

Three Take-Aways

- 1) A **risk-constructive** as the mood is **sweetened by talks** – *hopes of US-Iran talks* (Trump flagging openness to engage) and *US-China talks* striking all the right chords with allusions to “good atmosphere” [Li Chenggang] and “very successful” negotiations [Bessent].
- 2) Consequently, **oil has softened** (Brent: down ~4% to ~\$100) and **UST yields have bull flattened** (10Y: down 4-5bp). Equities have also surged (S&P500: +1.5%), led by tech (Nasdaq: +2.3%) as *Meta’s “Muse” AI Agent inspired wider AI/chip rallies*.
- 3) But the **bitter truth** is that; i) there is a **chasm between US-Iran talks and lasting resolution**; ii) US-China antagonism remains structural; iii) AI valuation risks are not wiped clean, and; iv) **Fed hawks are not absolved**.

MACRO THEME: Between Sweet Talk & Bitter Truth

US-Iran: Sweet (on) Talk (Prospects)

“I never change, except in my affections.” – The importance of Being Earnest

- Markets were **sweet on the prospects of US-Iran talks** as President Trump signalled openness to meeting Iranian President Pezeshkian *on the sidelines of UN in New York* (22-28 Sep). To be fair, **markets are probably not expecting much**, given the numerous failed talks.
- But perhaps, the **gambit** is that **ahead of US Mid-Terms**, the pressure is on for **less antagonistic engagement** with **narrower focuses on getting oil flowing/Hormuz re-opening**.
- Tellingly **Brent crude has slipped** from \$104-106 over the last couple of sessions to test below \$100. Along with it, prompting **bull flattening of the UST curve** [10Y: down 4-5bps to]
- Nonetheless, the **risk-positive declines in oil** and **yields appear restrained**, if not **cautious**.

And for good reasons too, *given how mercurial Trump’s approach to Iran has been* – swinging between “TACO”* to NACHO”**.
 * Trump always chickens out (TACO), referring to backing down on aggressive antagonism towards Iran.
 ** Not a chance Hormuz re-opens (NACHO), referring to Trump’s tendency to relapse back into face-saving conflict that hampers a re-opening.

US-China: Sweet (But Cheap) Talk

- “In matters of grave importance, style, not sincerity, is the vital thing.” – The importance of Being Earnest
- **US-China talks** - at the Trade-Treasury levels ahead of Trump-Xi meeting – also **yielded the “feel good” factor** as *both Beijing and Washington talked up the interlocution*.
- **Beijing’s Trade Rep Li Chenggang praised** the “*good atmosphere*” in which the talks were held. And **US Treasury Secretary Bessent** chimed in, declaring the **talks** as being “*very successful*”.
- For the die-hard optimists, **Bessent saying** that a “**US-China AI dialogue**” platform will be set in motion **might have been deemed constructive for the AI space**. But *talk is cheap*. And this **Trump-Xi Summit was never going to be an overtly confrontational platform**.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(US) Chicago Fed Nat Activity Index (Aug)	-0.04	-0.04	-0.08

Today	Actual	Exp.	Prior
(TW) Exports orders YoY (Aug)		63.0%	61.9%
(EZ) Consumer Confidence (Sep)		-16.0	-15.5
(US) Rich Fed Manufacturing Index (Sep)		2.0	4.0

- Whereas the “**winner takes all**” **mentality is** arguably the **overarching driving force** informing the “walk” on resource allocation and geoeconomic posturing for US and China.

Muse-ing & AI Adulation

“The very essence of romance is uncertainty.” – The importance of Being Earnest

- Speaking of cheap, the **one thing that is quite decidedly not, is valuations in the AI space**.
- Regardless, **markets**, thrilled, if not **besotted with**, with the **early success of Meta’s Muse AI Agent**, *chased Meta >11% higher*.
- And with **solid spill-over for chips** and the **wider AI space**. This drove Nasdaq up 2.3%. Let’s face it. **AI is poised to be the markets muse** for a while. And **this romance will likely lead to more giddy heights in valuations – for a while more at least**.
- But with that comes the *palpitations of higher yields* and **risk re-pricing as AI consumes more capital**. Inevitably **upping the latent uncertainty** in markets.

Yields (2Y: +0.3bp; 10Y: -4.5bp; 30Y: -4.2bp)

Equities (Nasdaq: +2.3%; S&P500: +1.5%; Dow: +0.7%)

FX (DXY: +0.2%)

Bitter Truths

“The truth is rarely pure and never simple.” – The importance of Being Earnest

- Trouble is, *after the “sweet talk”* and all the *musings*, **some bitter truths will re-emerge**, and **demand confrontation**.
- **US-Iran**: The **chasm between US-Iran re-engaging in talks and enduringly resolving** now what is effectively a **wider Middle East crisis** suggests **risks of prolonged disruptions to, or worse destruction in, passage and production of oil**.
- **Ukraine-Russia**: While oil markets may have been heartened by **Trump’s call for Ukraine to stop hitting Russian oil facilities**, Ukraine is conditioning this on **reciprocal ceasefire** that **Russia appears reluctant to honour**.
- **US-China**: Also, while US-China talks remain imperative to avert supply-chains being dislodged and geopolitical upheaval, the fundamental antagonism entrenched in US-China relations now means that the **competitive instincts, amplified by fears of “existential threats”** (real or imagined) **overwhelm collaborative incentives**.
- **Double-Edged AI Impact**: While **offsetting AI demand may be welcome** as growth cushion and fundamental justification of equity market boost, **its competing nature** (for resources, capital, amplified by geo-political stakes) risks inflationary impulses that accentuate growth trade-offs and exacerbate disparities/K-shaped divergences. In turn complicating policy, magnifying risks of policy mistakes and super-charging “Schumpeterian destruction” threat.
- **Hawkish Bind**: Moreover, *despite the tentative slippage in oil* on US-Iran (and arguably Russia-Ukraine) hopes, **Fed and other major central banks must remain** (or at least be perceived) as **earnest hawks**.

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast	
USDJPY	157.36	157.38	+0.31%	154.00	- 158.00
EURUSD	1.1465	1.1464	▼0.18%	1.1400	- 1.1550
GBPUSD	1.3367	1.3369	▼0.21%	1.3300	- 1.3500
AUDUSD	0.7118	0.7119	▼0.04%	0.7090	- 0.7190
DXY	100.4	--	+0.21%	99.3	- 100.6
USDCNY	6.6952	--	▼0.04%	6.6800	- 6.7500
USDCNH	6.6929	6.6927	▼0.04%	6.6700	- 6.7500
USDHKD	7.8455	7.8452	+0.01%	7.8200	- 7.8500
USDSGD	1.2759	1.2762	▼0.02%	1.2650	- 1.2810
USDKRW	1362	1374	+0.00%	1370	- 1400
USDTWD	31.77	--	▼0.10%	31.50	- 32.20
USDINR	95.81	--	▼0.06%	95.20	- 96.50
USDIDR	17838	--	+0.54%	17680	- 18000
USDMYR	4.078	4.079	▼0.12%	4.050	4.110
USDPHP	62.80	--	+0.06%	62.50	- 63.20
USDTHB	33.28	33.24	▼0.16%	33.1	- 33.6
USDVND	26021	26020	+0.01%	25800	- 26200

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.748	4.952	0.3	-4.5
JGB (JP)	1.848	2.972	0.0	0.0
Bunds (GE)	3.210	3.455	-6.6	-6.2
Gilts (UK)	4.749	5.211	-8.8	-8.3
AGB (AU)	4.982	5.281	3.2	1.5
SGS (SG)	1.837	2.424	1.3	-0.6
CGB (CN)	1.242	1.677	-0.2	-0.1
KGB (KR)	3.997	4.473	1.3	0.5
SDL (IN)	6.555	7.050	24.2	-1.9

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	7764.7	114.20	+1.49%
Nasdaq (US)	27122.09	599.55	+2.26%
DJIA (US)	52048.83	366.19	+0.71%
N225 (JP)	65018.95	0.00	+0.00%
STOXX50 (EU)	6318.2	82.00	+1.31%

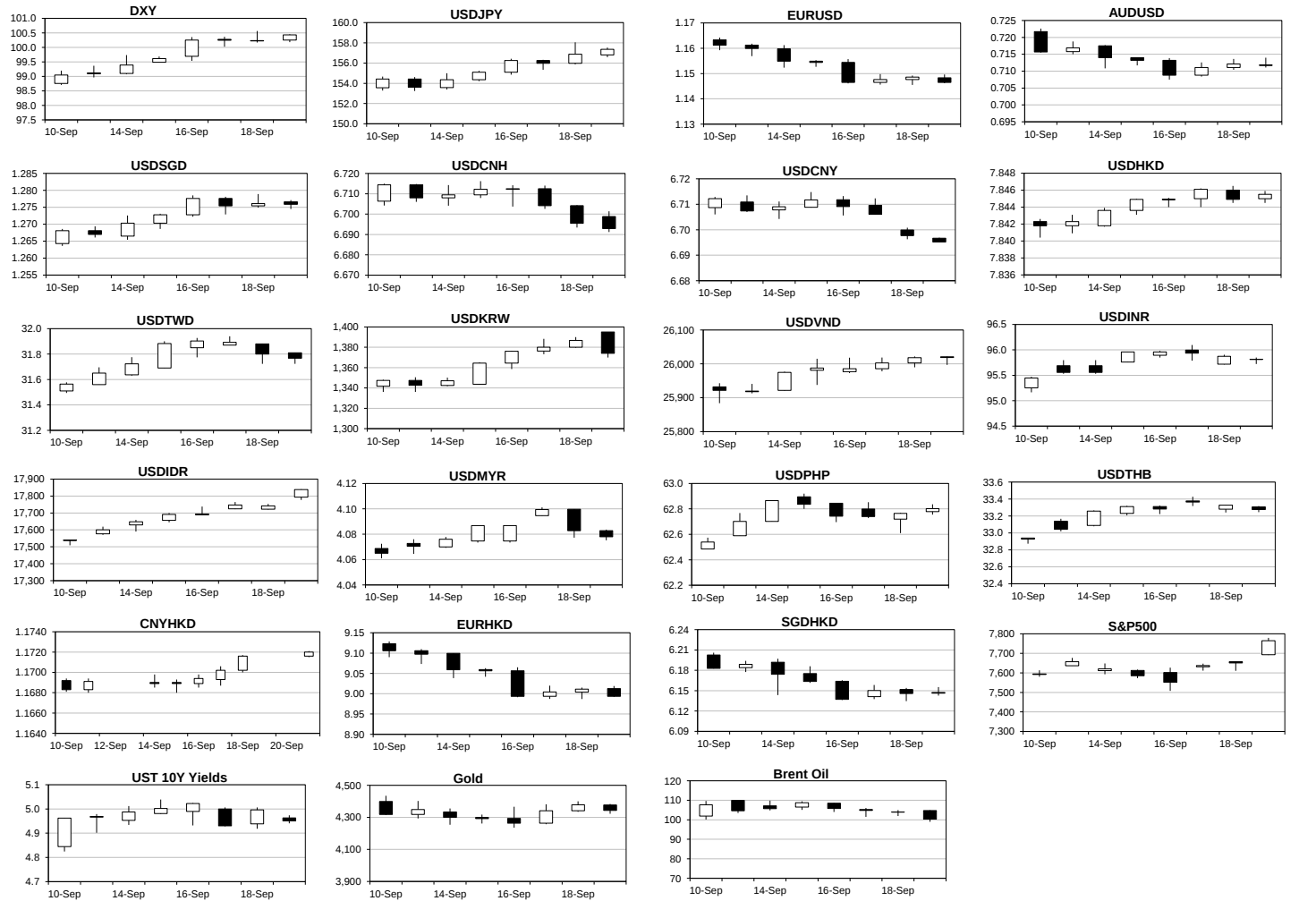
Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	14,709.97	166.92	+1.15%
IRON ORE (CN)	97.20	0.45	▼0.22%
GOLD	4,343.43	-35.20	▼0.80%
SILVER	66.03	-0.08	▼2.61%
OIL (BRENT)	100.34	-3.53	▼3.40%
OIL (WTI)	95.78	-4.52	▼4.51%
NATURAL GAS	2.84	-0.23	▼0.34%

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	180.42	180.43	+0.11%
GBP/JPY	210.341	210.408	+0.09%
JPY/SGD (100yen)	0.8109	0.8109	▼0.30%
JPY/HKD (100yen)	4.9845	4.9846	▼0.31%
CNH/JPY	23.525	23.507	+0.51%
CNH/HKD	1.172	1.172	+0.03%
EUR/GBP	0.85761	0.8575	+0.02%
AUD/NZD	1.2456	1.2466	+0.06%
EUR/CNH	7.6735	7.6725	▼0.21%
GBP/CNH	8.9471	8.9476	▼0.23%
CNY/HKD	1.172	1.172	+0.03%
EUR/HKD	8.9936	8.9938	▼0.19%
SGD/HKD	6.1463	6.1472	+0.01%

*Open is as at 8am HKT/SGT.

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5789.48	45.91	+0.80%
STI (SG)	5675.23	19.12	+0.34%
SHCOMP (CN)	3949.907	38.04	+0.97%
SZCOMP (CN)	2538.873	26.25	+1.04%
HSI (HK)	25042.71	291.93	+1.18%
SENSEX (IN)	74858.99	564.03	+0.76%
JSE (ID)	6384.726	-56.43	▼0.88%
KLSE (MY)	1666.94	1.38	+0.08%
PSE (PH)	5843.79	-12.12	▼0.21%
SET (TH)	1598.03	13.88	+0.88%
VNINDEX (VN)	1799.67	-0.01	▼0.88%

CHARTS



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