

Crossfire of position adjustment into the quarter end brings some relief -it's just one day, so the dynamics of the past few weeks shouldn't be dismissed. Logically Without drastic cuts to deficit spending, this yield rally can't cool off especially in an environment of Monetary tightening (the forgotten QT).

Third-estimate GDP for Q2 unchanged at 2.1% -very close to 2.2% gain in Q1- solid economy.Looming govt shutdown & auto workers' strike could dampen Q4 outlook.

Big miss yesterday was US Pending Home Sales -surprised to downside by -7.1%, far below expected -0.8% and dropping away from the previous 0.9%.Today's PCE to show price pressures increased on higher oil , even as deceleration trend continues.

Higher crude oil prices, -as supply cuts keep the markets in deficit- are driving a renewed wedge between 'haves' - US - & 'have nots' - Europe & Asia. That's why Oil has +0.89 positive correlation now with USD - large departure from typical dynamic. Oil rally is however running on fumes as it gets closer to \$100

No reason to fight this bearish EURO - Two major Euro negatives - Italy pushing budget boundaries (Italian BTP- German Bund 10-year spread widening to 200bp) & ECB officials discussing large rise in Minimum Required Reserves ( would hit banking liquidity & weigh further on already soft bank lending). ECB no doubt would be pleased with sharp drop in German inflation. Jan 6 low at 1.0482 support validated by bounce off 1.0488. Resistance 10dma 1.0613 to hold.

China began its long holiday today, Xi 's latest public comments seen reflecting a growing sense of urgency to stimulate growth.

Potentially primed for a minor relief rally- mind you , GBP/USD is over 7% off its last meaningful swing high in July at 1.3140.

**Q2 UK GDP & a slew of low-tier data. Sell on rally written all over .**

**BOJ to conduct unscheduled bond buying operation** - to manage expectations so as to not let 10 Y JGB yield run towards the 1.00% mark too quickly - won't attempt FX intervention for sure - Tokyo CPI 2.5%, vs 2.6% exp. Unemployment 2.7% vs 2.6% exp. Targets 151.94 2022 trend high

**Routine battle continues - who will blink**

**first -One more session in USDINR ahead  
of long week end - 83.10 83.20.**