

Inequitable Inaction

"All animals are equal, but some animals are more equal than others." – George Orwell

- **Not all inaction is created equal.** This inequity will be obvious this week.
- The **Fed's inaction**, despite being a segue to a cut, will likely be **deemed hawkish**.
- *Whereas* the **BoJ's hold**, even if flanked by balance sheet (Rinban) temperance, will **struggle not to be pigeon-holed as a dovish**.
- **Consequently**, it will be an **uphill task for any upside in JGB yields to translate into meaningful JPY traction**.
- Elsewhere in Asia, this **inequity of inaction** will be **evident in the policy risks assumed by the CBC and BoT** as well.
- **Both** are expected to stay **on hold**, not unlike the Fed.
- But **neither is absolved of hawkish Fed perceptions**, *threatening to blunt risk appetite amid elevated UST yields and USD*.
- The upshot is that the **Fed appears to retain a certain perceptions advantage**, which is accentuated by other G10 central banks **leap-frogging on cuts**.

Relative (Fed) Restraint

"What you do in this world is a matter of no consequence. The question is what can you make people believe you have done." – Sir Arthur Conan Doyle (Sherlock Holmes)

- Specifically, the **ECB and BoC joining the SNB and Riksbank to initiate rate cuts**

highlights **"for longer"** Fed stance more **emphatically**.

- Hence, despite a **"when, not if"** consensus on **Fed cuts**, the **Fed's prolonged relative restraint comes across as a hawkish slant ...** all else equal, that is.
- Admittedly, the **ECB initially managed a fairly hawkish iteration of its 25bp cut, suspending policy guidance on data dependence**.
- Specifically, making the point that a cut is not a cutting cycle.
- **But that fell well short of out-hawking the Fed**. Especially after the US non-farm payroll out-run
- This resulted in **EUR relinquishing post-ECB traction** (on NFP trigger), with **corresponding USD domination** and **UST yield buoyancy**.

Of Data Dependence & Dilemma

"It was one of those March days when the sun shines hot and the wind blows cold: when it is summer in the light, and winter in the shade." – Charles Dickens

- **Fed hawks** have **been quick to swoop in on the stronger-than-expected NFP headline** and the **incremental pick-up in wages**.
- And to be fair, **first blush NFP data have all the hallmarks of US exceptionalism**.
- Which taken as is, lends itself to a **Goldilocks "soft landing"**, if not a no landing scenario.
- In this context of upbeat jobs alongside sticky inflation, the **Fed's data dependence allusion inadvertently constitutes as a hawkish flex**.

- **But closer scrutiny tells a starkly different tale of policy dilemma from pronounced and potentially rapid jobs deterioration.**
- Specifically, **distinct lift in unemployment** (now *at 4.1%*) *despite lower participation and alongside data quirks** flattering NFP.

*Chances are, the birth-death model used to adjust NFP data are materially overstating the strength of the jobs market. More so, with immigration requiring greater job creation.

FOMC: But For Now Hawkish Dot Plot Gauging Dilution, Dispersion & Deferment

“Always remember, your focus determines your reality.”– Qui-gon Jinn, Star Wars

- But *for now* market will overlook data nuances warning of risks associated with excessive restraint will be deferred to size up hawkish FOMC shifts.
- To be sure, **no hawkish Fed action** is expected. Just a hold (back on rate cut).
- And the bar is **higher bar for the rhetoric** at the press conference **to invoke hawkish response.**
- Nonetheless, **hawkish interpretation of NFP is the path of least discomfort for a Fed**, which is still hobbled by “transitory” baggage (of being slow to hike from “transitory”).
- And *shifts in the ‘Dot Plot’ will feature* in terms of hawkish reevaluation given express quantification of rate path.
- First, is a **dilution of rate cuts priced in**; from 3 to 2 or fewer is the current expectation.
- So hawkish jolts will require more details.
- Second, the **dispersion of FOMC rate projection**. Specifically, mean biased to fewer (than the median) cuts and/or more expecting no cuts.
- Finally, the **extent of rate cut deferment.**

- In particular, whether diminished 2024 rate cuts are merely added to pre-existing 2025 cuts or are pushed out further.
- This focus on hawkish bias will roll over UST yield and USD buoyancy from NFP to FOMC.
- Caveat though is that the **bar is high to extent bullish USD and bearish UST** (upside in UST yields) **momentum.**

BoJ’s Dovish Hike Risk

“Haste makes waste.”– Benjamin Franklin

- And nowhere else will this be as **frustrating** as it might be for the **BoJ, confronted by “heads I win, tails you lose” USD taunt of JPY.**
- Point being, **even if the BoJ tightened, it risks being disrespected as a dovish hike.**
- And that just **reinforces our pre-existing fundamental view that the be the BoJ has cause to extend the patient pause** in any case.
- Crucially, **even if the BoJ wants to convey that the direction of travel is for tightening, the key guiding principle is gradualism.**
- Especially *as underlying economic confidence is at best fragile if not fraught.*
- And it is certainly underwhelming for household and uneven across small and large businesses.
- Worse, **tightening dismissed as a dovish hike unnecessarily invokes economic headwinds whilst depriving any residual JPY/financial market stability.**
- The **policy equivalent of throwing good money after bad.**
- Upshot: The risk of being unfairly framed as a dovish hike is an additional reason, not main justification, for the BoJ not to pull the trigger just yet.

China & CNH: Borrowed Backstop

“If no mistake you have made, losing you are, a different game you should play.” – Master Yoda, Star Wars

- Meanwhile, in holiday thinned (Dragon Boat Festival) North Asian markets, **China optimism and CNH backstop are on borrowed confidence.**
- Point being, Beijing’s **property market support is a silver lining, not silver bullet.**
- Admittedly, the measures restore cash-flows, kicking the can down the road buying critical time in averting in terms of implosion risks.
- Nonetheless, **lingering restraints on local government and wider property-LGFV-shadow banking ecosystem** remains binding.
- Crucially, the **sheer persistence of confidence deficit on the ground**, outside of tier-1 and selected tier-2 cities, **remains a bugbear.**
- Our preferred gauge of a self-sustaining domestic demand pick-up is **non-mortgage consumer loans**; which remain **worryingly underwhelming**
- And on that count, **durable China confidence – beyond opportunistic equity market surge from exceptionally low valuations – remains tentative, if not flimsy.**
- Especially given that confidence is premised on big bang stimulus from China’s Plenum.
- Hence, if the CNH is unable to regain traction on conditions as it, perhaps **presumptuous long CNH bets precariously perched on policy hopes is not the game to play.**
- Corresponding **CNH slippage risks** are as such **accentuated. More so if hawkish Fed perceptions dominate.**

FX: Fed Hawks Lift USD & Dent AXJ

- **USD: USD strength**, while *exposed to being tempered* from post-FOMC “sell the fact”, is *unlikely to be overthrown.*
- **EUR:** The ECB suspending cutting guidance rather than doubling down on a prolonged hold limit upside for now, absent “unforced error” by Fed.
- **JPY:** High bar for the BoJ to pull off a sustained boost to the JPY. Intervention risks will rise if USD boost is accentuated (rather than tempered) post-FOMC.
- **CNH:** Likely absence of compelling consumer demand-driven credit growth to keep CNH on the back foot.
- **AXJ:** Generally liable to be on a softer footing unless post-FOMC “sell the fact” USD momentum gather durable momentum.
- **THB:** BoT hold ahead of the FOMC and amid political-BoT tensions suggest that THB may be prone to further pressures.
- **TWD:** Whilst CBC is likely to maintain a hold with restraint on moves either way, China risks and relative Fed disadvantages to pressure.
- **MYR:** Some relative positives for the MYR after diesel subsidy cuts, but this is likely to be overwhelmed by USD momentum; with relative MYR/AXJ buoyancy of note.

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