

Weekly Highlights

- **Declining UST yields drag DXY lower**
- **Focus on CPI eases as labour market focus picks up**
- **Safe-haven demand, expectations of US rate cuts lift JPY**
- **Watching Japan's portfolio flows for pension activity**
- **ECB to cut 25bp. Weaker forecasts but how much weaker?**
- **UK GDP, wages data to keep BoE easing on track**
- **RMB extended rally amid USD gains**
- **Broad-based data slowdown likely**
- **Growth woes restrain AUD rally**
- **India's dis-inflation to stall though scope for RBI easing remains**
- **Turkiye's slowdown in economic momentum becomes clearer**
- **Poland leaves policy rate unchanged**

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US – Softish labour market data

Major Events and Data Releases

Date	Event	Survey	Prior
9-Sep	Consumer credit (\$bn, Jul)	11.2	8.9
10-Sep	NIFB small business confidence (DI, Aug)	93.7	93.7
11-Sep	CPI (%YoY, Aug)	0.2	0.2
	Core CPI (%YoY, Aug)	0.2	0.2
12-Sep	PPI (%YoY, Aug)	0.2	0.1
	Core PPI (%YoY, Aug)	0.2	0.0
	Weekly jobless claims (k)	--	227
13-Sep	U Mich Consumer confidence (DI, Sep)	69.0	67.9

Source: Bloomberg

US labour market data ahead of non-farm payrolls were mixed with JOLTs and ADP weak, while weekly jobless claims were solid. In the wake of the JOLTS data, UST yields dropped sharply and the UST curve dis-inverted 2x10s for the first time since July 2022. Curve inversions without recessions are unusual, especially given the length of the recent inversion. The payrolls data on the Friday were soggy, although the unemployment rate dipped and average earnings were solid. In the immediate aftermath of the report, 2yr UST yields declined sharply. However, shortly after the report, the Fed's Williams spoke and he seemed in no rush to ease aggressively. He noted that the economy was growing close to trend and the Fed's goals were close to balance. These comments are very much in line with Fed commentary earlier in the week and suggest that the Fed will only cut 25bp at the 18 September FOMC meeting, assuming there are no major surprises in the intervening period. As Williams spoke UST yields rose, helping the US dollar pare some of the losses racked up through the week.

Outlook

In the wake of Powell's Jackson Hole speech and the clear shift towards a more balanced interpretation of the dual mandate now that inflation risks have diminished sharply, the CPI data may have less market impact in coming months as the labour market data determine the speed at which the Fed eases. The inflation data are likely to look benign and to be no impediment to Fed easing. A consensus-like 0.2%MoM print in August would see headline CPI running below 2.0% on a 3m and 6m annualised basis, while core would be a little above 2.5%. The PPI would be similarly benign and softness in commodity prices in recent weeks would add to downside risks for the PPI in coming months. The weekly jobless claims will remain a focus. The monthly data for August suggest that the labour market has softened but for the Fed its "softening not soft" and hence there is no need to rush to ease, which implies a series of 25bp cuts for now.

Politics will also be in focus as presidential candidates Harris and Trump go head to head in the first, and likely only, presidential debate on Tuesday. The betting odds have shifted back towards Trump in recent days but the polls still seem to favour Harris. That said most of the battle ground states remain very close.

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Japan – Yen on the up as Fed easing cycle approaches

Major Events and Data releases

Date	Event	Survey	Prior
9-Sep	GDP, 2 nd est (%QoQ, Q2)	0.8	0.8 (p)
	Bank lending (%YoY, Aug)	--	3.2
	C/A balance, sa (¥bn, Aug)	2117	1776
	Eco watchers, outlook (DI, Aug)	48.6	48.3
	Eco watchers, current (DI, Aug)	47.6	47.5
10-Sep	M3 (%YoY, Aug)	--	0.9
12-Sep	MoF Business sentiment index (Q3, DI)	--	0.4
	PPI (%YoY, Aug)	2.8	3.0

Source: Bloomberg

The wage data again surprised on the upside giving weight to Governor Ueda's comments that policy rates will head higher if the data evolve in line with the BoJ's forecasts. One can certainly say that the last 2 wage reports have been in line with the BoJ's expectation that a benign wage/price spiral is emerging. But for volatile financial markets, a near-term rate hike would be looking possible - recall Deputy Governor Uchida's comments on not hiking while markets are volatile. As it is, we think markets remain too volatile. Market pricing of hikes in Japan looks very modest but large demand for T-bills and front-end JGBs is likely distorting interest rate formation at the very front end of the curve. JGB yields tracked UST yields lower and the Topix declined sharply on the week, falling over 4%. Safe haven demand, combined with expectations of steep Fed rate cuts saw JPY outperform significantly, with USD/JPY down ~2.5%. Koizumi and Motegi officially joined the race to be the next PM this week but politics had little impact on market developments this week.

Outlook

In terms of data the main focus will be on the revisions to Q2 GDP data and the economy watchers survey for August. Q2 GDP revisions are likely to be small. The outlook index in the economy watchers survey, is seen as a decent leading index for consumer spending. Expectations are for a minor improvement but the level remains low and still implies sluggish consumption. The quarterly MoF business sentiment index is one of the leading indicators for the much more comprehensive BoJ tankan. The weekly MoF portfolio flow data show that despite fears of a mass repatriation of overseas assets in the wake of the post BoJ meeting volatility, Japanese investors have been big buyers of overseas bonds ahead of the expected Fed easing cycle. We suspect that banks have been the big driver. In the monthly MoF portfolio flows data, that contain a breakdown of activity by investor type, we will be looking at the activity of trust banks amid speculation that the GPIF is set to increase its allocation to domestic assets at the expense of overseas assets. The GPIF reviews its asset allocation every 5 years. The FY15 announcement was made in Oct-14, while the FY20 decision was announced on the last day of FY19. Ahead of the announcement of the FY20 asset allocation decision at the very start of FY20, that saw the allocation to foreign bonds raised by 10%, the GPIF was already positioning itself for the change and had implemented over half the change ahead of the start of the fiscal year.

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Europe – ECB to cut 25bp amid rising downside risks

Major Events and Data Releases

Date	Event	Survey	Prior
9-Sep	EZ – Sentix investor confidence (DI, Sep)	-12.2	-13.9
	UK – S&P/REC Report on Jobs survey (Aug)	--	--
10-Sep	UK – Unemployment (3m%, Jul)	4.1	4.2
	UK – Payrolled employees (k, Aug)	15	24
	UK – Wages (3m%YoY, Jul)	4.1	4.5
11-Sep	UK – GDP (%MoM, Jul)	0.2	0.0
12-Sep	UK – RICS house price index (DI, Aug)	-14	-19
	EZ – ECB meeting (% Depo)	3.50	3.75
13-Sep	EZ – Industrial production (%MoM, Jul)	-0.4	-0.1

Source: Bloomberg

On Thursday, French President Macron named Michel Barnier, the Brexit negotiator, as PM. Governing will be difficult. It is not clear what level of support he will receive from Le Pen's RN party, although in the first instance they are likely to abstain in any early confidence vote that the hard left seem likely to bring. In Germany, one of its major auto manufacturers announced plans for factory closures in Germany for the first time in its history. Despite the rise in factory orders this week, we do not see any light at the end of the tunnel for Germany. The outlook for both France and Germany are blighted by a lack of political direction from the top. Both seem set for drift that is unable to boost activity, especially in Germany, where the debt break is preventing much needed investment. EUR and GBP both rose a little against the USD dollar this week.

Outlook

The market is fully priced for a 25bp cut in the Depo rate from the ECB and that is what we expect it to deliver. The rate decision may well be the least interesting part of the meeting. The ECB is set to release new forecasts at the meeting, which will drive expectations for future meetings, as will the Lagarde press conference, in which we expect her to stick to the meeting-by-meeting mantra. The ECB currently sees 2025 GDP picking up to 1.4% and CPI at 2.2%. Recent activity data have been on the soft side and we see some risk of a softer growth forecast. If the forecasts are unchanged, then the risk assessment will surely note downside risks. It is also the case that the data since the forecasts were closed have hinted at less price pressures, with global commodity prices weak and EUR a little firmer. Price pressures have also eased, especially negotiated wages hinting at downside risks for prices at the back end of the horizon vs the ECB's June forecasts. We think softer macro data and an aggressive start (25bp x 3) to the Fed's easing cycle this year, will allow the ECB to ease at each of the 3 meetings left this year. Note that the ECB will implement the narrowing of the Depo/repo rate corridor that it announced back in March, at the start of the next maintenance period, which begins on 18 September. In the UK, the focus will be on the GDP data. The labour market report and the Report on Jobs are also due. Last month's wage data were impacted by public sector bonus payments pushing the headline rate lower. Wages should decline as the April minimum wage hike drops out of the 3m%YoY comparison.

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China – RMB rallies amid USD sell-off

Major Events and Data Releases

Date	Event	Survey	Prior
9-Sep	CPI (%YoY, Aug)	0.7	0.5
	PPI (%YoY, Aug)	-1.4	-0.8
9~15 Sep	Money Supply M2 (%YoY, Aug)	6.2	6.3
	New loan growth YTD (CNY bn, Aug)	14600	13523.2
	Agg. Financing YTD (CNY bn, Aug)	22070.2	18870.2
10-Sep	Exports (%YoY, Aug)	6.8	7.0
	Imports (%YoY, Aug)	2.5	7.2
	Trade Bal. (USD bn, Aug)	82	84.65

Source: Bloomberg

The renminbi strengthened towards the 7.08 level amid the USD sell-off ahead of the US jobs report. The media reported that the government is considering nationwide rate cuts on existing mortgages of about total 80bp in two steps to mitigate the impact on the narrow net interest rate margins in the banking sector. However, the impact on the RMB market was largely muted due to ongoing policy disappointments in the property market. Similarly, the Biden administration's new exports controls on quantum computers and chip-related products had limited impact on the RMB market.

The PBoC net drained CNY 1191.6bn of liquidity via open market operations over the week, in comparison to a liquidity injection of CNY 204bn in the prior week. On the policy front, PBoC monetary policy official Zou Lan raised expectations for Required Reserves Ratio cuts, with average RRR for Financial Institutions at about 7% indicating some space for further RRR cuts. However, the narrow net interest margin in the bank sector could restrict further cuts in loan and deposit rates.

Outlook

China is likely to experience a broad-based slowdown in activity in August, as weaker sentiment in both the manufacturing and construction sectors has taken hold. Adverse weather conditions, including heat and heavy rainfall, have contributed to this decline, while lagged policy support and elevated real interest rates continue to dampen overall economic confidence. For consumer prices, we expect a faster YoY increase in August, driven mainly by higher food prices. Fresh vegetable prices surged amid heat and heavy rainfall, and pork prices reached their highest levels since the end of 2022. Furthermore, higher tourism prices during the summer holiday are also expected to exert upward pressure on inflation. Factory prices, however, faced increasing downward pressure, with both the input and output price indices in the PMI survey falling to 15-month lows in August.

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EM Asia – Cooling or chilling

Major Events and Data Releases

Date	Event	Survey	Prior
2-Sep	Thailand Consumer Confidence (DI, Aug)	--	51.3
3-Sep	Taiwan Exports (%YoY, Aug)	9.0	3.1
	Malaysia Industrial Production (%YoY, Jul)	5.7	5.0
4-Sep	Philippines Exports (%YoY, Jul)	-3.4	-17.3
5-Sep	Korea Unemployment (% , Aug)	--	2.50
	India Industrial Production (%YoY, Jul)	4.1%	4.2%
	India CPI (%YoY, Aug)	3.6%	3.5%
	India Exports (%YoY, Aug)	--	-1.5
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Source: Bloomberg

This week, EM-Asia inflation ranged from being appropriately contained to rapidly cooling. In Thailand, headline inflation stayed at 0.4%YoY as higher food inflation was offset by lower fuel prices. Core inflation inched up to 0.6%YoY from 0.5%YoY backing the case for the BoT to hold rates though their response function may soon tilt towards financial conditions into 2025. Nonetheless, THB outperformed on confirmation of the new cabinet policy statement due over the weekend.

At the other spectrum, headline inflation in the Philippines cooled significantly from July's 4.4%YoY to 3.3%YoY in August which is also below market expectations of 3.6%YoY. This sets the stage for further BSP easing in Q4 and restrained PHP gains. In Malaysia, the BNM kept rates unchanged in a widely expected decision. They also judged that spillovers from diesel price adjustments have been contained.

Down Under, the AUD rally cooled as China's iron ore woes add to domestic growth concerns. As expected, Q2 GDP growth was lacklustre at 1.0%YoY with government spending being the main driver while support from household consumption continues to weaken. Furthermore, underlying details depict stretched household with a 1.1%QoQ fall in discretionary spending led by services while essential spending rose 0.5%QoQ on rent and dwelling services. Notably, the household savings ratio stayed at a dismal 0.6% which is significantly below pre-pandemic ratios of above 5% and is a key risk to a potential further slowdown in services activity.

Outlook

India's massive dis-inflation wave, which dragged July CPI down to 3.5%YoY, is likely to abate, if not stall. There remains a silver-lining especially as stalled dis-inflation is not inflation risk re-ignited. Instead, it is merely the case that the drivers of emphatic dis-inflation are exhausted. This is not only to be entirely expected, but arguably healthy for the economy, to ensure a virtuous cycle of demand-supportive price adjustments. In fact, any uptick in consumer price pressures, so long as it is within 20-50bp is not only acceptable, but arguably remains consistent with scope for reduction in the RBI's policy rate. We are taking a non-consensus view for the first cut in October as encouraging dis-inflation meets a less abrasive Fed stance.

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EMEA – Turkiye’s slowdown becomes clearer**Major Events and Data Releases**

Date	Event	Survey	Prior
10-Sep	Hungary CPI (%YoY, July)	3.6	4.1
	Czech CPI (%YoY, July)	2.0	2.2
12-Sep	Turkiye Current Account (USDbn, July)	-	0.41

Source: Bloomberg

Last week, movements of EMEA currencies were muted.

The National Bank of Poland (NBP) kept the policy rate at 5.75% on 4 September as widely expected. Comments by Governor Glapinski were hawkish, insisting that moment to cut rates may be after mid-2025, defying market expectations of earlier rate cuts.

In Turkiye, Q2 GDP and the August CPI numbers confirmed softer demand and inflation pressures. Q2 GDP rose 2.5%YoY, below the market consensus, which foresaw 3.2%YoY growth. CPI rose 52%YoY in August, slowing from 62%YoY in July. We have to watch carefully whether the Central Bank of Turkiye (CBRT) can maintain its hawkish stance as the slowdown in economic momentum becomes clearer and CPI growth slows.

Outlook

Next week will likely be another quiet one for EMEA currencies. Some indicators, including August CPI numbers in central and eastern Europe, will be worth watching, but these indicators may not have material impact on markets.

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