



Weekly Macro Views (WMV)

Global Markets Research & Strategy

1 September 2025

Weekly Macro Update

Key Global Data for this week:

1 Sept	2 Sept	3 Sept	4 Sept	5 Sept
<ul style="list-style-type: none"> EC HCOB Eurozone Manufacturing PMI EC Unemployment Rate ID CPI YoY SK Trade Balance UK S&P Global UK Manufacturing PMI 	<ul style="list-style-type: none"> EC CPI Core YoY MA S&P Global Malaysia PMI Mfg SK CPI YoY US ISM Manufacturing US ISM New Orders 	<ul style="list-style-type: none"> AU GDP YoY EC HCOB Eurozone Composite PMI EC PPI YoY SK GDP YoY US JOLTS Job Openings US Durable Goods Orders 	<ul style="list-style-type: none"> AU Trade Balance MA BNM Overnight Policy Rate TH CPI YoY US ADP Employment Change US Initial Jobless Claims US S&P Global US Composite PMI 	<ul style="list-style-type: none"> EC GDP SA YoY GE Factory Orders MoM JN Leading Index CI US Average Hourly Earnings MoM US Unemployment Rate US Change in Nonfarm Payrolls

Summary of Macro Views:

Global	<ul style="list-style-type: none"> US: GDP and PCE data points towards resilience US: Tariff impact weighs on manufacturing and consumers 	Asia	<ul style="list-style-type: none"> ID: Eyes on politics and policies ID: Lower CPI in August ID: Exports maintain momentum despite slower growth MY: Bank Negara Malaysia likely on hold PH: BSP lowers policy rate by 25bps TH: The pain of politics
Asia	<ul style="list-style-type: none"> SI: Robust July industrial production growth CH: Equity hype is real CH: RMB managed appreciation HK: HKD liquidity at tight side HK: Stabilisation in housing market ahead, but with turbulence HK: Export performance continued to hold up IN: Solid growth to start the fiscal year 	Asset Class	<ul style="list-style-type: none"> Commodities: Higher oil prices ESG: China ETS to implement absolute emissions caps starting 2027 FX & Rates: Heavy Data Week

Global: Central Bank

Bank Negara Malaysia (BNM)



Thursday, 4th September

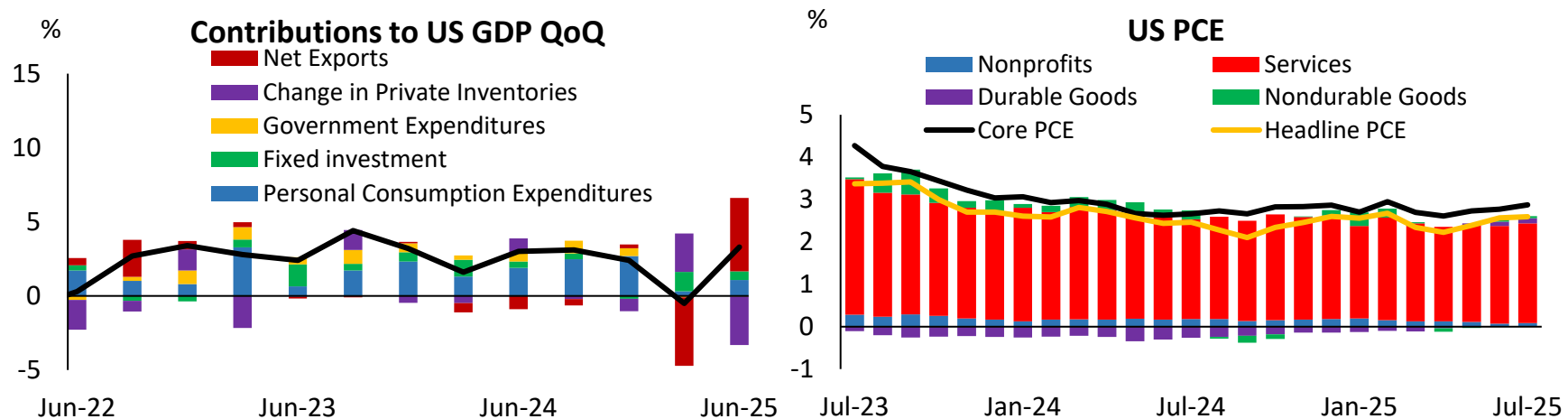
House Views

Overnight Policy Rate

Likely **hold** at **2.75%**

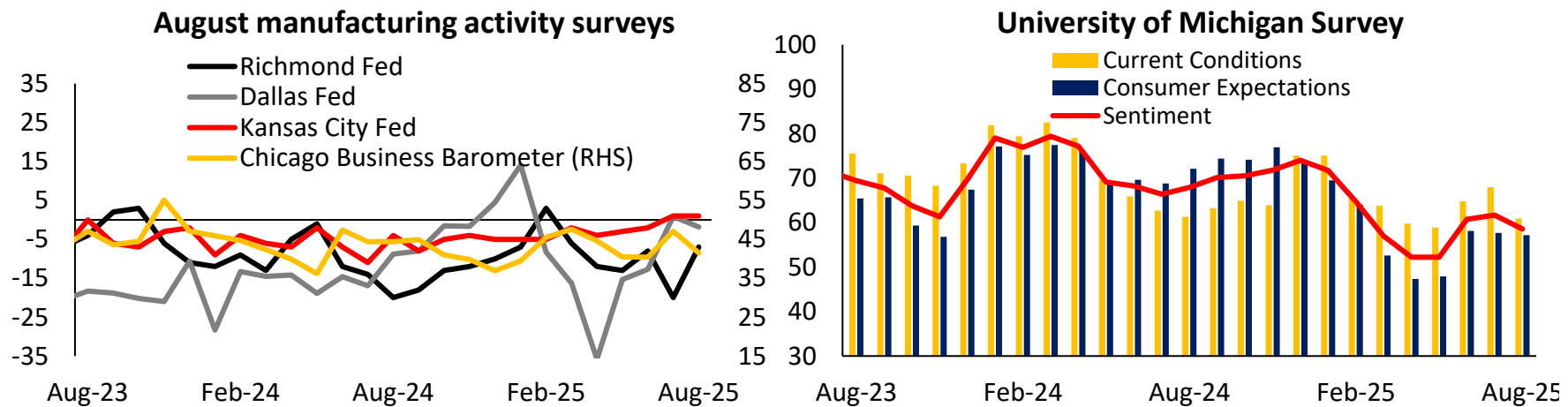
US: GDP and PCE data points towards resilience

- The economy grew 3.3% YoY in 2Q25, a sharp rebound from -0.5% in 1Q25, according to second estimates. 2Q25 GDP was revised slightly higher from 3.0%, mainly due to upward revisions to fixed investment (3.3%; first estimate: 0.4%) and consumer spending (1.6%; first estimate: 1.4%). However, this was partly offset by a downward revision to government spending (-0.2%; first estimate: 0.4%) and an upward revision to imports (-29.8%; first estimate: -30.3% %).
- Headline PCE increased by 2.6% YoY in July 2025, unchanged from June while core PCE, which excludes food and energy, went up to 2.9% YoY, up from 2.8% in June. Both readings were in line with consensus expectations. Prices for goods grew by -0.1%, after a 0.4% gain in June, with softer prices for durable goods down by 0.1% after rising 0.5% in June and prices of recreational goods, which contracted by 0.9% (June: 0.9%) Meanwhile, prices for services rose 0.3%, up from 0.2% June. According to the BEA, the increase in services were primarily driven by a sharp rise in cost for financial services, which grew by 1.2% from 0.4% in June.



US: Tariff impact weighs on manufacturing and consumers

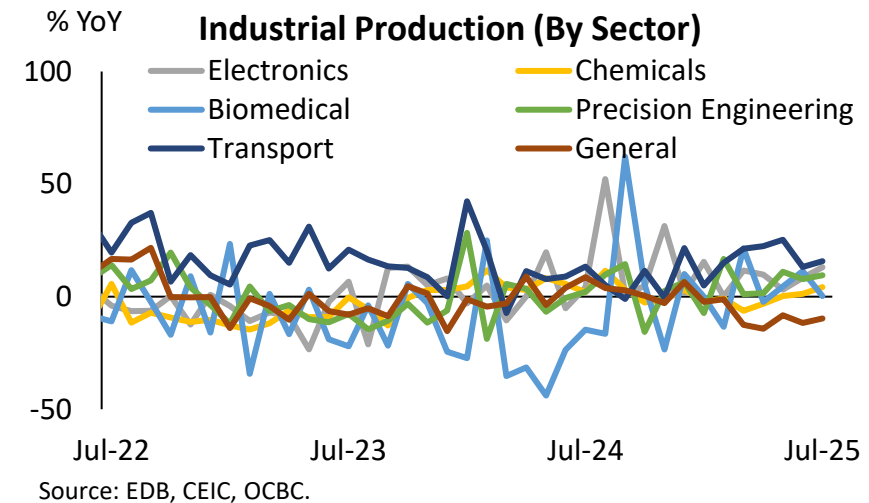
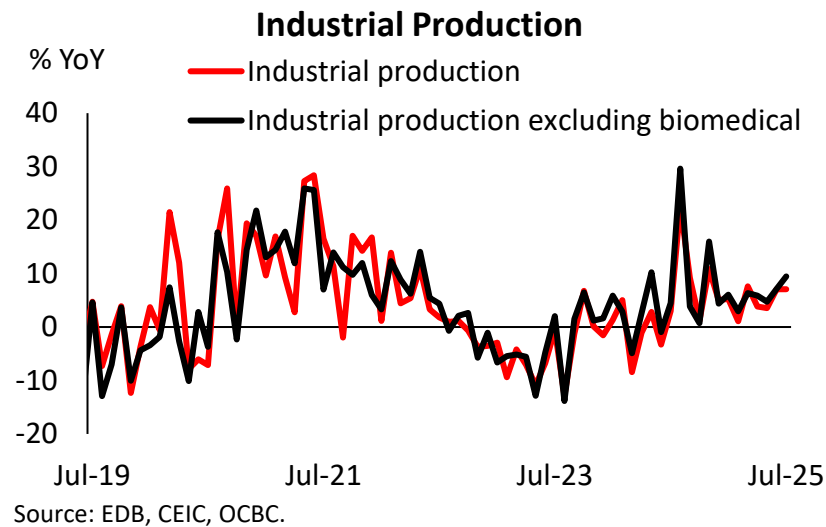
- Manufacturing activity across the board remained soft. The Dallas Fed Manufacturing activity came in at -1.8, reflecting a slowdown in production and capacity utilization. Meanwhile, the Richmond Fed Manufacturing activity rose to -7 from -20 in July but remained in negative territory. In Chicago, the Business Barometer index extends a 21-month run in the contraction zone, slowing down to 41.5 points in August, while in Kansas City, the Fed manufacturing activity remained unchanged on the index at 1. Across the surveys conducted, uncertainty surrounding the actual pass-through cost of tariffs and clarity on tariff policies were a common concern.
- The University of Michigan consumer sentiment for the US dropped to 58.6 in August, down from 61.7 in July and well below market expectations of 62. According to the survey, “buying conditions for durable goods subsided to their lowest reading in a year,” while “current personal finances declined 7%, both due to heightened concerns about high prices”. Concerns over prices were echoed in the Conference Board Consumer Confidence Survey, which fell from 97.4 in August from 98.7. Most notably, write-in responses referencing tariffs increased and continued to be associated with concerns about higher prices.



Source: Federal Reserve of Dallas, Federal Reserve of Kansas City, Federal Reserve of Richmond, University of Michigan, Bloomberg, OCBC

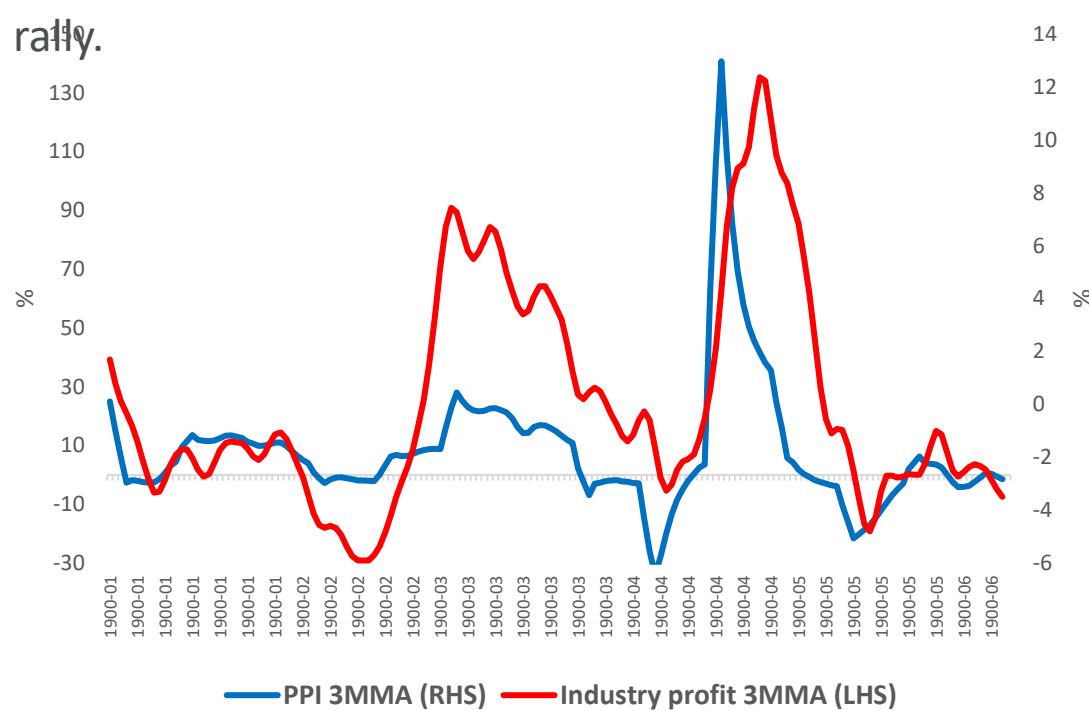
Singapore: Robust July industrial production growth

- Strong manufacturing output sustained into July, expanding by 7.1% YoY unchanged from a downwardly revised 7.1% in June. On a monthly seasonally adjusted basis, manufacturing output increased by 8.2% (consensus: 1.1%), up from a downwardly revised -0.8%.
- Growth was led by transport engineering which saw the sixth consecutive month of double-digit growth at 15.3% YoY, supported by strong demand in the aerospace and marine offshore engineering, as well as electronics and precision engineering, both of which grew 13.1% and 9.6%, respectively.
- Separately, biomedical manufacturing growth slowed to 0.2% YoY from 11.4% in June. The medical technology segment grew by 3.3%, buoyed by sustained export demand for medical devices, while pharmaceuticals grew 2.7%. Overall, manufacturing output increased 5.1% YoY for the period January-July 2025, up from 3.8% in 2024.



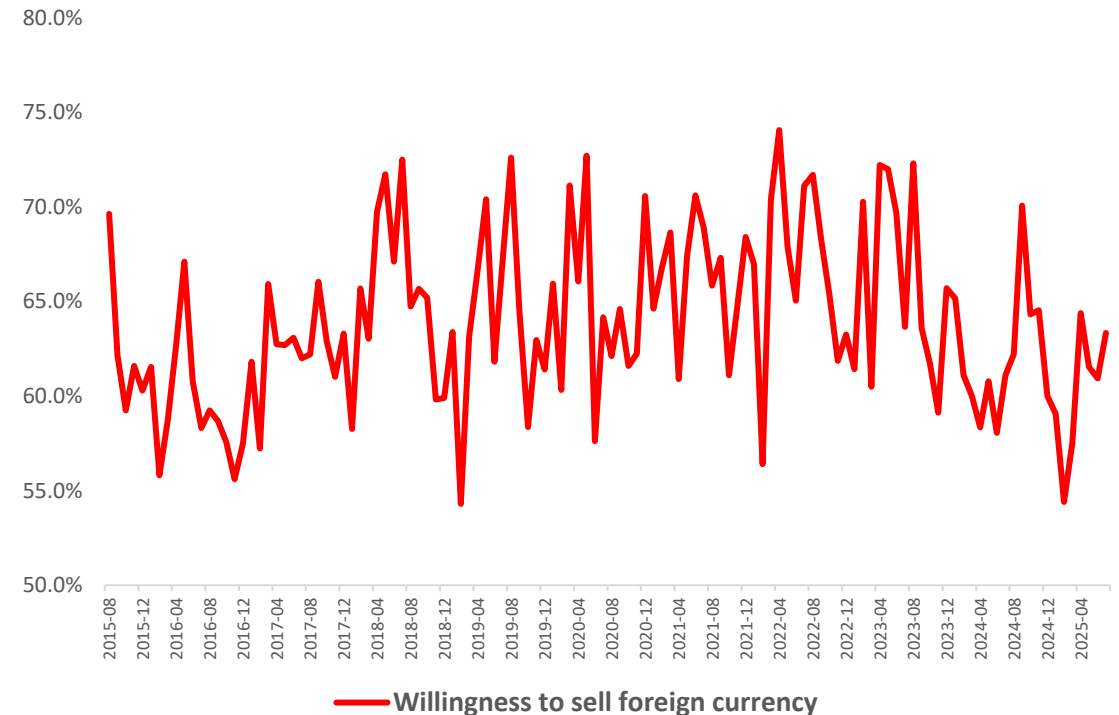
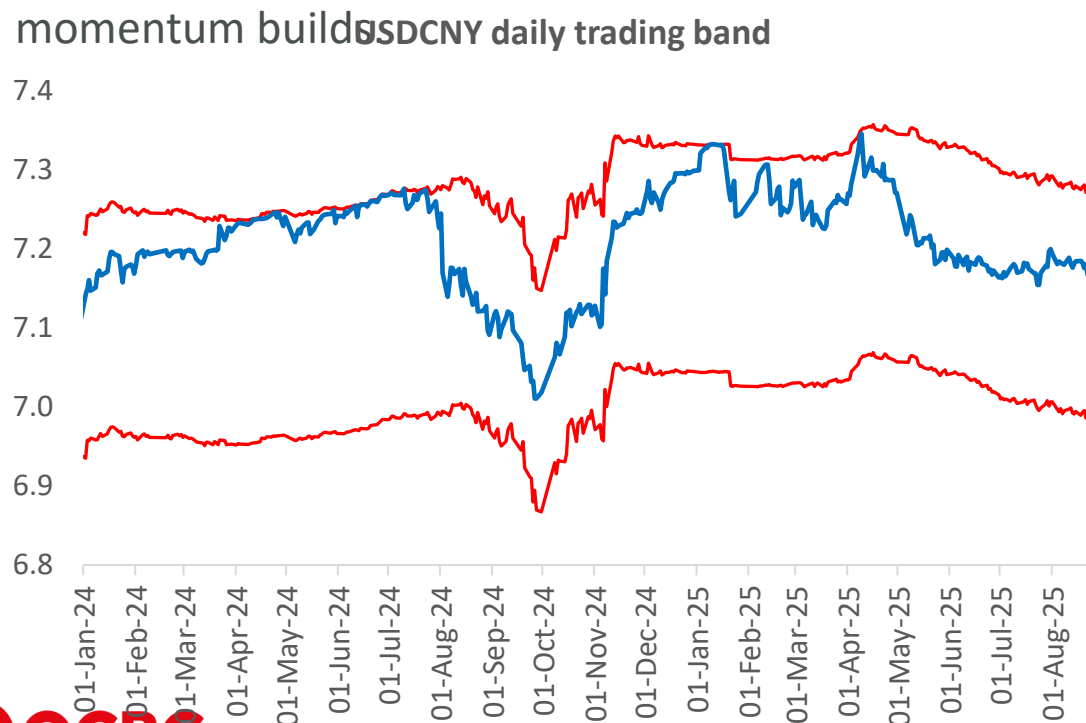
China: Equity hype is real

- From a macro lens, the recent anti-involution campaign has undeniably injected optimism into the market. History gives us a useful playbook here: every cycle of overcapacity resolution and the bottoming-out of the Producer Price Index (PPI) has been followed by a bull run in the capital market. Typically, PPI leads industry profits by about three months, and industry profits move in lockstep with A-share earnings.
- August PMI data adds to the story: input prices jumped 1.8 points to 53.3, suggesting anti-involution measures are working their way through the system. If history rhymes, the rebound in PPI could well keep fueling the current equity rally.



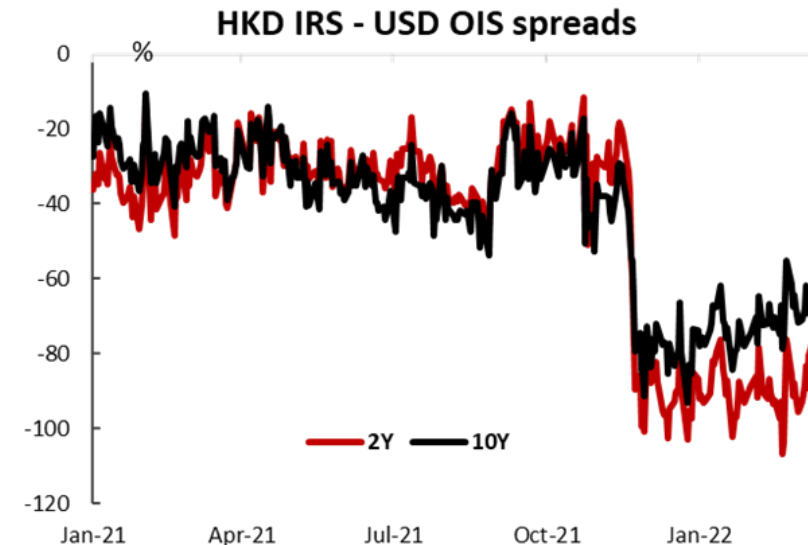
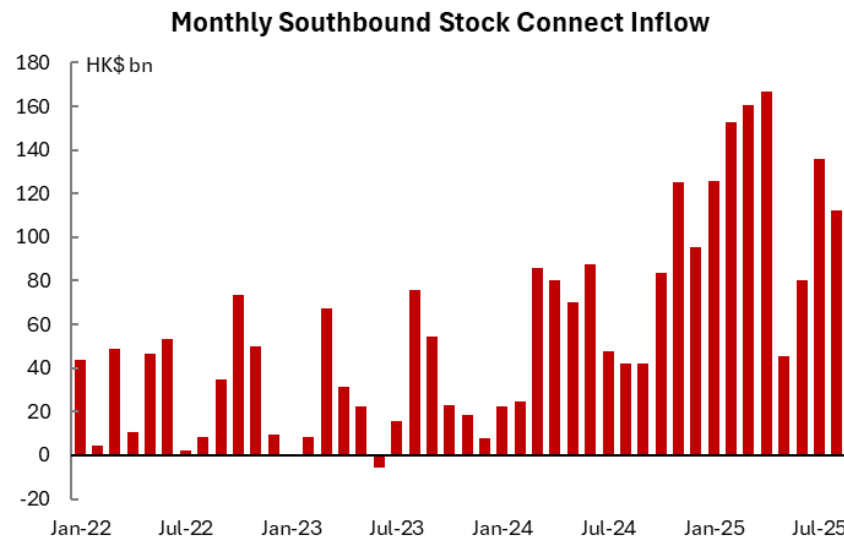
China: RMB managed appreciation

- On RMB, the recent creep higher in the daily fixing looks like the opening act of a managed appreciation against the dollar. Clients are glued to the daily fixing—sometimes I wonder if they know more than me. Whether this guided appreciation is tied to ongoing US-China trade talks remains unclear, but it does suggest that RMB is transitioning from prolonged stability to a carefully steered grind higher.
- SAFE data shows the willingness to sell foreign currency in July ticked up slightly to 63%, though still below the 10-year average of 64%. This means corporates remain hypersensitive to RMB swings, raising the risk of overshooting if momentum builds.



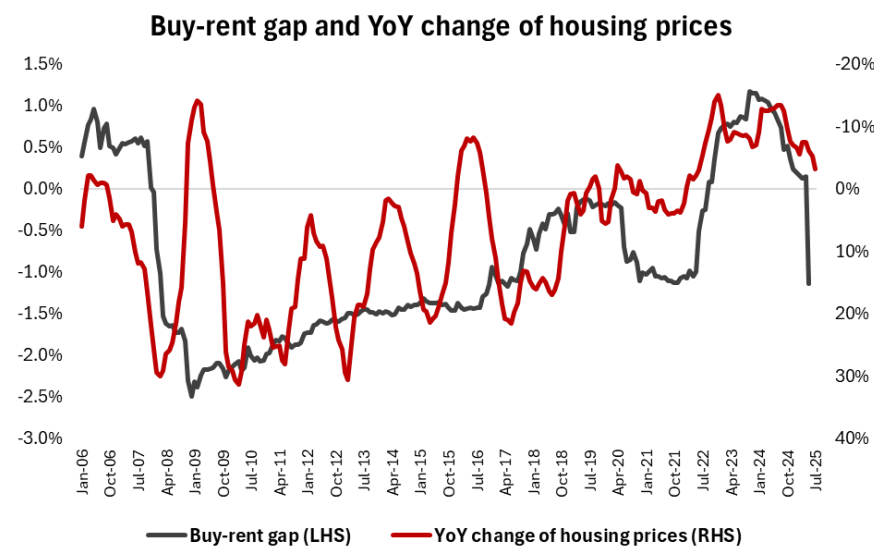
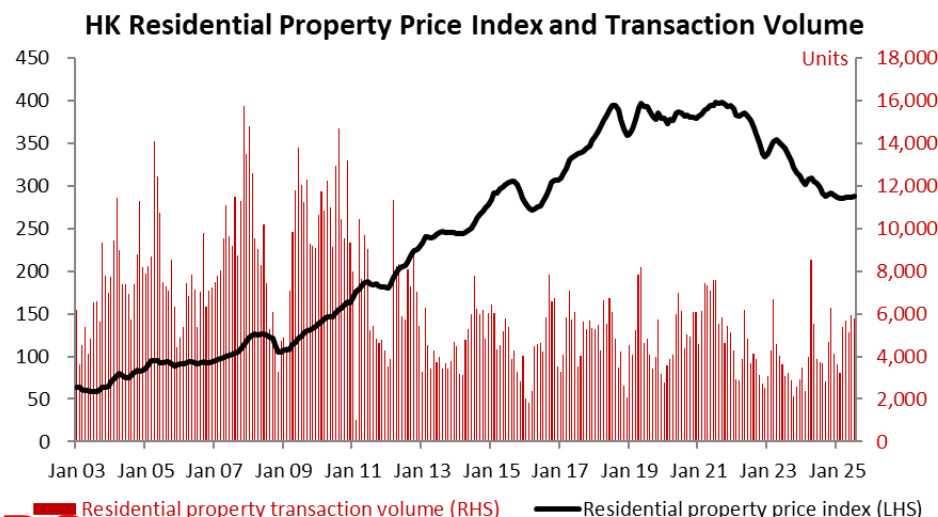
HK: HKD liquidity at tight side

- Strong equity inflows together with the month-end effect, have kept HKD liquidity at the tight side and pushed HIBORs to multi-week high last week. Front-end HIBORs were more responsive to the liquidity tightness and rose substantially than the back-end, hence leading to an inverted curve. As month-end effect abates and equity inflow normalizes, further upside room for HIBORs should be capped.
- HIBORs may consolidate around the current levels for now, in the absence of imminent additional liquidity drainage. Near-term consolidation is also likely for HKD IRS – USD OIS spreads, while we continue to see room for further upward moves at short-end HKD-USD rates spreads over a multi-month horizon.
- Spot USDHKD hovered at below the mid-point of band at 7.80 levels, and pressure appeared to be biased slightly to the downside. We flag two-way risks in terms of the direction of potential FX intervention.



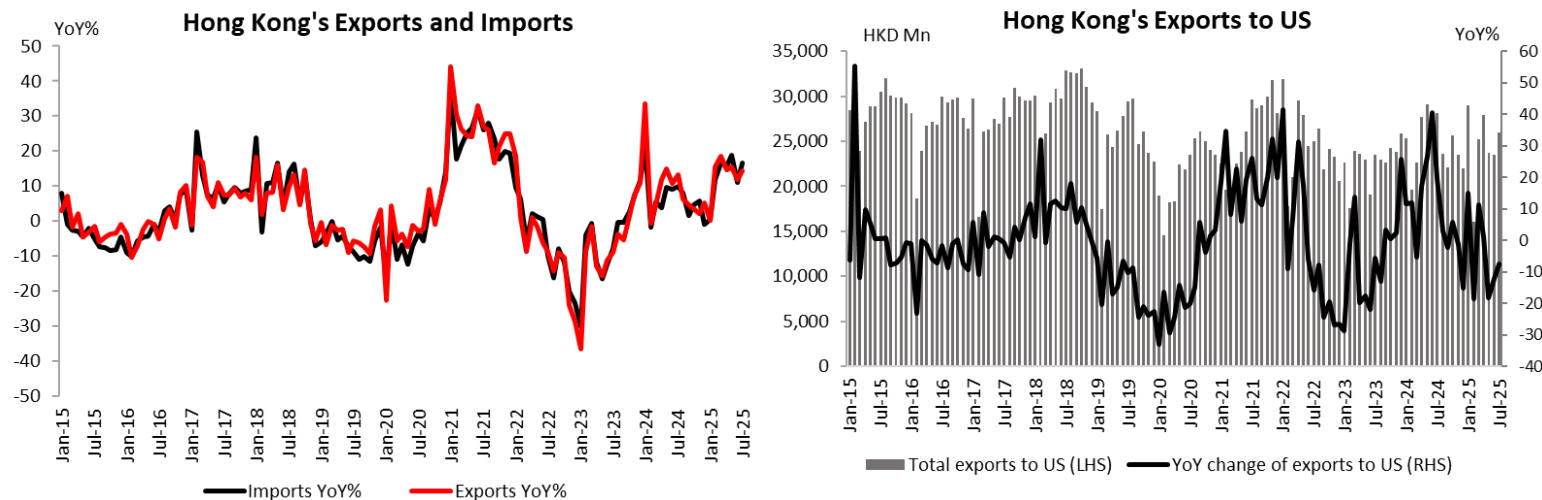
HK: Stabilisation in housing market ahead, but with turbulence

- Hong Kong's housing market is showing tentative signs of bottoming out. The residential property price index rose by 0.4% MoM in July, after staying flatlined for two straight months. Meanwhile, rental index increased further by 0.6% MoM. In the second half this year, we expect the housing market to stabilize further alongside the rising market yield, though with some turbulence ahead as the 'low-rate honeymoon' ends.
- In the first seven months this year, the residential property price index fell by 0.4%, while rental index grew by 2.0%. With the growth of housing rent outpacing price, the market yield is expected to extend its uptrend. Other high frequency data suggested that housing prices held steady at seven-month high.
- Anecdotal evidence suggested a broad-based improvement in housing market sentiment more recently. Developers are also offering less discount to the new home buyers in light of the easing inventory pressure. We expect the housing price index to flatline this year, while rental index is expected to increase by 3-4% YoY.



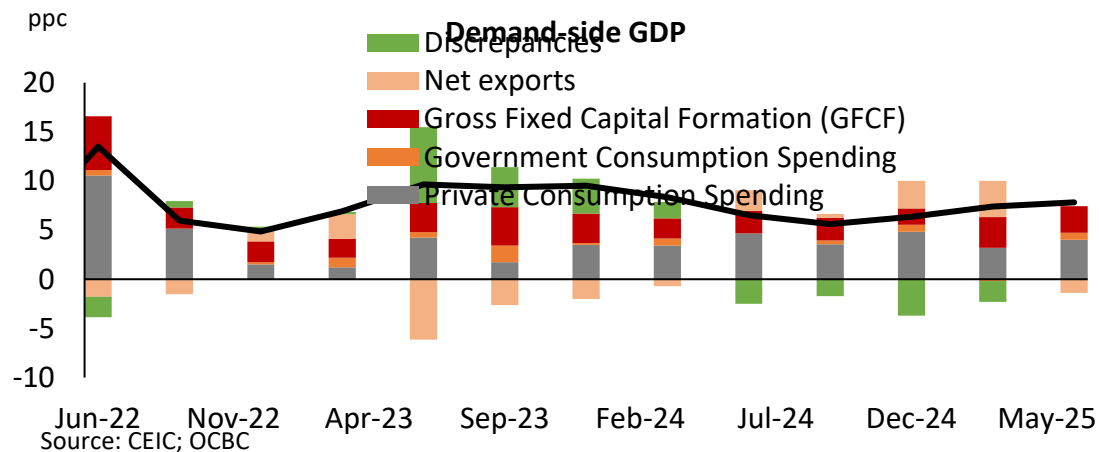
HK: Export performance continued to hold up

- Exports performance continued to hold up in July, with growth of merchandise exports and imports picking up again to 14.3% YoY and 16.5% YoY respectively in July (June: 11.9% YoY and 11.1% YoY). In sequential terms, exports rebounded by 6.8% MoM, snapping the three-month losing streak. During the period, trade balance deficit narrowed to HKD3.41 billion in July, from that of HKD58.9 billion in June.
- Breaking down, exports to major trading partners continued to show mixed performance. Total merchandise exports to Asia as a whole grew by 19.3% YoY in July, while exports to Netherlands and US plummeted by 42.1% YoY and 7.6% YoY respectively.
- For the first seven months of 2025 as a whole, the value of total exports and imports still recorded solid growth at 13.1% YoY and 12.8% YoY respectively. We expect Hong Kong's trade performance to weaken further in the coming months, due to the high base a year ago and the slowing global growth. For the whole year, we expect merchandise exports to grow by around 10%, barring major escalations in trade tensions.

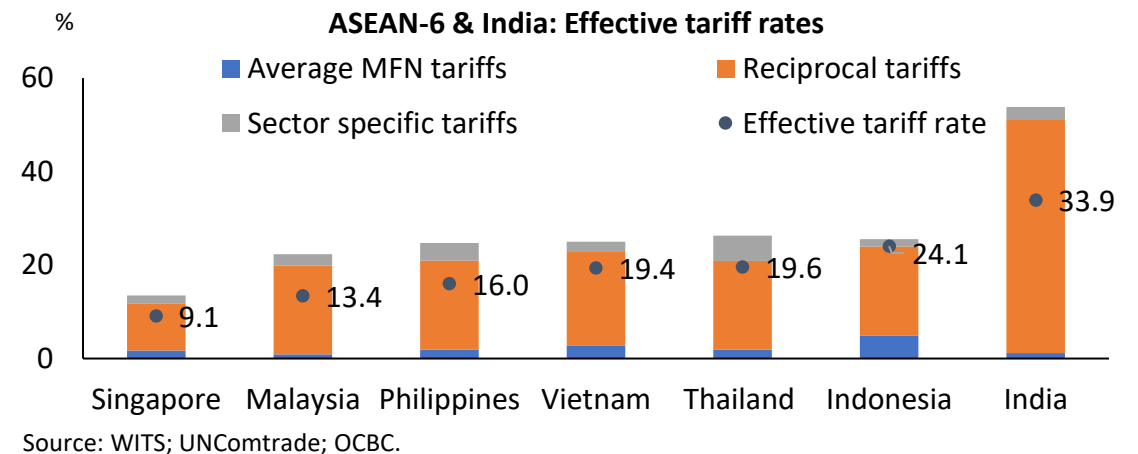


India: Solid growth to start the fiscal year

- GDP growth for the April to June quarter (2Q25 or the first quarter of fiscal year 2025-26) raced ahead of expectations at 7.8% (Consensus: 6.7%; OCBC: 6.5%). The main driver of growth was private consumption spending (7.0% YoY in 2Q25 from 6.0% in 1Q25) and government expenditures (7.4% from -1.8%) while investment spending slowed to 7.8% from 9.4% in 1Q25.
- We expect GDP growth to remain strong for another quarter before moderating in the second half of the fiscal year. Lower inflationary pressures, the impending adjustment of the GST slabs to allow for greater spending and the ongoing festive season through to Diwali in October will keep private consumption supported in 3Q25. Beyond this, we expect the impact of the tariffs to bite. The effective tariff rate on India's exports to the US is the highest in the region at 33.9%, by our calculations. Meanwhile, government spending is likely to adjust lower to accommodate for fiscal consolidation. Indeed, July expenditure growth slowed to 3.3% YoY from 37.4% in June.
- We are pushing back the timing our expectations on a cumulative 50bps in rate cuts from Reserve Bank of India.



Source: WITS, UNCOMTRADE, CEIC, OCBC.



Indonesia: Eyes on politics and policies

- Political headlines are in the spotlight following an escalation of street protests last week and over the weekend. There seems to be a sense of uneasy calm that has returned but there are some public pressure points for the rest of 2025. It remains to be seen if the protests will lead to any defining changes in policy direction for the Prabowo administration, but this is not our base case.
- President Prabowo addressed the nation on 31 August, stating that the parliament will revoke the housing allowances of IDR50mn/month that are provided to parliamentarians, with a moratorium on trips abroad. He added that errant lawmakers could lose their seats. He also issued a warning that police and military will take firm action if protestor activities become illegal. In addition, President Prabowo cancelled his planned trip to China for the Shanghai Cooperation Organization Summit, citing the need to directly oversee Indonesia’s escalating protests.
- The implications for economic activity are less clear cut given that the street protests are unlikely to change the broader direction of policy. We maintain our 2025 GDP growth forecast of 4.7% and continue to expect another 25bp rate cut from Bank Indonesia (BI) for the rest of this year.

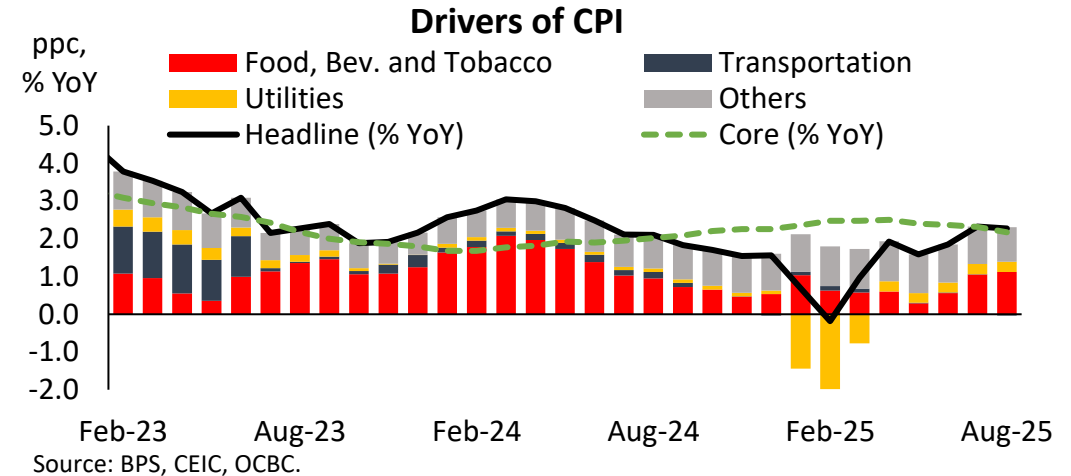
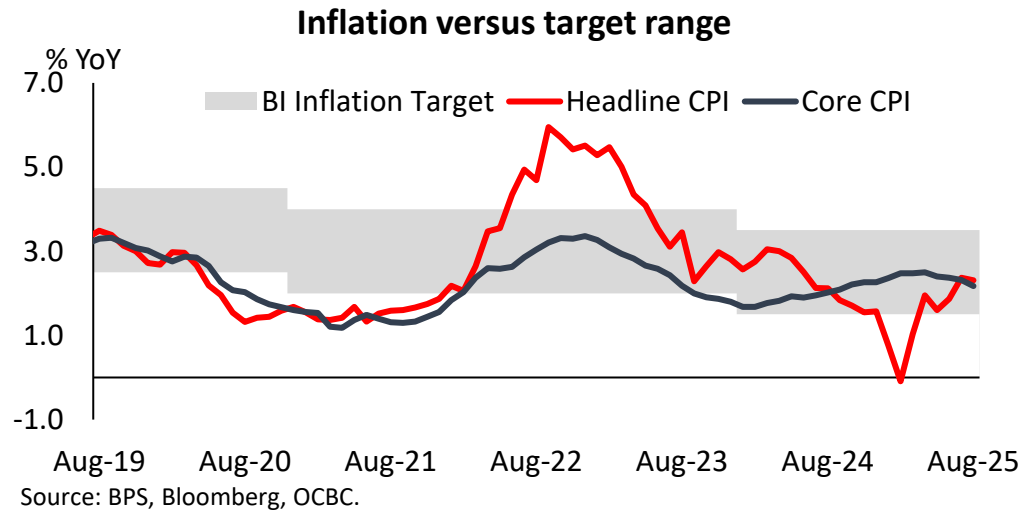
Protest / Event	When	Where	Key reasons / demands
“Indonesia Gelap” (Dark Indonesia) — Student-led anti-austerity protests	February 2025	Nationwide (Jakarta, Yogyakarta, Makassar, & other cities)	Opposition to budget cuts and austerity seen as hurting education/teacher allowances and social programs.
Protests against revisions to the Military Law	March 2025	Jakarta, Yogyakarta, Surabaya & other cities	Objections that amendments expand military roles in civilian posts and weaken civilian supremacy/democratic checks.
Pati Regency property-tax (PBB-P2) protests	August 2025	Pati, Central Java	Anger at proposed 250% hike in the Rural and Urban Land and Building Tax (PBB-P2).
Labor march / wage & jobs protests	August 2025	Jakarta	Unions demanded a 10.5% minimum-wage rise for 2026, curbs on outsourcing, tax relief, and protections against layoffs.
Protests over MPs’ perks and economic hardship	August 2025	Nationwide (Jakarta, Makassar, Bandung & other cities)	Protest over MPs new perks, including IDR50mn/month in housing allowance for MPs amid rising living costs and layoffs.
Source: Reuters, Bloomberg, CNBC Indonesia, Jakarta Globe, The Straits Times, BBC, Tempo, SCMP and various other sources.			



Source: Reuters, Bloomberg, CNBC Indonesia, Jakarta Globe, The Straits Times, BBC, Tempo, SCMP and various other sources. , OCBC.

Indonesia: Lower CPI in August

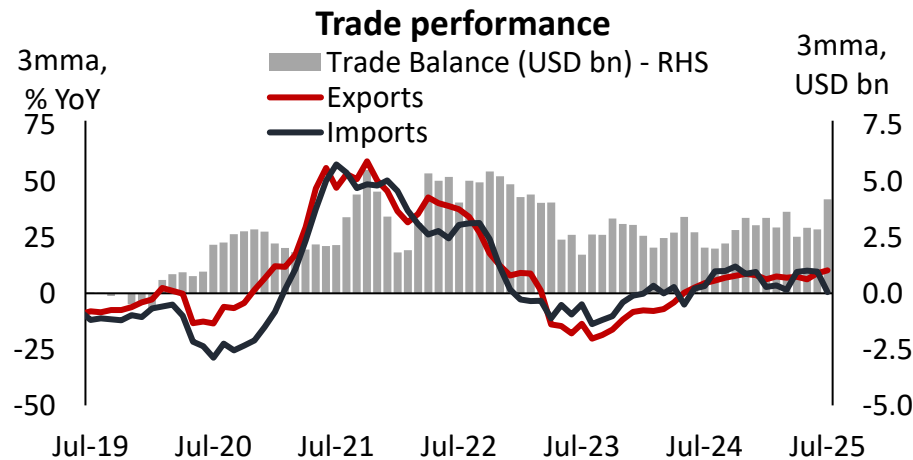
- Headline CPI eased slightly to 2.3% YoY in August from 2.4% in July, contrary to expectations of an increase (Consensus: 2.5%; OCBC: 2.7%). Key contributors include deflation in transportation (-0.3% YoY from 0.1%) and information, communication & financial services (-0.3%, similar to July), as well as lower inflation in education (1.4% from 2.0%) and clothing & footwear (0.8% from 1.0%). This have more than offset higher inflation in food, beverages, and tobacco (4.0% YoY in August from 3.8% in July). Similarly, core CPI eased to 2.2% YoY from 2.3%.
- The August print brings the average CPI for July–August to 2.3% YoY, up from 1.8% in 2Q25. Nonetheless, the year-to-August CPI remains broadly muted at 1.5% YoY (vs. 2.3% in 2024), staying within Bank Indonesia's 1.5%–3.5% target range. We maintain our forecast for CPI to average 2.0% this year, implying a modest uptick in price pressures in the coming months.



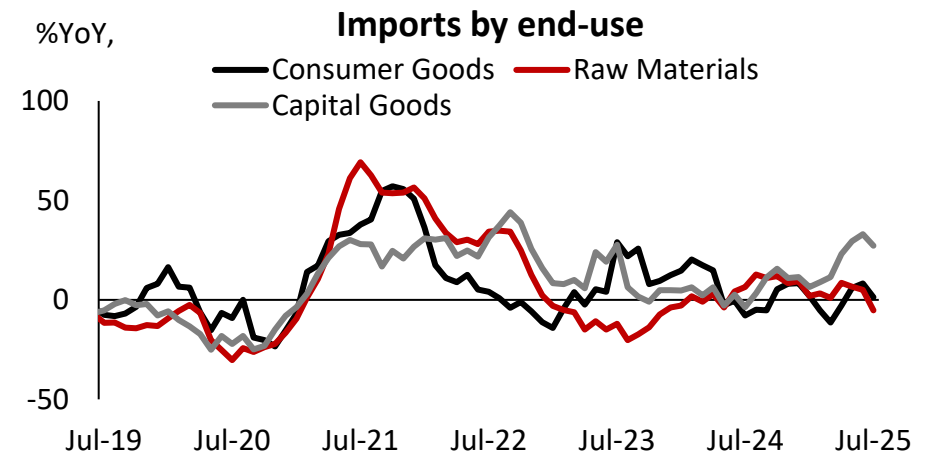
Source: BPS, Bloomberg, CEIC, OCBC.

Indonesia: Exports maintain momentum despite slower growth

- Export growth slowed to 9.9% YoY in July from 11.3% in June, but still exceeded expectations (Consensus & OCBC forecast: 5.5%). Meanwhile, imports declined by 5.9% YoY from 4.3% in the previous month, broadly in line with forecasts (Consensus: -5.0%; OCBC: -7.4%). As a result, the trade balance increased slightly to USD4.2bn in August from USD4.1bn in July.
- Looking at imports by end-use, the slowdown was broad-based, led by raw materials (11.9% YoY in August from -2.7%), and consumer goods (-2.5% from +1.2%). In contrast, capital goods imports proved more resilient, growing 18.8% YoY, albeit slower than 37.9% in June. Meanwhile, looking at exports by destination, shipments to the US remained robust in July, rising 38.9% YoY (up from 33.5%), resulting in a year-to-July growth of 23.5%. This contrasts with more moderate growth for shipments to ASEAN (19.3%), Europe (12.7%), and China (8.1%).
- The July print brings the January-July 2025 exports growth to 8.3% YoY (vs 2.5% in 2024) while imports growth were more muted at 3.7% (vs 5.4% in 2024).



Source: BPS, CEIC, OCBC.



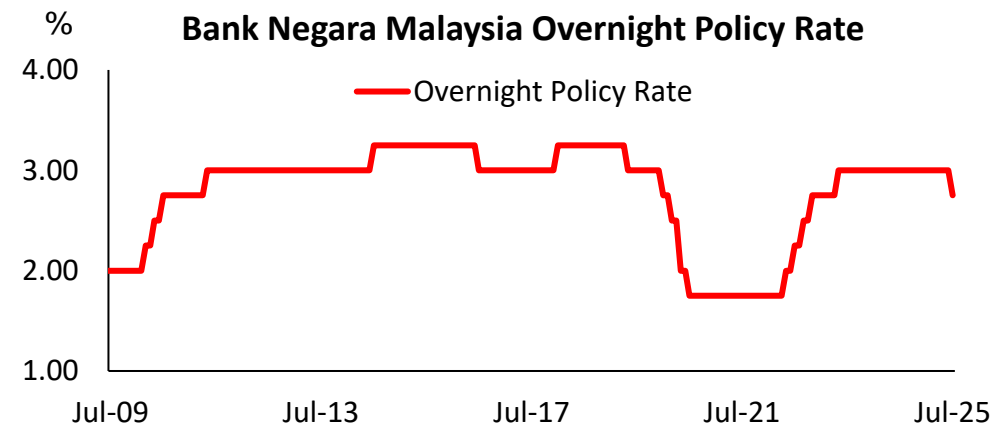
Source: BPS, CEIC, OCBC.



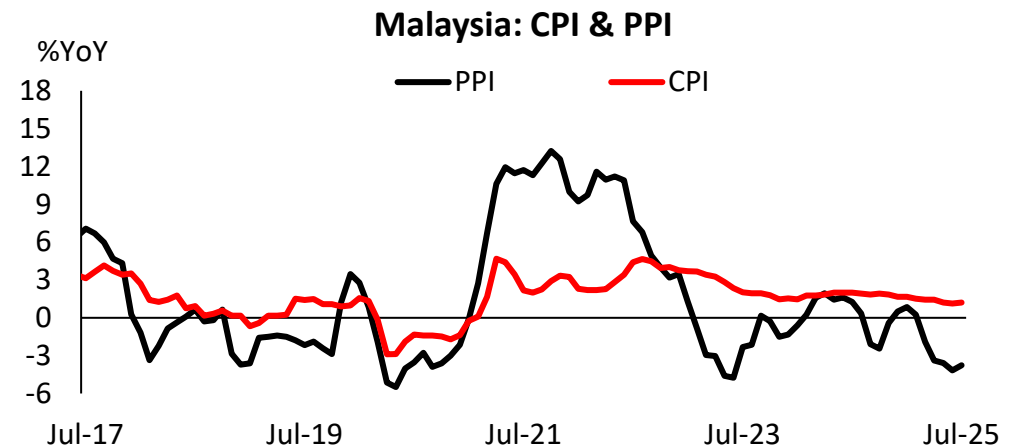
Source: BPS, Bloomberg, CEIC, OCBC.

Malaysia: Bank Negara Malaysia likely on hold

- Bank Negara Malaysia (BNM) meets on Thursday (4 September), we expect it will keep policy rates steady at 2.75%. Following a 25bp cut at its July meeting, BNM will likely be in wait-and-see mode as it assess the impact of US tariffs on economic growth. While we do not expect any shifts in BNM's assessment of domestic demand conditions, we will monitor its tone to see if it is open for further rate reductions.
- The inflationary picture remains benign. The producer price index (PPI) contracted by 3.8% YoY in July from -4.2% in June. By sector, the drivers were more mixed. PPI for the agriculture, forestry & fishing (1.1% YoY in July vs -0.3% in June), electricity and gas supply (4.0% vs -0.2%) rose in July while manufacturing (-4.0% vs -4.3%) and water supply (-0.1% vs -0.2%), mining (-8.7% vs -8.0%) remained subdued. PPI has averaged -2.3% YoY in January–July 2025, compared with a 0.3% increase in 2024.



Source: Bank Negara Malaysia, CEIC, OCBC



Source: CEIC, OCBC

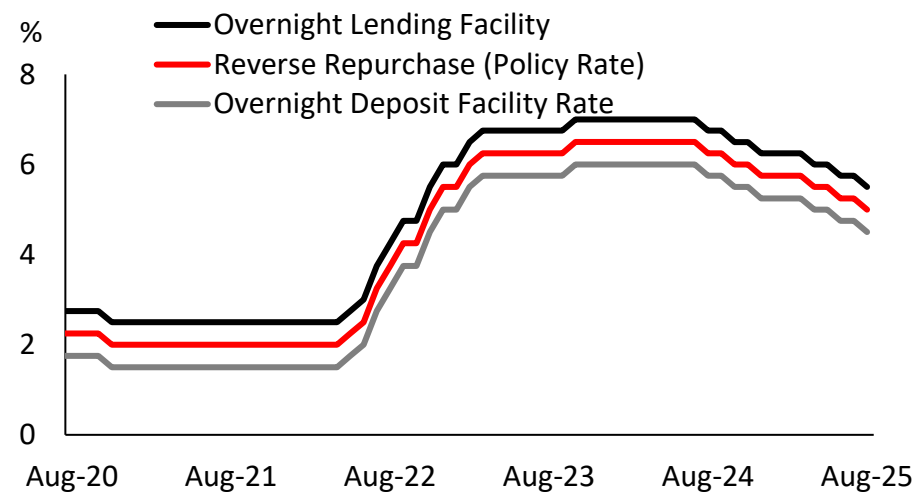


Source: BNM, CEIC, OCBC.

Philippines: BSP lowers policy rate by 25bps

- The Bangko Sentral ng Pilipinas (BSP) cut its policy rate by 25bps to 5.00% at its 28 August meeting. This is in line with consensus and our expectations. Concomitantly, the lending and deposit rates were also reduced by 25bp.
- According to the press release, the inflation outlook remains broadly unchanged, with “the inflation forecast for 2025 settled at 1.7%. The forecasts stand at 3.3% for 2026 and 3.4% for 2027.” The BSP warned that potential adjustments in electricity rate and higher rice tariffs “could raise inflationary pressures over the policy horizon.”
- In terms of monetary policy, we have pencilled in another 25bps rate cut for the remainder of this year. We expect the BSP to implement this in 4Q25, lowering the policy rate to 4.75%. The BSP stated that it is less dovish than before, which suggests that its easing cycle might be approaching its end.

BSP Lending, Deposit and Policy Rates



Source: Bangko Sentral ng Pilipinas, CEIC, OCBC.



Source: Bangko Sentral ng Pilipinas, CEIC, OCBC.

Date of MPC Decision	Risk-adjusted: Headline Inflation (%YoY)		
	2025F	2026F	2027F
Jun-24	3.1		
Aug-24	2.9	3.3	
Oct-24	3.3	3.7	
Dec-24	3.4	3.7	
Feb-25	3.5	3.7	
Apr-25	2.3	3.3	3.2
Jun-25	1.6	3.4	3.3
Aug-25	1.7	3.3	3.4

Note: BSP started providing risk-adjusted inflation forecast at its October off-cycle meeting.

Source: Bangko Sentral Ng Pilipinas, OCBC.

Thailand: The pain of politics

- The constitutional court voted to remove Paetongtarn Shinawatra from the post of prime minister on 29 August 2025. The immediate aftermath of these court decisions is usually heightened uncertainty regarding policy continuity. The nature and composition of Parliament and the new PM are crucial unknowns.
- We see two likely scenarios for the coming months. First, Parliament is able to appoint a substitute from the eligible list of candidates. This will likely allow for political continuity to be maintained, albeit with changes to economic policies depending on the policy inclinations of the selected PM. The risk of another bout of political uncertainty, however, remains as the coalition will likely be fragile. Given that the House passed the third and final reading of the bill on 15 August, the risks for Budget 2026 maybe more contained. The bill is now with the Senate.
- We expect growth to slow sharply to 0.5% YoY in 2H25 from 3% in 1H25, taking the full year average to 1.8%. We see another 25bp rate cut from Bank of Thailand, but the risk is for deeper cuts if the political paralysis persists.

Selected Constitutional Rulings

7-May-14	The Constitutional Court dismissed PM Yingluck Shinawatra. Niwatthamrong Boonsongpaisan appointed as Acting PM.
20-Nov-19	The Constitutional Court dismissed Future Forward Party leader Thanathorn Juangroongruangkit as MP. The Future Forward Party was subsequently dissolved on 21 February 2020.
30-Sep-22	The Constitutional Court ruled that PM Prayuth Chan-o-cha term has not exceeded the maximum 8-year limit. This paved the way for his return to the Prime Minister office after a five-week suspension.
7-Aug-24	The Constitutional Court banned Pita Limjaroenrat from politics for 10 years. Several executives in his party were also banned from politics. The court also passed a ruling to dissolve the Move Forward Party.
14-Aug-24	The Constitutional Court dismissed PM Srettha Thavisin. Phumtham Wechayachai appointed as Acting PM.
22-Aug-25	The Constitutional Court dismissed the lese-majesty case file against ex-PM Thaksin Shinawatra, highlighting insufficient evidence to prove his wrongdoing.
30-Sep-25	The Constitutional Court dismissed PM Paetongtarn Shinawatra. Phumtham Wechayachai appointed as Acting PM.

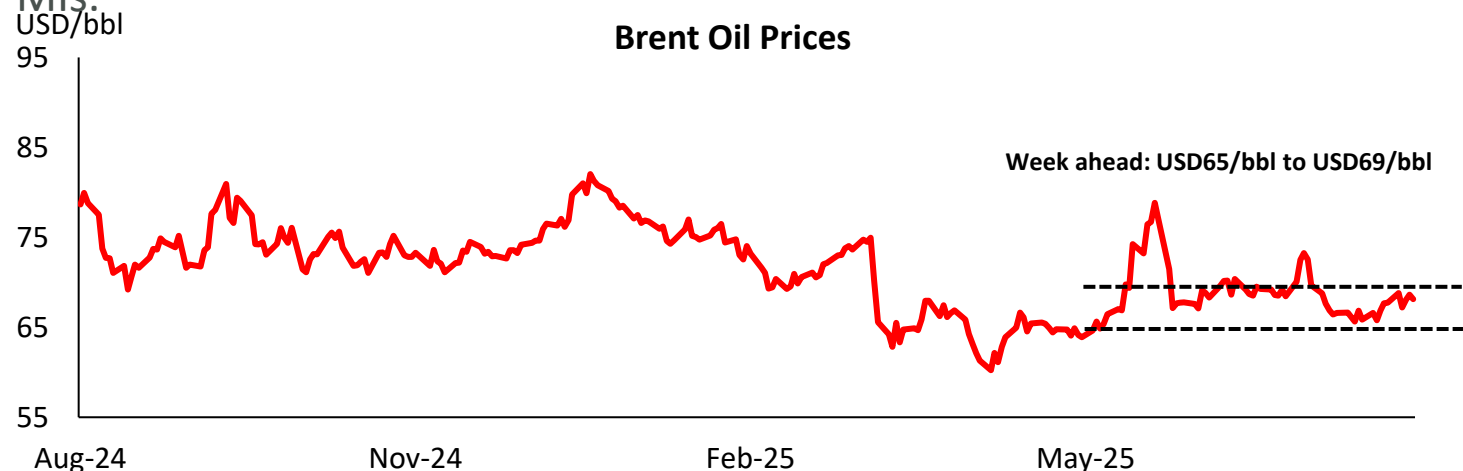


Source: OCBC.

Commodities

Commodities: Higher oil prices

- Crude oil benchmarks extended gains, with WTI and Brent increasing by 0.5% and 0.6% week-on-week, respectively, closing at USD64.0/bbl and USD68.1/bbl.
- Higher oil prices were driven by uncertainty over the prospects of a Russia-Ukraine peace deal. Despite US President Donald Trump's efforts to arrange a summit between Russian President Vladimir Putin and Ukrainian President Volodymyr Zelensky to work toward ending the Russia-Ukraine War, both countries continued to exchange military strikes. Moreover, concerns about potential disruptions to Russian oil flow supported higher oil prices after President Trump expressing his unhappiness after learning of Russia's recent military strikes in Kyiv. Nevertheless, oil prices may face downward pressure ahead due to concerns about a looming supply glut. This could be further exacerbated by prospects of weaker demand in the US following the end of the summer driving season.
- Looking ahead, we expect Brent crude to trade within the range of USD65-69/bbl. For the week, the key focuses include data releases from the US (i.e., August ISM manufacturing, July factory orders, August labour market data etc.), and China August PMIs.



Source: Bloomberg, OCBC.

Source: Bloomberg, Reuters, OCBC.

ESG



ESG: China ETS to implement absolute emissions caps starting 2027

- China will tighten its carbon trading market by introducing absolute emissions caps in some industries for the first time starting by 2027. The absolute caps will be implemented first in industries with relatively stable carbon emissions by 2027, so that the China ETS will be established with absolute emissions caps and a combination of free and paid carbon emissions allowances (CEAs) by 2030. Currently, CEAs are based on carbon intensity benchmarks that are reduced over time, rather than absolute emissions caps.
- The China ETS previously covered only the power sector and has expanded to cover steel, cement and aluminium sectors, which together account for 60% of China's greenhouse gas emissions. There are plans for the China ETS to further expand by 2027 to cover more emissions intensive industries, possibly chemicals, petrochemicals and domestic aviation.
- The effectiveness of the China ETS has been limited by issues such as an oversupply of free allowances and data integrity issues e.g. manipulation and falsification of emissions data in early compliance cycles. Tightening the carbon market through absolute emissions caps, coupled with stricter regulatory controls over data integrity, can ensure stronger compliance aligned with progressively declining emissions reduction paths aligned with national climate targets. Similar ETS systems with absolute caps (e.g. EU ETS, California Cap-and-Trade) have demonstrated verified emissions reductions and market effectiveness.

FX & Rates



FX and Rates: Heavy Data Week

- **USD rates.** This is a heavy-data week, with ISM, JOLTS job dataset, durable goods orders, ADP employment change before payrolls and the household survey on Friday. Fed funds futures last priced an 87% chance of a 25bp cut at September FOMC meeting; between now and end 2026, a total of 142bps of rate cuts are priced which is on the dovish side. 2Y UST yield at 3.62% reflects such Fed funds rates expectation, and further downside to the yield looks limited. Meanwhile, 10Y UST yield is also near the lower end of the trading range of 4.20-4.33%. Given how the market is set up, bonds would be prone to correction should labour market statistics print with strong-side surprises. Still, to alter market expectation for a 25bp September cut, upside surprise to August inflation (to be released on 11 September) is probably required.
- **DXY. *Watching for US Payrolls.*** On Fedspeaks, Fed's Waller sees potential for jumbo 50bp cut if labour market weakens further. He currently backs 25bp cut but he said that his view could change if the employment report points to a substantially weakening economy and if inflation remains well contained. Daly reiterated openness to rate cut. She also said that Fed policymakers cannot wait for perfect certainty without risking harm to labour market. For now, markets are still pricing in 87% chance of 25bp cut at Sep FOMC and a total of about 55bps cut this year. Focus this week shifts to ISM manufacturing (Tue); JOLTS job openings report (Wed); ADP employment, ISM services, initial jobless claims (Thu) and more importantly, NFP report (Fri). Softer data print may potentially change the narrative and weigh on USD. We will be on the look out for any pick-up in discussion for a jumbo 50bp cut at Sep FOMC.
- **JPY rates.** MoF has reportedly asked primary dealers for their views on reducing issuance of long-end JGBs. FY2025 supply of long-end JGBs have already been trimmed, to JPY2.5trn at 40Y, to JPY8.7trn at 30Y and to JPY10.2trn at 20Y. Any further reduction will again need to be compensated for by increases in the issuances of bills and/or 2-5Y bonds. BoJ member Nakagawa opined that, despite underlying CPI inflation is expected to decelerate temporarily, "it is likely that the mechanism by which wages and prices rise moderately in interaction with each other will be maintained" and given the current level of real interest rates – meaning quite negative, "if its outlook for economic activity and prices is realized, the Bank will accordingly continue to raise the policy interest rate". Our base-case remain for a 25bp hike in the BoJ Target Rate before year end, which is 69% priced by JPY OIS. Potential further reduction in long-end supply, together with increasing likelihood of a BoJ policy rate hike, may slow the steepening momentum in the JGB curve, although it is unlikely to reverse the steepening bias given lukewarm demand for long-end bonds and a likely very gradual hiking pace. Focus this week is 10Y and 30Y auctions.
- **USDCNH. *Mild Rebound from Lows.*** USDCNH rebounded Monday morning after USDCNY daily fix was set higher (at 7.1072 vs. 7.1030 last Fri), snapping the 5-day streak of lower fixes. Inverted hammer observed on Friday's price pattern may point to bullish reversal in the short term. We do not rule out a short term rebound in USDCNH, given a relatively large decline. Nevertheless, we had earlier shared how the USDCNY daily fix has been set lower over the last few months, influencing spot. In the near term, we keep a look out if policymakers will slow the pace of setting the USDCNY fix lower as that may slow the pace of RMB gains in the interim.

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