

Aug 02, 2024

Three Take-Aways

1) US ISM manufacturing plunge and rise in jobless claims sent US equities and UST yields plunging.

2) BoE's finely balanced 5-4 cut saw the GBP weaken.

3) Bumpy Korea CPI underscores need for patience on BoK cuts.

MACRO THEME: Policy Matters

- Colliding with the Fed's caution on jobs, US ISM manufacturing sank deeper into contractionary territory, coming in far below expectations alongside an increase in initial jobless claims. Underlying details in the ISM report also remain worrying with the employment gauge plummeting from 49.3 in Jun to 43.4 with new orders falling as well.

- Risk sentiments soured quickly which sent US equities and UST yields plunging as Fed funds futures price in 4 cuts by January 2025.

- Nonetheless, despite plunging UST yields, the USD slippage among G10 peers was more measured as policy dynamics played out at both ends. In fact, the DXY is up +0.4 to underscore the USD's haven allure in a risk off environment.

- **GBP led losses** as the BoE cut rates in a finely balanced 5-4 decision with Governor Bailey backing the cut while Chief Economist Huw Pill was against it. Nonetheless, the BoE has pushed back against back to back cuts as they highlight the need to be sufficient restrictive until the risks to inflation remaining sustainably around 2% in the medium term, have dissipated.

- Notably, Brent crude prices fell back towards US\$80/barrel as the dimmed growth outlook overshadowed the threat of an escalation of geo-political conflict between Israel and Hezbollah despite Hezbollah leader declaring that a red line has been crossed.

Yields (2Y: -10.9bps; 10Y: -5.4bps; 30Y: -2.9bps)

- Amid the adverse risks sentiments, the UST yield curve bull steepened which saw the 10Y-2Y spread narrow to less than 18bps.

- Admittedly, given the speed of descent of UST yields, there could be partial reversion if the NFP print tonight shows some resilience.

Equities (Nasdaq: -2.3%; S&P500: -1.4%; Dow: -1.2%)

- The tech-sell off saw Nasdaq led losses alongside reports of groups pressuring the DoJ to investigate Nvidia on its dominance in the AI chip market on anti-trust concerns.

- The dismal mood looks set to persist with Intel shares crashing 20% post market as they announced dividend suspension and enlarged job cuts.

FX (DXY: +0.3%)

- Latching onto lower UST yields and softer oil prices, USD/JPY dipped towards 149.

- Alongside the GBP losses, EUR was also weaker, heading below 1.08 as the EZ unemployment rate tick up to add marginal impetus for further ECB cuts.

- Similarly, AUD sank back towards 65 cents, weighed down by the appreciating JPY, softer oil and a weaker CNH.

- USD/SGD stayed sideways hovering above mid-1.33.

- **THB is one of the outperformers among EM-Asia peers** this week riding on the positive spillover from JPY gains given their tighter correlations and a current account surplus for June hitting US\$2bn. Nonetheless, the current account surplus was driven by sharp import compression which more than offset a decline in export revenue compare to May.

China: Small and Big Troubles

- Caixin manufacturing PMI dipped into contractionary territory for July to underscore the caution that we had flagged yesterday. This reflects the stresses faced by smaller firms congruent with the official manufacturing PMI released mid-week was also in contraction.

Korea CPI Underscores Festina lente

- This morning, Korea's **CPI for July exceeded expectations on both headline and core measures**. The rise in headline inflation from 2.4% YoY to 2.6% YoY was largely driven by increase in petrol prices and weather conditions affecting food prices.

- Nonetheless, core inflation remaining sticky at 2.2% which was a 0.3% MoM increase reflects earlier warnings from the BoK that markets were overly aggressive in expecting multiple rate cuts. In turn, one should heed Governor Rhee's allusion to "make haste slowly", taking it slowly to hand inflation a quick defeat.

- To be clear, the dis-inflation process is bumpy but has not stalled, as the breath of items which continue to display dis-inflation rose with more items in the CPI basket returning below their pre-Covid average in July compared to June.

- In turn, while KRW may get some marginal end of the week backstop from markets re-calibrating odds of a BoK cut in August, it remains subject to worries of a US growth slowdown which will seep doubts into the strength of their external trade led recovery.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(CH) Caixin China PMI Mfg (Jul)	49.8	51.5	51.8
(AU) Trade Balance (Jun)	A\$5589m	A\$5000m	A\$5052m
(ID) CPI/Core YoY (Jul)		2.4%/1.9%	2.5%/1.9%
(KR) Exports/Imports YoY (Jul)	13.9%/10.5%	18.4%/13.4%	5.1%/-7.5%
(US) Initial Jobless Claims	236k	236k	235k
(US) ISM Mfg/Prices Paid (Jul)	46.8/52.9	48.8/51.8	48.5/52.1
(EZ) Unemployment Rate (Jun)	6.5%	6.4%	6.4%

Today

(KR) CPI/Ex Food And Energy YoY (Jul)	2.6%/2.2%	2.5%/2.1%	2.4%/2.2%
(SG) PMI/Electronics Sector Index		--	50.4/51.2
(US) Change in Nonfarm Payrolls (Jul)		175k	206k
(US) Unemployment Rate (Jul)		4.1%	4.1%
(US) Average Hourly Earnings MoM (Jul)		0.3%	0.3%
(US) Durable Goods Orders (Jun F)		-6.6%	-6.6%
(US) Goods orders Nondef ExAir (Jun F)		1.0%	1.0%

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	149.36	149.19	▼0.41%	148.50 - 152.00
EURUSD	1.0791	1.0787	▼0.32%	1.0790 - 1.0880
GBPUSD	1.2739	1.2729	▼0.91%	1.2700 - 1.2850
AUDUSD	0.6501	0.6494	▼0.63%	0.6480 - 0.6580
DXY	104.4	--	+0.31%	103.8 - 104.5
USDCNY	7.2450	--	+0.25%	7.2100 - 7.2800
USDCNH	7.2513	7.2478	+0.34%	7.2000 - 7.2700
USDHKD	7.8147	7.8142	+0.03%	7.8040 - 7.8160
USDSGD	1.3367	1.3368	+0.05%	1.3300 - 1.3420
USDKRW	1374	1369	+0.00%	1360 - 1380
USDTWD	32.77	--	▼0.21%	32.50 - 32.95
USDINR	83.72	--	▼0.00%	83.40 - 83.90
USDIDR	16235	--	▼0.15%	16100 - 16350
USDMYR	4.569	4.569	▼0.46%	4.560 - 4.600
USDPHP	58.35	--	▼0.03%	58.20 - 58.50
USDTHB	35.61	35.59	▼0.13%	35.50 - 35.90
USDVND	25220	25210	▼0.17%	25200 - 25300

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.150	3.977	-10.8	-5.5
JGB (JP)	0.460	1.035	1.1	-1.5
Bunds (GE)	2.446	2.242	-7.9	-6.0
Gilts (UK)	3.722	3.880	-8.4	-8.9
AGB (AU)	3.855	4.087	-2.0	-2.8
SGS (SG)	2.891	2.834	-3.1	-3.3
CGB (CN)	1.511	2.122	-0.3	-2.1
KGB (KR)	3.027	3.182	-2.7	-10.8
SDL (IN)	6.916	6.766	-1.4	1.1

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	161.18	160.93	▼0.73%
GBP/JPY	190.276	189.896	▼1.32%
JPY/SGD (100yen)	0.8952	0.896	+0.52%
JPY/HKD (100yen)	5.2331	5.2378	+0.47%
CNH/JPY	20.648	20.592	▼0.86%
CNH/HKD	1.0787	1.0786	▼0.22%
EUR/GBP	0.84707	0.84747	+0.59%
AUD/NZD	1.0929	1.0942	▼0.60%
EUR/CNH	7.8259	7.8182	+0.03%
GBP/CNH	9.2372	9.2254	▼0.58%

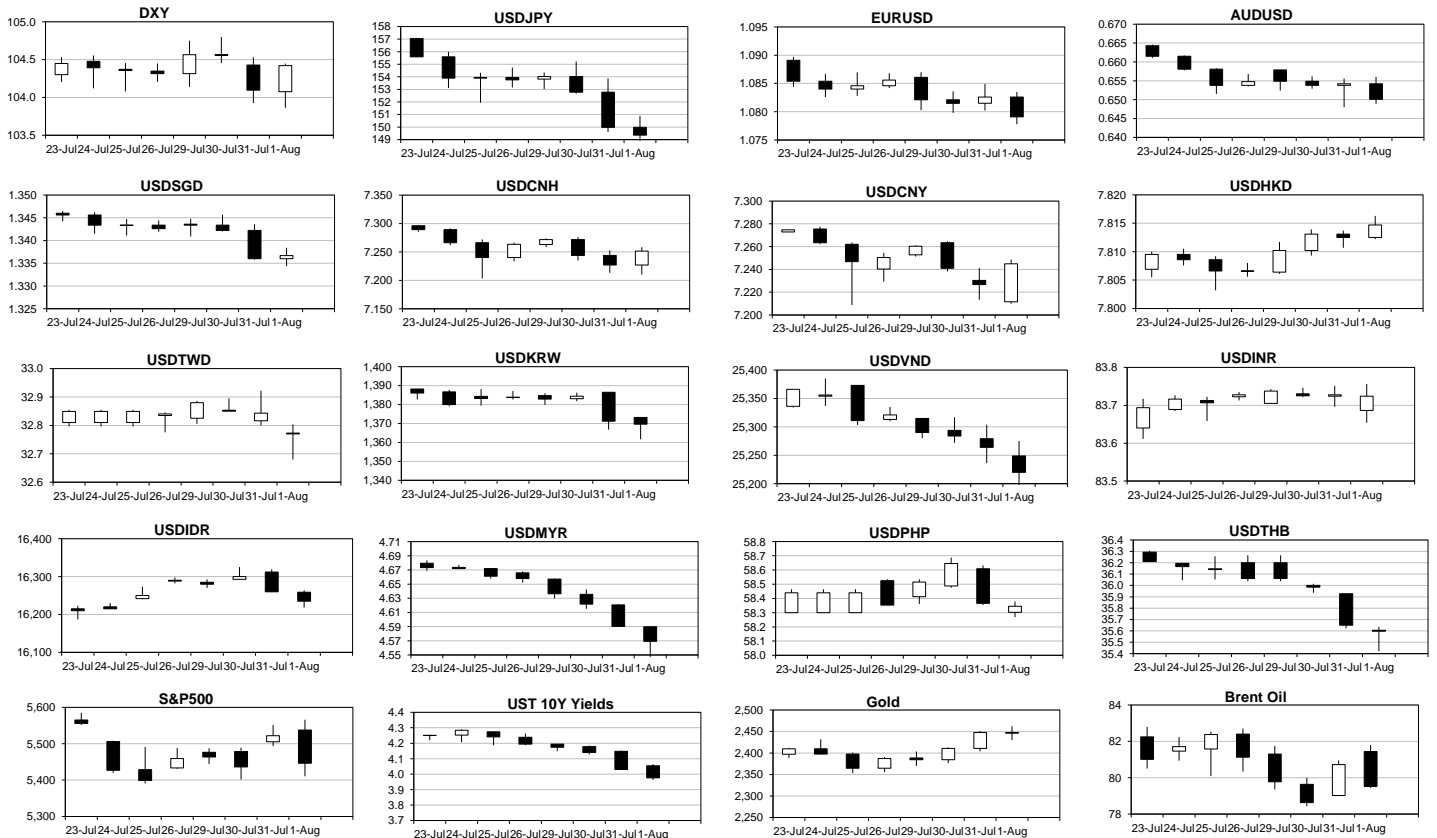
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5446.68	-75.62	▼1.37%
Nasdaq (US)	17194.14	-405.26	▼2.30%
DJIA (US)	40347.97	-494.82	▼1.21%
N225 (JP)	38126.33	-975.49	▼2.49%
STOXX50 (EU)	4765.72	-107.22	▼2.20%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4544.95	-43.36	▼0.95%
STI (SG)	3419.84	-36.10	▼1.04%
SHCOMP (CN)	2932.387	-6.36	▼0.22%
SZCOMP (CN)	1602.189	-8.59	▼0.53%
HSI (HK)	17304.96	-39.64	▼0.23%
SENSEX (IN)	81867.55	126.21	+0.15%
JSE (ID)	7325.985	70.22	+0.97%
KLSE (MY)	1624.25	-1.32	▼0.08%
PSE (PH)	6693.83	74.74	+1.13%
SET (TH)	1322.75	1.89	+0.14%
VNINDEX (VN)	1226.96	-0.02	▼1.96%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	8,923.85	-178.43	▼1.96%
IRON ORE (CN)	102.80	-2.95	▼2.96%
GOLD	2,446.26	-1.34	▼0.05%
SILVER	79.52	-1.20	▼1.49%
OIL (BRENT)	80	-1.20	▼1.49%
OIL (WTI)	76.31	-1.60	▼2.05%
NATURAL GAS	28.52	-0.48	▼1.67%

CHARTS



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