

Three Take-Aways

1) Softer oil prices last Friday guided front end UST yields lower and aided recovery in risk sentiments amid on-going exchange of proposals between US and Iran.

2) Even as silver linings are put forth amid firming stance between US and Iran, any potential deal is difficult to secure and hold up as conflict risks are unlikely to abate with Yemen-Houthi skirmishes while economically constrained Iran are likely to harden on asset related demands.

3) The RBA is likely to hike rates by 25bps tomorrow amid upside risks to inflation. Communicating sufficient hawkish intentions will a tough challenge.

MACRO THEME: Half Step Forward, Half Step Back?

- Last Friday, **US consumer sentiments** from the Uni. of Michigan survey was **revised higher** while inflation expectations for the year ahead was revised marginally lower. The revision though should not mask the fact that consumer sentiments remain dire as it is still one of the worst prints in history.

- The **recovery in risk sentiments** was also aided by a slide in oil prices last Friday with Brent crude falling from US\$106 to around US\$104/barrel amid hopes for **talks between US and Iran**. The **drop in oil prices led to a bull steepening** for UST yield curve.

- With the extended nature of the supply shock, central banks remain worried about inflation pressures as there are little signs of tangible progress around any resolution to the US-Iran war.

Tough Talks, Slim Hopes

- Over the weekend, there were reports of US President **Trump rejecting Iran's proposal** as well as Iran stating that they will stick to their stated conditions. Admittedly, both sides chose to provide a **glimmer of hope** with Trump saying that he expects negotiations to resume this week while Iran said that they **did not receive any "official" response** from mediators Qatar and Pakistan.

- While Scott Bessent has mentioned that **Operation Economic Outcast from the US** which is causing Iran to be left with nothing to trade in two weeks will pressure them into negotiating, the risk is that both sides could potentially overplay their hands.

- With the current economic damage, it becomes even **more challenging to envisage Iran backing down from economic demands** such as release of frozen assets.

- Amid the potential for talks, **attacks between Houthi and Saudi forces continued over the weekend** with a Houthi commander killed. Aside from the **potential risks to oil infrastructure**, it is said that the marginal risks to air traffic is increasing as Houthi deploy Iranian air defence weapons that track heat source but is unable to distinguish between civilian or military targets.

- Lastly, the risk with mediated talks is that varying emphasis and representations accentuate risks of a rude awakening coming to the table.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(US) U. of Mich. Sentiment/Expectations (Sep I)	48.1/46.3	47.5/45.7	47.8/45.8
(US) U. of Mich. 1/5 Yr Inflation (Sep F)	4.6%/3.4%	4.7%/3.4%	4.6%/3.4%
(US) Durable Goods Orders/Nondef Ex Air (Aug)	0.0%/1.6%	-0.3%/0.6%	1.1%/0.0%
(TH) Custom Exports/Imports (Aug)	24.3%/25.1%	24.8%/30.0%	21.6%/36.7%

Today	Actual	Exp.	Prior
(US) Dallas Fed Manf. Activity (Sep)		7.3	11.6
(CH) Industrial Profits YoY (Aug)		--	11.2%
(SG) Industrial Production YoY (Aug)		17.1%	6.8%
(IN) Industrial Production YoY (Aug)		7.2%	6.7%

Persistence of Supply Shocks

- Fed officials continued with their hawkish notes. New York Fed President John Williams said that the central bank **cannot ignore supply shocks if they have a persistent effect on prices**. That said, he said that the **labour market is in balance**, not adding to inflation pressures which ought to imply a more measured framing of the need for policy restrictiveness.

- Meanwhile, Cleveland Fed President Beth Hammack alluded to the **impact of expectations for Fed rate hikes at the long end of the UST yield curve** aside from growth and fiscal concerns.

- Front end rate hikes propping the long end is warranted given that term premium is unlikely to be compressed under such geo-political uncertainties and clouded US fiscal trajectories.

- Kansas City Fed President Jeff Schmid said that **policy makers have not fixed the inflation problem** as it reminded us that they are into five years of inflation being above target.

Yields (2Y: -7.2bp; 10Y: -3.7bp; 30Y: +1.4bp)

Equities (Nasdaq: +0.5%; S&P500: +0.5%; Dow: +0.9%)

FX (DXY: -0.3%)

RBA Watch: Hikes, Not Necessarily Haste

- The RBA is likely to **deliver a 25bp rate hike** at its upcoming meeting tomorrow, while retaining an **explicit tightening bias**. Nonetheless, a **prolonged sequence of consecutive hikes need not follow**. Upside risks to inflation have intensified materially with the energy price shock in recent weeks likely to prolong inflation return back to the RBA's target.

- First, it should be recognised that dis-inflation within the CPI basket is largely absent with 45% of the categories with above 3% inflation rate. In fact, from the MoM perspective, there is a discernible pick-up in sequential price pressures. As such, a **rate hike at this juncture is warranted** especially with external cost pressures such as energy and shipping costs escalating.

- Second, **declining housing prices are not factored into the CPI basket** directly as they are treated as transfer of existing assets and as such, the housing market downturn does not provide favourable CPI optics for the RBA to stand pat.

- Third, while housing price declines have attracted significant attention, policy makers are **inadvertently more likely to maintain a narrative of broader financial stability** amid tight domestic labour market and mortgage pre-payment buffers which retains buoyancy for rates. The key challenge ahead lies in disentangling supply- and demand-driven inflation pressures. Policymakers must assess how much further demand needs to be restrained when a growing share of inflationary pressures emanates from supply-side shocks that are less responsive to monetary tightening.

- We therefore expect the RBA to **remain hawkish in its communication but measured in its policy execution**. As such, back-to-back hikes are not our base case at this juncture with end-2026/early 2027 being the more considered timing for tightening if labour market and aggregate demand holds up.

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast	
USDJPY	157.28	157.46	▼0.99%	155.00	- 160.00
EURUSD	1.1391	1.1378	+0.10%	1.1250	- 1.1450
GBPUSD	1.3247	1.3228	+0.21%	1.3100	- 1.3300
AUDUSD	0.7023	0.7008	+0.16%	0.6950	- 0.7070
DXY	101.0	--	▼0.31%	100.5	- 101.9
USDCNY	6.7129	--	+0.00%	6.6800	- 6.7500
USDCNH	6.7227	6.7258	+0.10%	6.6700	- 6.7500
USDHKD	7.8440	7.8441	+0.02%	7.8200	- 7.8500
USDSGD	1.2773	1.2786	▼0.16%	1.2690	- 1.2870
USDKRW	1360	1357	+0.00%	1345	- 1380
USDTWD	31.80	--	+0.00%	31.50	- 32.10
USDINR	95.82	--	▼0.15%	95.20	- 96.50
USDIDR	17893	--	▼0.04%	17750	- 18000
USDMYR	4.074	4.075	▼0.31%	4.050	4.110
USDPHP	62.48	--	▼0.42%	62.00	- 63.20
USDTHB	33.36	33.45	▼0.35%	33.2	- 33.7
USDVND	25974	25976	▼0.07%	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)	4.854	5.163	-7.2	-3.7
JGB (JP)	1.923	3.067	2.5	-0.5
Bunds (GE)	3.274	3.600	-4.7	0.2
Gilts (UK)	4.837	5.365	-7.1	-1.5
AGB (AU)	5.019	5.369	-0.8	0.0
SGS (SG)	1.934	2.471	0.0	-0.3
CGB (CN)	1.242	1.669	0.0	0.0
KGB (KR)	3.973	4.393	0.0	0.0
SDL (IN)	6.539	7.119	0.0	1.2

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	7743.41	39.28	+0.51%
Nasdaq (US)	27068.72	129.35	+0.48%
DJIA (US)	51828.62	478.64	+0.93%
N225 (JP)	66364.2	850.21	+1.30%
STOXX50 (EU)	6302.82	30.32	+0.48%

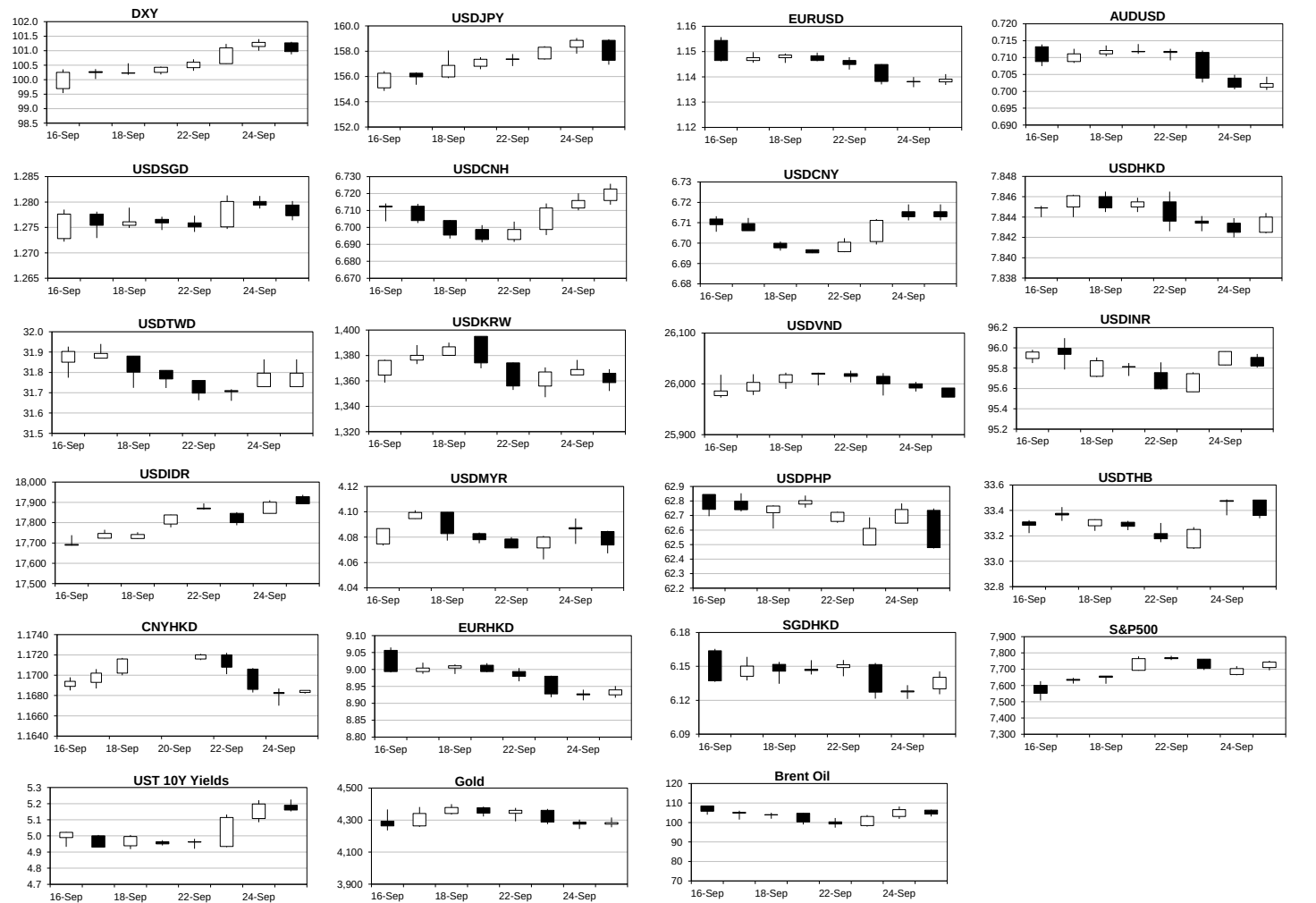
Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	14,728.37	-17.38	▼0.12%
IRON ORE (CN)	96.75	-0.66	▼0.05%
GOLD	4,284.81	9.78	+0.23%
SILVER	64.30	-0.10	▼3.06%
OIL (BRENT)	104.32	-2.28	▼2.14%
OIL (WTI)	92.41	-2.20	▼2.33%
NATURAL GAS	3.20	0.50	+0.78%

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	179.15	179.15	▼0.91%
GBP/JPY	208.309	208.276	▼0.80%
JPY/SGD (100yen)	0.8122	0.812	+0.82%
JPY/HKD (100yen)	4.9874	4.9817	+1.02%
CNH/JPY	23.402	23.454	▼1.08%
CNH/HKD	1.1685	1.1684	+0.03%
EUR/GBP	0.86005	0.86013	▼0.10%
AUD/NZD	1.24	1.2404	+0.13%
EUR/CNH	7.657	7.6523	+0.18%
GBP/CNH	8.9056	8.8966	+0.31%
CNY/HKD	1.1685	1.1684	+0.03%
EUR/HKD	8.9398	8.9246	+0.17%
SGD/HKD	6.1404	6.1351	+0.20%

*Open is as at 8am HKT/SGT.

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5763.08	10.19	+0.18%
STI (SG)	5711.12	27.75	+0.49%
SHCOMP (CN)	3888.374	0.00	+0.00%
SZCOMP (CN)	2476.075	0.00	+0.00%
HSI (HK)	24510.09	-251.04	▼1.01%
SENSEX (IN)	73895.74	315.20	+0.43%
JSE (ID)	6241.892	-56.72	▼0.90%
KLSE (MY)	1671.62	-0.69	▼0.04%
PSE (PH)	5825.97	95.95	+1.67%
SET (TH)	1607.63	5.05	+0.32%
VNINDEX (VN)	1785.11	0.01	+0.56%

CHARTS



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