

Aug 05, 2024

## Three Take-Aways

- 1) Dismal US NFP and rising unemployment rate trigger recession fears.
- 2) US equities plunge, UST yields sank as markets price in 75% odds of 50bps cut in September.
- 3) Indonesia Q2 GDP set to moderate and IDR gains on weaker USD may be restrained relative to peers.

## MACRO THEME: Rolling Stocktake

- Amid the heightened volatility last Friday which saw UST yields plummet emphatically and US equities plunge, it is **perhaps worthwhile to stocktake recent happenings**.

- First, the **NFP print for July was undoubtedly worrying at 114k which underperformed market expectations** of 175k. Furthermore, this is a slowdown from a downwardly revised 179k in June from the earlier estimate of 206k..

- Second, the **rise in unemployment rate** from 4.1% to 4.3% which implied that the Sahm rule was effectively triggered. To recap, it serves as an indicator for "the start of a recession when the three-month moving average of the national unemployment rate (U3) rises by 0.50 percentage points or more relative to its low during the previous 12 months." Specifically, the scenario of higher unemployment constraining spending and further restraining hiring and incomes and economic activity leading to a recession is the feared scenario here. While it remains to be seen if there will be a further escalation of the unemployment rate, the fear from triggering this rule was widespread in market action. Some have argued for calm given that there was an increase in labour supply that is more people looking for work which resulted in more unemployed people.

- Third, admittedly, **calm is required for considered decisions**. At this juncture, markets are pricing in a near 75% chance of a 50bps cut in September and with multiple data points (including another NFP print) till then, Fed officials may display somewhat of a pushback on outsized cuts while acknowledging the potential to ease given their overall tendencies to anchor stability.

### Yields (2Y: -26.8bps; 10Y: -18.6bps; 30Y: -16.9bps)

- The growth fears saw sharp UST yield curve bull steepening.
- With the 10-2Y spread now at 9bps, the sight of a UST reverted back to a upward sloping one which serves as another indicator of recession risks also has the potential to sour risks sentiments.

### Equities (Nasdaq: -2.4%; S&P500: -1.8%; Dow: -1.5%)

- Under the risk off mood, US equities sold off across the board.

### FX (DXY: -1.2%)

- The plunge in UST yields and flight to haven saw the JPY gain 5.6% with the USD/JPY sinking below 146.

- The clamour for safety also apparent in CHF gains of 2.9%.
- Nonetheless, it remains notable that the EUR has been much more restrained, rising to just above 1.09.
- Down Under, the AUD underperformed as it stayed around 65 cents. Admittedly, on top of closed markets in Australia, some of the US labour market fears may have been unfairly extended and laid over onto Australia's.
- In EM-Asia, the USD/SGD has sank towards mid-1.32 and regional peers look set to enjoy some tailwinds from the lower UST yields to start the week. Markets may also begin to contemplate CNH gain on China's state council's plans to boost domestic consumption.

## China: Reviving Domestic Consumption

- Over the weekend, China's state council rolled out 20 key steps to boost domestic consumption. While these measures may not be headline catching in terms of magnitude, they still represent **concrete** measures to boost various sectors such as healthcare, tourism and also e-commerce and exports by providing incentives such as tax breaks and financing support.

## Indonesia Q2 GDP: Moderation

- Releasing today, Indonesia's GDP growth is likely to remain supported but could moderate to 4.9% YoY (Q1: 5.1%).

- Agriculture could remain in contractionary territory (Q1: -3.5% YoY) as the National Food Agency estimated a decline in rice production in the January-July period compared to a year ago as rainfall remained patchy in some regions. Meanwhile, mining & quarrying should see a deterioration (Q1: 9.3%) as coal production fell -11.5% YoY in Apr-Jun period (Q1: +10.3%).

- Manufacturing is expected to remain supported (Q1: 4.1%). While export volume of manufactured goods in April grew 21.3% YoY (Q1: 30.0%), improving forward-looking business sentiments could reflect a better-than-expected Q2.

- Construction should accelerate (Q1: 7.6% YoY) as cement consumption remains strong. Apr-May consumption was 7.7% higher compared to the equivalent period a year ago (Q1: 0.0%).

- On the services side, wholesale & retail trade could moderate (Q1: 4.6% YoY) as average retail sales declined to 1.1% YoY in Q2 (Q1: 5.6% YoY), but information and communication growth should remain resilient as the government's infrastructure push towards greater connectivity and digitalisation should have spillovers on attendant sectors. Notably, government expenditure on capital in Q2 saw a growth of 39.6% (Q1: 17.8%) suggested increased investments in Q2.

- Taken together, amid some moderation, Indonesia's growth remains supported and would buy time for Bank Indonesia to take time to contemplate before embarking on an easing cycle.

## DATA/EVENTS

Overnight	Actual	Exp.	Prior
(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)	114k	175k	206k
(US) Unemployment Rate (Jul)	4.3%	4.1%	4.1%
(US) Average Hourly Earnings MoM (Jul)	0.2%	0.3%	0.3%
(US) Durable Goods Orders (Jun F)	-6.7%	-6.6%	-6.6%
(US) Goods orders Nondef ExAir (Jun F)	0.9%	1.0%	1.0%

## Today

(CH) Caixin PMI Services (Jul)	51.5	51.2
(SG) Retail Sales/Ex Auto YoY (Jun)	4.0%/--	2.2%/0.0%
(ID) GDP YoY/QoQ (Q2)	5.0%/3.7%	5.1%/0.8%
(US) ISM Services Index (Aug)	51.3	48.8
(EZ) Sentix Investor Confidence (Aug)	--	-7.3%
(EZ) PPI YoY	--	-4.2%

## FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	146.53	145.57	▼1.89%	145.00 - 149.00
EURUSD	1.0911	1.0910	+1.11%	1.0830 - 1.0930
GBPUSD	1.2801	1.2788	+0.49%	1.2700 - 1.2850
AUDUSD	0.6511	0.6498	+0.15%	0.6480 - 0.6580
DXY	103.2	--	▼1.16%	103.8 - 104.5
USDCNY	7.1722	--	▼1.00%	7.1000 - 7.2000
USDCNH	7.1638	7.1430	▼1.21%	7.1000 - 7.2000
USDHKD	7.8074	7.8053	▼0.09%	7.8000 - 7.8100
USDSGD	1.3268	1.3258	▼0.74%	1.3200 - 1.3300
USDKRW	1361	1360	+0.00%	1340 - 1380
USDTWD	32.83	--	+0.19%	32.50 - 32.85
USDINR	83.75	--	+0.03%	83.40 - 83.80
USDIDR	16200	--	▼0.22%	16000 - 16210
USDMYR	4.497	4.497	▼1.58%	4.400 - 4.500
USDPHP	58.10	--	▼0.42%	57.90 - 58.20
USDTHB	35.36	35.32	▼0.70%	35.20 - 35.60
USDVND	25219	25219	▼0.00%	25100 - 25250

\*Open is as at 8am HKT/SGT.

## MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.882	3.791	-26.8	-18.6
JGB (JP)	0.398	0.942	-6.2	-9.3
Bunds (GE)	2.345	2.172	-10.2	-7.0
Gilts (UK)	3.589	3.827	-11.4	-5.4
AGB (AU)	3.801	4.051	-5.4	-3.6
SGS (SG)	2.825	2.782	-6.0	-5.2
CGB (CN)	1.507	2.118	-0.5	-0.4
KGB (KR)	2.998	3.173	-17.0	-26.8
SDL (IN)	6.894	6.793	-1.8	-6.2

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	159.91	158.82	▼0.79%
GBP/JPY	187.767	186.148	▼1.32%
JPY/SGD (100yen)	0.9053	0.9108	+1.13%
JPY/HKD (100yen)	5.3279	5.3619	+1.81%
CNH/JPY	20.425	20.302	▼1.08%
CNH/HKD	1.0888	1.0885	+0.94%
EUR/GBP	0.8521	0.85318	+0.59%
AUD/NZD	1.0929	1.0927	+0.00%
EUR/CNH	7.8141	7.793	▼0.15%
GBP/CNH	9.174	9.1341	▼0.68%

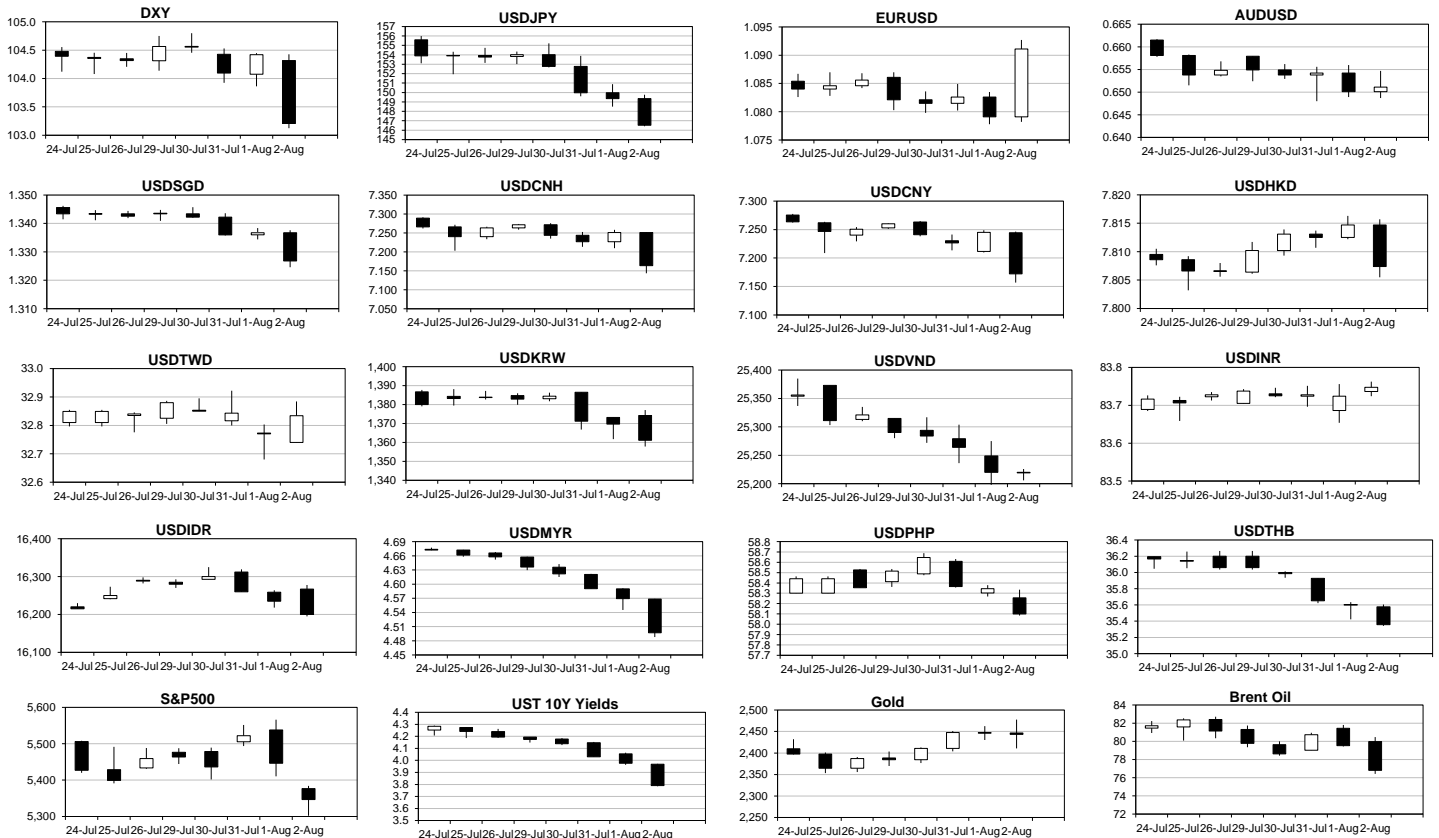
\*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5346.56	-100.12	▼1.84%
Nasdaq (US)	16776.16	-417.98	▼2.43%
DJIA (US)	39737.26	-610.71	▼1.51%
N225 (JP)	35909.7	-2216.63	▼5.81%
STOXX50 (EU)	4638.7	-127.02	▼2.67%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4474.4	-70.55	▼1.55%
STI (SG)	3381.45	-38.39	▼1.12%
SHCOMP (CN)	2905.337	-27.05	▼0.92%
SZCOMP (CN)	1581.798	-20.39	▼1.27%
HSI (HK)	16945.51	-359.45	▼2.08%
SENSEX (IN)	80981.95	-885.60	▼1.08%
JSE (ID)	7308.123	-17.86	▼0.24%
KLSE (MY)	1611.05	-13.20	▼0.81%
PSE (PH)	6605.3	-88.53	▼1.32%
SET (TH)	1313.08	-9.67	▼0.73%
VNINDEX (VN)	1236.6	0.01	+0.79%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	8,933.85	10.00	+0.11%
IRON ORE (CN)	103.83	-2.29	+1.00%
GOLD	2,443.24	-3.02	▼0.12%
SILVER	76.81	-2.71	▼3.41%
OIL (BRENT)	77	-2.71	▼3.41%
OIL (WTI)	73.52	-2.79	▼3.66%
NATURAL GAS	28.56	0.04	+0.13%

## CHARTS



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