

OVERNIGHT RANGES

NDFs	OPEN	HIGH	LOW	CLOSE	VOLUME	CURRENCY	HIGH	LOW	CLOSE
IDR	9110	9090	9090	9085-9095	Low	USD/JPY	108.29	107.47	108.25
INR	42.52	42.57	42.45	42.47-52	Mod	EUR/USD	1.5631	1.5555	1.5575
KRW	1019	1019.5	1018.5	1018.5-19.5	Low	EUR/JPY	168.79	167.32	168.55
MYR	3.2685	3.2675	3.2675	3.2640-80	Low	GBP/USD	1.9760	1.9601	1.9628
PHP	44.50	44.47	44.40	44.35-45	Low	USD/CAD	1.0370	1.0262	1.0368
TWD	30.72	30.72	30.72	30.70-74	Low	AUD/USD	0.9347	0.9285	0.9293
CNY	1 mth	No	Trades	6.8370-20		NZD/USD	0.7335	0.7269	0.7294
CNY	2 mth	Dealt	6.8280	6.8260-10		USD/SGD	1.3740	1.3715	1.3723
CNY	1 year	Dealt	6.5900	6.5870-20		USD/THB	33.55	33.54	33.54

Overnight News and Data

- * US June personal spending +0.6% v. +0.5% expected
- * US June personal income +0.1% v. -0.2% expected
- * US June core PCE price index +0.3% v. +0.2% expected
- * IMF - EZ activity to slow down in 2008 due to high oil, food prices; tight credit, slowing global demand, strong EUR to weigh on EZ growth; GDP forecasts kept steady at 1.7% in 2008, 1.2% in 2009; EZ inflation should fall appreciably but risks high; EZ underlying inflation, labour costs well contained so far, ECB credibility high; outlook for financial stability is highly uncertain; EUR exchange rate on strong side relative to fundamentals
- * US June factory orders +1.7% v. +0.6% expected; largest increase in 6-mths
- * Challenger Gray & Christmas says corporate job cuts up 33%
- * Swiss July Manufacturing PMI 54.1 vs 54.9 and 53.4 exp.
- * Euro June PPI 8.0% y/y vs. 7.1% May and 7.9% exp.
- * UK HSBC 1st half profits fall 28% to USD10.2bln as bad debts impact.

The Euro was rangy on Monday, as the market awaits the FOMC and ECB events. The Euro was supported by EUR/GBP and EUR/JPY buying flows that hit the market at various times. Weighing on the Euro was steep fall in the oil price and higher US inflation data along with stronger than expected US Factory orders. JPY was sold during the London session due to unwinding of short AUD/JPY, NZD/JPY and EUR/JPY positions. USD/JPY retained a bid tone through the US session as US yields moved higher and encouraged buying due to the strong correlation that has formed in the summer months. Japanese exporter sell orders between 108.30-60 discouraged attempts above 108.30.

The GBP/USD was battered during the European session as fears over the state of the UK economy were flamed by a report in the UK Independent saying that the Halifax survey will show that UK house prices have fallen 10% y/y. Heavy stop-loss selling on the break below 1.9650 sent the pairing to 1.9601 before option related buying encouraged a bounce to 1.9625 into the close. USD/CAD raced up to 1.0370 during the US session due to the steep fall in oil prices, US data suggesting the Fed may need to hike by year-end and expectations that the next move by the BOC will be an easing. Heavy stops were triggered above 1.0325 in the move.

AUD/USD traded up to 0.9347 on short covering. The pair reversed lower when oil and commodities in general crashed lower with copper hitting a 6-mth low. The AUD/USD fell to 0.9290/95 into the close with talk of a 0.9280 option barrier helping to underpin against further losses.

The US is maintaining a firm tone ahead of the FOMC meeting. The fall in the oil price is helping to underpin the USD, but one of the main factors is the belief that the Fed will raise rates before the end of 2008. The market is pricing in better than a 50/50 chance of a hike in October and better than a 75% chance of a hike before year-end. This conflicts with the view of many Fed-watchers who see the Fed on hold for the balance of this year. All of this makes the FOMC statement after their widely expected "no-change" vote a key event for the FX market.

ASIAN CURRENCIES OUTLOOK

USD/ASIA Brokers report a quiet session overnight with some modest selling witnessed after oil and commodity prices fell sharply. The move was half hearted with the market more focused on the FOMC decision later this evening. BI expected to raise rates by at least 25bps today.

USD/KRW traded a 1014.6-1018.7 range yesterday in Asia with intervention once more after the pair scaled above 1018. The BOK didn't get much a result for their efforts with the pair closing at 1017.4. The Kospi was the main culprit yesterday falling near 2% after two large shipbuilders announced cancellation of orders. Overnight the implieds traded a 1018.5-1019.5 range on low volume before closing around 1019. Thursdays rate meeting shapes as a big event with the market again discounting any chance of a rate hike; they have been right so far this year.

USD/SGD continued higher in overnight dealings but rally ran out of steam at 1.340 high. Bullish USD/JPY dragged the pairing higher, but better than expected PMI data and lack of follow through sparked fresh selling. The pairing dribbled back towards the 1.3720 region at the close. Range of 1.3715-1.3740 was traded overnight, and it closed at 1.3723. For today, further sideways trades around 1.3700-40 is likely. July PMI rose to 51.6 from 50.6 in June; electronics PMI is at 51.1 from 51.7 last. Elsewhere, Singapore SWF Temasek Holdings Pte Ltd has shortlisted around five companies from preliminary. The deal it estimated to fetch \$3 bln. GDF Suez, Marubeni Corp, the OneEnergy Ltd tie-up between Hong Kong's CLP Holdings and Mitsubishi Corp, Tata Power Co Ltd and YTL Power Bhd. are said to be the shortlisted bidders.

USD/MYR stayed firm, but could not crack BNM resistance at 3.2700. Implieds only traded at 3.2675, before closing at 3.2640-3.2680. Expect strong cap at 3.2700 to remain intact intraday, with lower oil prices likely to provide some relief for the MYR too. Range of 3.2630-80 is likely intraday. Concerns over political uncertainty and stock related outflows to remain supportive of the pair. Political heat is cranked higher as de facto opposition leader Anwar Ibrahim said that he remains confident he can topple the govt in Sept. His opposition coalition is on track to stage an upset at the planned confidence vote on Sept 16. Elsewhere, BNM may allow the Maybank/BII deal to go through if the Indonesian authorities relax demands that Maybank cut its stake within two years, newswires reported, quoting an unnamed financial source.

USD/IDR eyes fresh break of 9080 for 9050 target intraday. Lower oil prices and expectation of a rate cut by BI today to further aid the IDR. Market consensus is for BI to hike its reference rate by another 25 bps to 9.00% today. NDFs only traded at 9090, and closed at 9085-9095. Low volume was cited.

USD/PHP closed local trades at 44.42, after trading amid range of 44.27-44.48 intraday. Expect further consolidation today amid 44.10-40, with lower NDFs and further easing in oil prices to weigh on the pairing. The 1 mth PHP NDF traded 44.40-44.47 range, and closed at 44.35-44.45. Low volume was reported. The BSP's forecast for July CPI is at 11.2-12.0%, which points to a slight moderation in domestic inflation after two months of rapid acceleration. However, will not be surprise if the July CPI shoots above the top of BSP's range due to delayed effect of high oil and food prices. The central bank will likely hike rates further if inflation shoots above June's 11.40% rise.

USD/THB still patiently waiting for a breakout, just like the stalemate in the Thai political scene. PM Samak stubbornly stays put despite continued calls for his resignation from opposition parties. The finmin, Suebwonglee, is at loggerheads with the central bank, once again warned the BOT against further rate hikes despite rise in inflation to 10-year high at 9.2% in July. He said inflation has peaked and added that he planned further stimulus measures to keep growth on track. Samak's appointment of one of the BOT board members to his new economic advisory team further raised concerns about interference in the BOT's independence in monetary policies. USD/THB stayed amid 33.54-33.55 overnight, with range of 33.50-55 likely intraday as lower oil and continued BOT intervention weighs. Stock losses and politics to stall falls though.

USD/CNY was fixed again in line with DXY moves with US dollars again in demand especially after the news of the bomb blast in Xinjiang which sent both stocks and the CNY reeling. Market still speculating whether we have seen a change of policy from the continuous CNY appreciation seen for the last three years. Offshore players are taking no chances through the implieds with the 1-yr again higher overnight at 6.5870/20.

Equities	Close	Change	%Change
DJIA	11284	-42	-0.37
S&P 500	1249	-11	-0.90
Nasdaq	2286	-25	-1.10
FTSE	5320	-34	-0.64
DAX	6350	-47	-0.73
Nikkei	12933	-161	-1.23

UST (Yields)	Close	Previous
10 Year	3.97%	3.94%
2 Year	2.54%	2.51%
30 Year	4.59%	4.56%
Spot Gold(\$)	895.00	908.95
NYMEX (\$)	121.14	125.10
BRENT (\$)	120.35	124.18

USD/TWD made a fresh 2 1/2 month high in Asia before succumbing to profit taking through the implieds and intervention by the CBRC. The central bank was seen in the last half hour of official trade selling rather aggressively with dealers suggesting up to \$150mln sold. Overnight the only recorded trade in the implieds was at 30.72 which suggest an OTC open this morning around 30.69.

USD/HKD traded range of 7.8034-7.8048 overnight, with trades still stuck amid 7.8000-50 broad range for now. Expect further sideways dealings today as markets await Fed comments post FOMC rate announcement.

USD/INR finished local trades at the day's high at 42.49-42.50. Stock losses and higher oil prices drove the pairing higher. Sensex closed down 0.5%, reversing gains in previous 3 consecutive sessions. USD/INR will likely see trade range of 42.30-50 today, as lower oil could see less demand for dollars. However, extended fall in stocks amid global economic concerns will likely provide support for the pairing. INR NDFs traded 42.45-42.57 range, and closed at 42.47-42.52. Moderate volume was traded. Elsewhere, India's Essar Group is reportedly buying PeopleSupport for \$250 mln in cash, which should add to bidding interests in the USD/INR too.

Treasuries The higher than expected Core-PCE inflation data raised expectations that the Fed may hike by the end of 2008, but Treasury yields only posted modest gains.

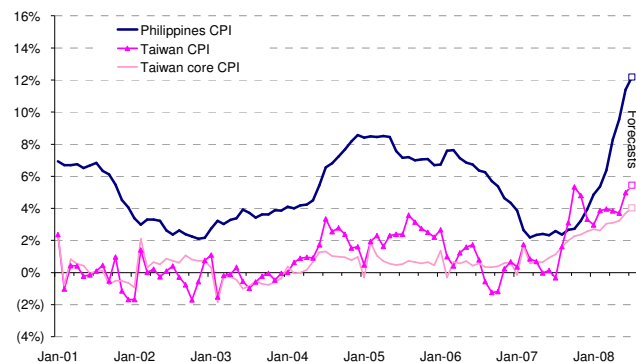
Stocks Wall Street fell on Monday due to a steep fall in energy and commodity related stocks along with weakness in the financial sector after HSBC reported a 28% drop in revenue mostly due to losses in US home loans and a steep fall in Wachovia after a Wall Street analyst made a sell recommendation. The steep fall in oil prices helped the Dow avoid steeper losses.

Oil A sharp fall in oil prices was in part due to weather reports indicating that the latest tropical storm in the Gulf of Mexico was no longer posing a threat to oil operations. Ongoing demand concerns also contributed, but some analysts say that the main reason for the sharp fall in oil was a rumour that large hedge fund was in trouble and was getting out of long commodity positions.

Gold Commodity prices fell across the board with gold back below 900 and closing at 895 down from 909 at Friday's close. Copper fell 4.3% to a six-month low at one stage due to the weak demand outlook and rumours that a hedge fund was in trouble.

LOOKING AHEAD – ECONOMIC DATA

Date	GMT	Country	Release	Unit	Period	IFR Est	Previous	Median
Aug 05	01:00	PHP	CPI	%m/m	Jul	1.5	2.0	-
Aug 05	01:00	PHP	CPI	%y/y	Jul	12.2	11.4	-
Aug 05	08:00	TWD	CPI	%m/m	Jul	0.2	1.8	-
Aug 05	08:00	TWD	CPI	%y/y	Jul	5.4	5.0	-
Aug 05	08:00	TWD	WPI	%m/m	Jul	1.0	1.9	-
Aug 05	08:00	TWD	WPI	%y/y	Jul	10.8	9.9	-
Aug 05	08:20	TWD	Foreign reserves	US\$b	Jul	292.0	291.4	-
Aug 07	08:00	TWD	Trade Balance	US\$b	Jul	1.25	1.49	-
Aug 07	08:00	TWD	Trade--12m sum	US\$b	Jul	25.8	25.0	-
Aug 07	12:00	MYR	Foreign reserves	US\$b	31Jul	125.5	125.8	-
Aug 07	12:00	HKD	Foreign reserves	US\$b	Jul	157.0	157.6	-
Aug 07	12:00	SGD	Foreign reserves	US\$b	Jul	177.0	176.7	-
Aug 08	04:01	MYR	Industrial output	%y/y	Jun	-	-	-
Aug 11	01:00	PHP	Exports	%y/y	Jun	-	-	-
Aug 11	02:00	CNY	Trade Balance	US\$b	Jul	-	-	-
Aug 11	09:30	CNY	Money supply M2	%y/y	Jul	-	-	-

More July inflation data due on Tuesday


Sources: National Statistics Office (PH); National Statistics (TW); IFR

More inflation data is due on Tuesday, when the Philippines and Taiwan release their data for July. IFR expects Philippine inflation to jump from 11.4% in June to 12.2% reflecting continued pressure from food above all (contributing more than three quarters of the total rise), but also from services prices reflecting the impact of overheated domestic demand. The continued rise in inflation which looks on track to peak at around 14% this year, should prompt further action from the BSP when it meets next on August 28. At least another 50bp rate hike to 8.25% seems likely, though a bolder move cannot be ruled out.

Inflation in Taiwan is running at lower levels, but is no less shocking as the economy is used to stable prices. But given the tepid central bank response and the seemingly inexorable upward climb in inflation since early last year, expectations of future inflation are likely to be rising rapidly. IFR expects headline consumer prices to rise 5.4% over the year to July, a new fourteen-year high. Core prices have also accelerated with prices seen rising 4.0%, the fastest pace since 1995. Core inflation has doubled in less than a year, but the tiny incremental rate hikes (12.5bp per quarter) from the central bank mean that despite having been on a tightening cycle since 2002, real interest rates are now negative, implying more needs to be done to prevent higher inflation expectations from becoming entrenched in future wages and prices.

Catherine Tan, Head of Regional Foreign Exchange +65 6411 6850 Catherine.tan@thomsonreuters.com
George Worthington, Chief Economist, Asia-Pacific +612 9016 3111 George.Worthington@thomsonreuters.com
Peter Whitley, Senior Foreign Exchange Analyst +612 9016 3115 Peter.Whitley@thomsonreuters.com



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