY (Aug)		-0.2%/21.4%	8.6%/34.3%
(ID) CPI/Core YoY (Aug)		**3.1%/2.9%**	**2.9%/2.8%**
(KR) Exports/Imports YoY (Aug)		63.5%/25.2%	62.9%/26.5%

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast		
USDJPY	159.74	159.76	▼0.22%	158.80	-	161.00
EURUSD	1.1618	1.1617	+0.28%	1.1550	-	1.1700
GBPUSD	1.3549	1.3548	+0.08%	1.3480	-	1.3620
AUDUSD	0.7167	0.7170	+0.04%	0.7130	-	0.7210
DXY	99.4	--	▼0.27%	98.9	-	100.0
USDCNY	6.7197	--	▼0.15%	6.7000	-	6.7700
USDCNH	6.7179	6.7176	▼0.19%	6.7000	-	6.7700
USDHKD	7.8386	7.8389	▼0.02%	7.8200	-	7.8500
USDSGD	1.2709	1.2710	▼0.25%	1.2620	-	1.2780
USDKRW	1369	1368	+0.00%	1360	-	1375
USDTWD	31.68	--	+0.19%	31.50	-	31.90
USDINR	95.17	--	▼0.22%	94.70	-	95.90
USDIDR	17720	--	+0.16%	17600	-	17850
USDMYR	4.025	4.035	+0.00%	4.010	-	4.060
USDPHP	62.26	--	+0.00%	62.00	-	62.70
USDTHB	33.16	33.15	+0.67%	32.9	-	33.4
USDVND	26075	26074	▼0.01%	25900	-	26300

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.343	4.751	-0.2	3.1
JGB (JP)	1.715	2.935	1.4	1.3
Bunds (GE)	2.935	3.323	3.3	4.6
Gilts (UK)	4.402	5.062	0.0	0.0
AGB (AU)	4.687	5.093	0.4	-0.5
SGS (SG)	1.680	2.342	2.5	1.8
CGB (CN)	1.246	1.687	0.3	-0.2
KGB (KR)	3.710	4.315	3.3	3.5
SDL (IN)	6.276	6.945	0.0	3.4

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	185.59	185.6	+0.06%
GBP/JPY	216.43	216.442	▼0.14%
JPY/SGD (100yen)	0.7957	0.7956	▼0.10%
JPY/HKD (100yen)	4.9071	4.9067	+0.18%
CNH/JPY	23.783	23.776	▼0.06%
CNH/HKD	1.1666	1.1666	+0.13%
EUR/GBP	0.85739	0.85749	+0.18%
AUD/NZD	1.2113	1.2109	▼0.04%
EUR/CNH	7.8048	7.8041	+0.10%
GBP/CNH	9.1022	9.1011	▼0.09%
CNY/HKD	1.1666	1.1666	+0.13%
EUR/HKD	9.1065	9.1067	+0.29%
SGD/HKD	6.1673	6.1675	+0.28%

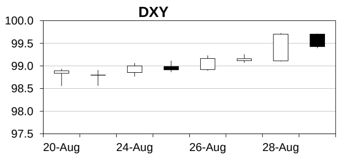
*Open is as at 8am HKT/SGT.

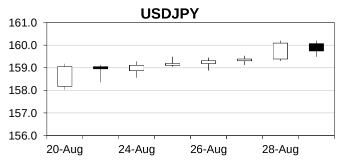
G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	7686.14	-25.62	▼0.33%
Nasdaq (US)	26370.89	-31.53	▼0.12%
DJIA (US)	53185.9	-374.09	▼0.70%
N225 (JP)	66311.93	-93.63	▼0.14%
STOXX50 (EU)	6420.16	-65.51	▼1.01%

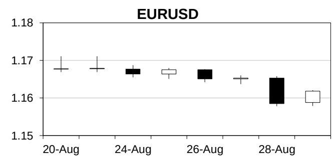
Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5842.37	0.00	+0.00%
STI (SG)	5755.36	55.43	+0.97%
SHCOMP (CN)	3986.298	34.12	+0.86%
SZCOMP (CN)	2565.547	15.38	+0.60%
HSI (HK)	25566.99	-17.80	▼0.07%
SENSEX (IN)	76957.27	-307.24	▼0.40%
JSE (ID)	6525.478	7.36	+0.11%
KLSE (MY)	1725.88	0.00	+0.00%
PSE (PH)	5956.33	0.00	+0.00%
SET (TH)	1595.16	6.94	+0.44%
VNINDEX (VN)	1832.12	0.00	+0.00%

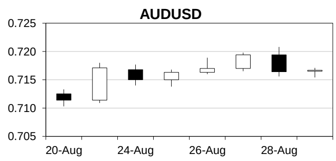
Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	14,445.59	0.00	+0.00%
IRON ORE (CN)	96.05	0.15	+0.05%
GOLD	4,437.38	-17.73	▼0.40%
SILVER	66.58	0.05	+1.63%
OIL (BRENT)	90.49	1.18	+1.32%
OIL (WTI)	85.76	2.36	+2.83%
NATURAL GAS	2.94	0.19	+0.29%

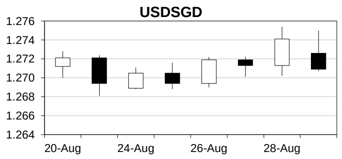
CHARTS

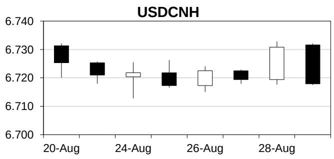


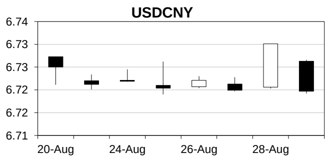


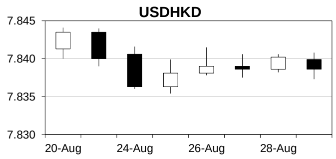


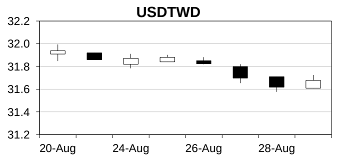


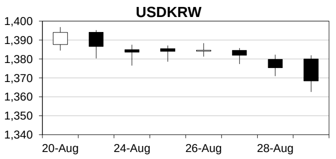


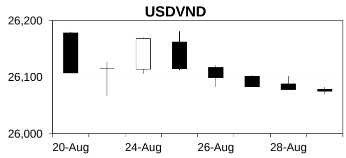


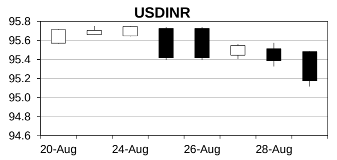


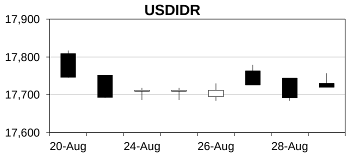


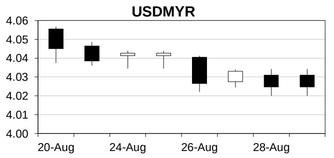


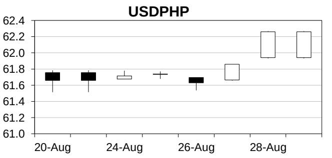


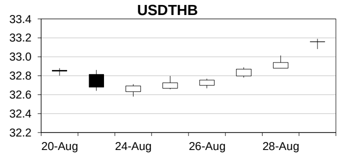


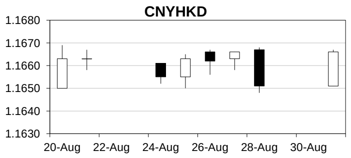


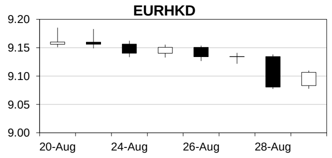


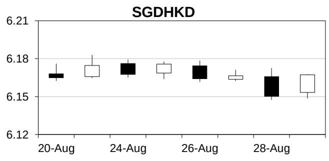


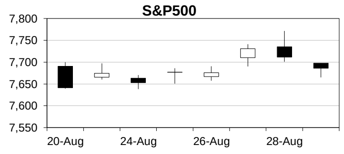


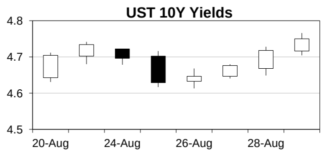


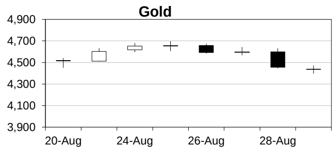


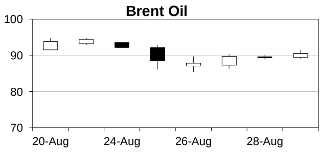












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