

July FOMC Meeting

- The Fed votes unanimously to keep the target range for the federal funds rate at 0-0.25%, while leaving the IOER rate and O/N RRP rate at 0.15% and 0.05% respectively and making no changes to the pace and composition of bond purchases
- The Fed says "the economy has made progress toward these goals, and the Committee will continue to assess progress in coming meetings," indicating the US central bank is on track to begin scaling back its bond purchases later this year or early next
- Fed Chairman Jerome Powell says that "we are some ways away from substantial progress on jobs," pledging to provide more guidance ahead of the tapering; Fed officials make their first "deep-dive" into the tapering discussion
- The DXY Index is likely to head for the 92 level with further downside potential in the next couple of weeks, and will likely rally when approaching the August 26-28 Jackson Hole Economic Symposium

Asia Overview - Most EM Asian currencies advanced versus the dollar on Wednesday. The SGD rose 0.3%, while the JPY declined 0.1% despite a dip in the 10Y UST yield.

The CNY and CNH rallied 0.3% and 0.6% respectively. USD/CNH will likely consolidate around the 6.5 level with downside potential. China's State Councilor and Foreign Minister Wang Yi on Wednesday met in Tianjin with Mullah Abdul Ghani Baradar who is political chief of Afghanistan's Taliban. The PBoC auctioned CNY 70bn of 3-month treasury deposits at commercial banks on behalf of the finance ministry at a yield of 3.6% on Wednesday. The KRW dropped about 0.4%. USD/KRW will likely decline towards the 1,140 mark on Thursday. South Korea's consumer sentiment index slipped for the first time this year to 103.2 in July from 110.3 a month earlier. Finance Minister Hong Nam-ki said in a press briefing on Wednesday that South Korea's government will place "utmost priority" on stabilizing the property market and focus on expanding home supplies. The TWD gained 0.2%. USD/TWD will likely breach the 28 support level and stay in a range of 27.8-28.0 for now. Taiwan's life insurers are taking the opportunity of lower costs to extend their hedging horizon beyond the usual one-year period, according to Bloomberg.

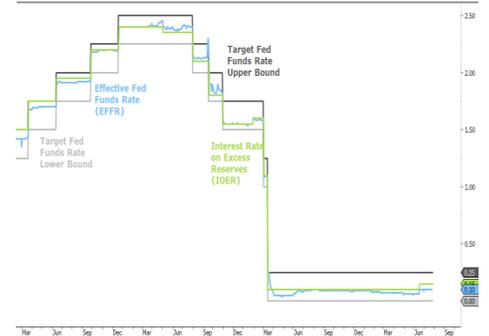
The INR gained 0.1%. USD/INR will likely slide towards the 74 level amid a broad dollar weakness. US Secretary of State Antony Blinken kicked off his first official visit to India on Wednesday, warning of "rising global threats to democracy." India's Chief Economic Adviser K V Subramanian said on Wednesday that the nation is expected to hit a growth rate of 6.5-7.0% in FY2022-23 and to accelerate further to 8% in the subsequent years on the back of reforms undertaken by the government. The IDR edged up. USD/IDR will likely trade lower and head for the 14,400 level. The Indonesian government sold IDR 13.15tn of Islamic notes with incoming bids of IDR 56.69tn on Tuesday, exceeding the IDR 12tn target. The MYR inched down. USD/MYR will likely fluctuate in a range of 4.20-4.25 in the near term. Economic Minister Mustapa Mohamed said in a briefing on Wednesday that Malaysia will not likely achieve its earlier economic growth forecast of 6.0-7.5% for the year given the current circumstances. Malaysia's trade surplus widened to MYR 22.24bn in June from a revised MYR 13.75bn the month before, with exports surging 27.2% yoy and imports soaring 32.1% yoy. The PHP inched up. USD/PHP is likely to slide towards the 50 level. The BSP awarded all of PHP 570bn term deposits offered at its weekly auction on Wednesday. USD/THB will likely head for the 32.5 support level.

Most regional equity indices resided in the red on Wednesday. China's SHCOMP index slid 0.58% despite USD 361.0mn of equity inflows, while India's NIFTY50 index declined 0.24%. South Korea's KOSPI index rose 0.13% in spite of USD 427.3mn of stock outflows. In the meantime, Taiwan's TWSE index fell 0.78% as global funds reduced their holdings in local main board shares by USD 786.4mn on Wednesday. Indonesia's JCI index slipped 0.14%, but Malaysia's KLCI index increased 0.05%.

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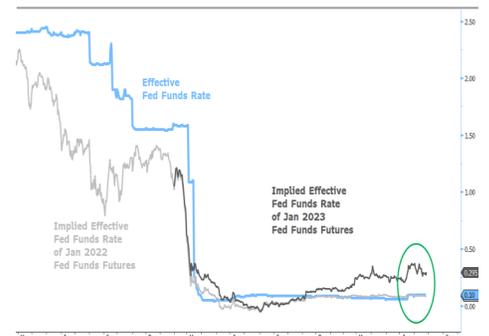
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Fed Funds Rate Target Range, Effective Fed Funds Rate (EFFR) and IOER (Replaced w IOER)



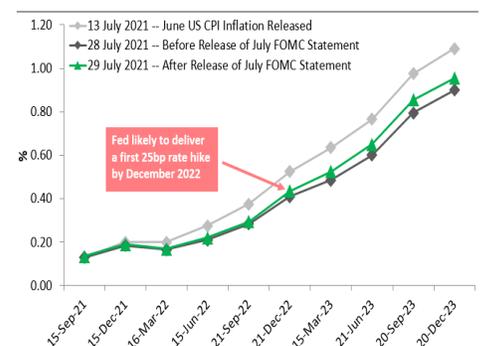
Source: Bloomberg & Scotiabank FICC Strategy

Implied Effective Fed Funds Rate (EFFR) As of January 2022 and January 2023



Source: Bloomberg & Scotiabank FICC Strategy

Eurodollar Futures Implied Yields



Source: Bloomberg & Scotiabank FICC Strategy

EM Asia • The Fed voted unanimously to keep the target range for the federal funds rate at 0-0.25% on Wednesday, while leaving the IOER rate that will be replaced with the IORB rate effective July 29 and O/N RRP rate at 0.15% and 0.05% respectively. The US central bank made no changes to the pace and composition of bond purchases, keeping increasing the SOMA holdings of Treasury securities by USD 80bn per month and of agency mortgage-backed securities (MBS) by USD 40bn per month.

The Fed on Wednesday announced the establishment of two standing repo facilities, consisting of a domestic standing repo facility (SRF) and a repo facility for foreign and international monetary authorities (FIMA repo facility). According to the [statement](#), these facilities will serve as backstops in money markets to support the effective implementation of monetary policy and smooth market functioning. It will help ease worries about the dollar liquidity squeeze if needed.

The Fed said in its post-meeting [statement](#) for the first time that "the economy has made progress toward these goals, and the Committee will continue to assess progress in coming meetings," indicating the US central bank is on track to begin scaling back its purchases later this year or early next. The US central bank's next meetings are scheduled for September 21-22, November 2-3 and December 14-15.

US central bank chief Jerome Powell said at a virtual press conference following the Fed's two-day policy meeting that "we are some ways away from substantial progress on jobs" on the factors including coronavirus fears, childcare needs and unemployment insurance benefits. He also said "we're going to continue to try to provide clarity as appropriate, on timing, pace and composition," adding that the July meeting discussion is the first real "deep-dive" into those tapering issues although there are no decisions about the timing. In addition, Powell reiterated that the US central bank is nowhere near considering plans to raise interest rates, saying "it's not something that is on our radar screen right now." He also said that purchases of Treasuries and agency MBS affect financial conditions similarly and there is little support for tapering agency MBS earlier than Treasuries. While inflation is likely to be higher and more persistent than expected, Powell said that "inflation is expected to drop back toward our longer-run goal."

In our opinion, the Fed may want to see strong job numbers before declaring achieving its "substantial further progress" standard and launching the tapering. The DXY Index pared its early gains with Powell's dovish remarks improving market sentiment.

The DXY Index is likely to head for the 92 level with further downside potential in the next couple of weeks, and will likely rally when approaching the August 26-28 Jackson Hole Economic Symposium. Powell said he is in the process of writing a speech to be delivered at the annual Jackson Hole meeting next month, while declining to say what his remarks will focus on.

After the Jackson Hole meeting, the DXY Index could start to retreat again as the ECB may slow down its PEPP asset purchases at the September 9 policy meeting.

In the meantime, it will prop up the DXY Index if concerns over the Delta variant infections intensify from time to time.

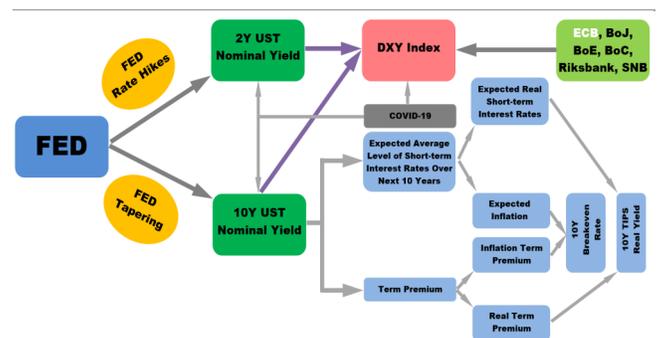
Separately, we closed our [long CNH/TWD cross spot position](#) at the 4.30 stop on Wednesday.

DXY Index vs. Eurodollar Futures Implied Yield (EDZ2)



Source: Bloomberg & Scotiabank FICC Strategy

Monetary Policy, UST Yields and DXY Index



Source: Scotiabank FICC Strategy

TODAY'S CALENDAR

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
09:00	NZ	DATA	ANZ Activity Outlook	Jul			31.6	med
09:00	NZ	DATA	ANZ Business Confidence	Jul			-0.6	med
09:30	AU	INFL.	Export Price Index, QoQ	Q2	9.9%		11.2%	med-high
09:30	AU	INFL.	Import Price Index, QoQ	Q2	1.0%		0.2%	med-high

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