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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 i**s 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.

- ***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 giddying 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**.

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

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%

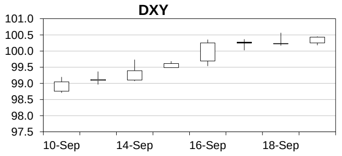
Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	14,709.97	166.92	+1.15%
IRON ORE (CN)	97.20	0.45	▼0.22%
GOLD	4,343.43	-35.20	▼0.80%
SILVER	66.03	-0.08	▼2.61%
OIL (BRENT)	100.34	-3.53	▼3.40%
OIL (WTI)	95.78	-4.52	▼4.51%
NATURAL GAS	2.84	-0.23	▼0.34%

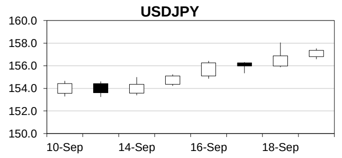
Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	180.42	180.43	+0.11%
GBP/JPY	210.341	210.408	+0.09%
JPY/SGD (100yen)	0.8109	0.8109	▼0.30%
JPY/HKD (100yen)	4.9845	4.9846	▼0.31%
CNH/JPY	23.525	23.507	+0.51%
CNH/HKD	1.172	1.172	+0.03%
EUR/GBP	0.85761	0.8575	+0.02%
AUD/NZD	1.2456	1.2466	+0.06%
EUR/CNH	7.6735	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%

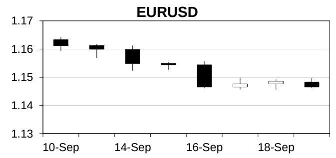
*Open is as at 8am HKT/SGT.

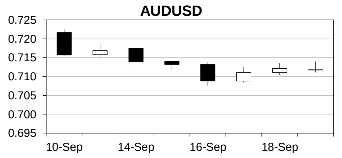
Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5789.48	45.91	+0.80%
STI (SG)	5675.23	19.12	+0.34%
SHCOMP (CN)	3949.907	38.04	+0.97%
SZCOMP (CN)	2538.873	26.25	+1.04%
HSI (HK)	25042.71	291.93	+1.18%
SENSEX (IN)	74858.99	564.03	+0.76%
JSE (ID)	6384.726	-56.43	▼0.88%
KLSE (MY)	1666.94	1.38	+0.08%
PSE (PH)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

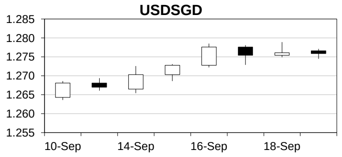
CHARTS

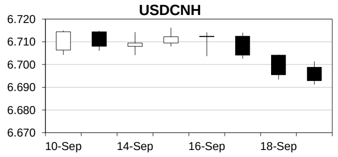


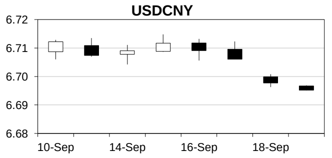


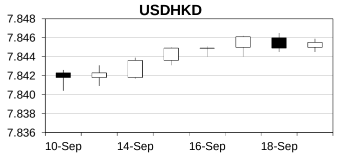


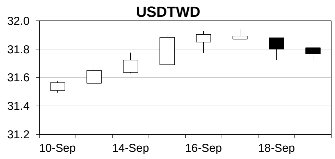


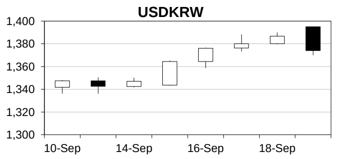


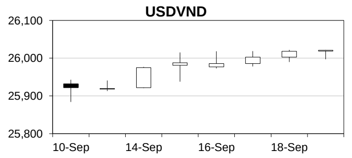


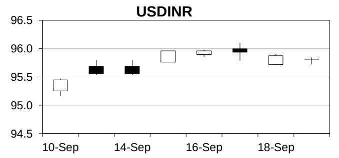


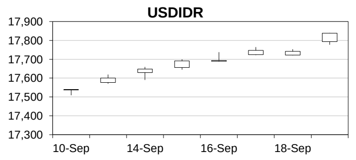


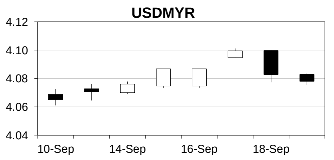


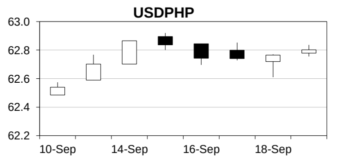


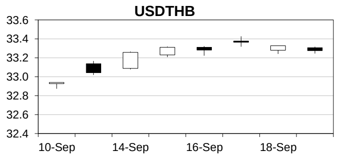


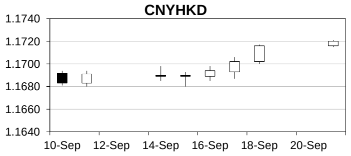


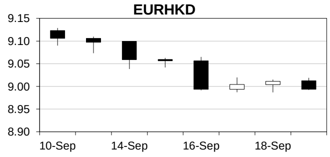


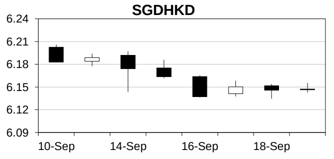


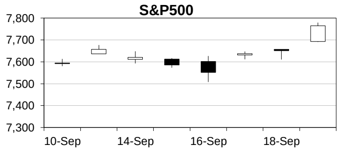


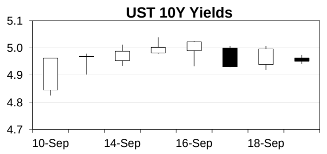


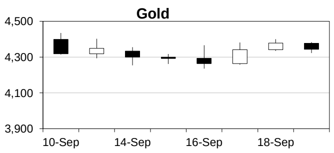


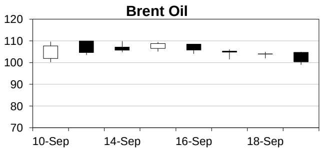












RESEARCH TEAM
Vishnu Varathan | Serena Zhou | Tan Boon Heng | Johnny Wong | Ng Jing Wen

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