

Aug 06, 2024

Three Take-Aways

- 1) **US ISM Services remains resilient to warrant caution for overextended cut bets.**
- 2) **Fed officials caution on over-reacting to one NFP print.**
- 3) **RBA set to hold as inflation remains sticky.**

MACRO THEME: Considering Errors

- Markets continued the risk off fear and started the week with Asian equities selling off as the JPY carry trades continued to unwind amid continued fears of US recession and a "behind the curve" Fed.

- Fed's Goolsbee urged calm characterising economic growth as continuing at a fairly steady level and re-iterating that the Fed is unlikely to over-react to a single NFP print. Specifically, he **stated that the margin of error at around 100k for each NFP print warrants caution.** This is on top of the **certainty of revisions down the road** given that this is a preliminary estimate.

- Nonetheless, he declared that the **Fed will fix deterioration of any of those parts** (employment, prices and financial stability). However, it is important to note that cutting rates (relative to other funding/liquidity instruments) remains an unlikely solution to ensuring financial stability especially in the form of the current risk asset sell-off without a clear domestic source of instability.

- Furthermore, in our view, as a traditional source of stability given their lender of last resort role, it is **certainly not in their response function to implement unscheduled rate cuts.**

- In alignment, San Francisco Fed President Daly said that **policy adjustments will be necessary so that we do not let the labour market slow so much but also expressed that the labour market remains reasonably solid.** Consequently, the Fed may continue to be inclined to portray their stabilisation image.

- In fact, the **ISM services print last night outperformed** and returned to expansionary territory with employment sub-index also printing above 50 should underscore the point that even if economic slowdowns were to materialise, they are also non-linear and not straightforward like how the dis-inflation process has been.

Yields (2Y: +4.0bps; 10Y: -0.2bps; 30Y: -3.5bps)

- Consequently, front end UST yield edged higher though markets are still pricing in at 92% chance of a 50bps cut in September.

Equities (Nasdaq: -3.4%; S&P500: -3.0%; Dow: -2.6%)

- Risk off sentiments persisted along with the tech sell down to send US equities declining across the board.

FX (DXY: -0.5%)

- The USD turned broadly softer against G10 peers as lower UST yields begin to weigh. EUR re-traced back to mid-1.09 after testing 1.10.

AUD is hovering around 65 cents ahead of RBA this afternoon.

- USD/JPY sank towards 144 overnight but has risen above 146 this morning as UST yields climb higher.

- Notably across EM-Asia, while most currencies gained with MYR leading the pack, the KRW was a stark contrast hit by the tech sell-off alongside the renewed bets for the BoK to ease.

China: China Relative Relief is Not Resolution

- The threat of a meltdown in global markets merely provides distraction, not deliverance, from China's on-going structural and geo-economic pressures. It is this context that is critical in appreciating CNH surge yesterday which has now partly retraced to mid-7.14 (from sub-7.10 test) as at the point of writing. What's more, the ~1.5% gains in CNY since late last week broadly corresponds to wider USD sell-off.

- Accordingly, Chinese equities down "just" 1-2% on a day that Nikkei plunged >12% and Nasdaq was down 3.4% (after a 2.4% drop on Friday) speaks to relative buffer in a external storm .. not a resolution of fundamental structural woes.

RBA: Unmoved

- We expect the RBA to keep rates unchanged at their meeting today.

- While markets had a significant reaction post June/Q2 CPI print with 3Y yields dropping 18bps and AUD slipping below 65 cents, the RBA will likely have a much more measured response.

- Point being, the RBA is unlikely to gain sufficient confidence to bring forward their projected trajectory of inflation's return to their target in 2026. June's headline and trimmed mean at 3.8% and 4.1% respectively is still some distance away. On a quarterly basis, Q2 inflation for non-tradeables was sticky at 5.0% YoY similar to Q1 and will take more time to normalise especially given the tight housing market situation.

- Fortunately, tradeables inflation have returned back to pre-pandemic levels. That said, the Q2 bump-up in tradables inflation on fuel, fruit, vegetable as well as apparel underscores that further headline dis-inflation will need to rely on services rather than goods. Nonetheless, we retain the view that the bar for a hike remain a high one.

- While employment gains have indeed been robust with 125k of job gains in Q2, rising unemployment rate on the back of rising labour force participation rates indicate that overall conditions in the labour market have not tighten beyond the RBA's expectations to trigger wage price spiral fears.

- Furthermore, while nominal retail sales continued to show buoyancy growing 0.5% MoM in June which culminated in Q2's 0.7 QoQ expansion, real retail sales in volume terms actually contracted 0.3% QoQ, reflecting higher prices and stretched households.

- All in, the RBA will need to be patient and drag the rate hold for much longer. In the same vein, AUD bulls may also want to be patient and await for Fed cues.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(CH) Caixin PMI Services (Jul)	52.1	51.5	51.2
(SG) Retail Sales/Ex Auto YoY (Jun)	-0.6%/-3.1%	3.8%/--	2.2%/0.0%
(ID) GDP YoY/QoQ (Q2)	5.1%	5.0%/3.7%	5.1%/-0.8%
(US) ISM Services Index (Aug)	51.4	51.0	48.8
(EZ) Sentix Investor Confidence (Aug)	-13.9	-8.0	-7.3
(EZ) PPI YoY	-3.2%	-3.3%	-4.2%

Today

(PH) CPI YoY (Jul)		3.7%	3.7%
(AU) RBA Cash Rate Target (Jul)		4.35%	4.35%
(PH) Exports/Imports YoY (Jun)		-5.4%/-1.5%	-3.1%/0.0%
(TW) CPI/Core YoY (Jul)		0.7%/0.4%	0.6%/0.4%
(JP) Labour/Real Earnings YoY (Jun)	4.5%/1.1%	2.4%/-0.9%	2.0%/-1.3%
(EZ) Retail sales YoY (Jun)		0.1%	0.3%
(US) Trade Balance (Jun)		-\$72.5b	-\$75.1b

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	144.18	145.69	▼1.60%	143.00 - 149.00
EURUSD	1.0952	1.0951	+0.38%	1.0890 - 1.1000
GBPUSD	1.2776	1.2788	▼0.20%	1.2700 - 1.2850
AUDUSD	0.6498	0.6516	▼0.20%	0.6470 - 0.6580
DXY	102.7	--	▼0.50%	102.0 - 104.5
USDCNY	7.1396	--	▼0.45%	7.1000 - 7.2000
USDCNH	7.1385	7.1451	▼0.35%	7.1000 - 7.2000
USDHKD	7.7887	7.7921	▼0.24%	7.7700 - 7.8100
USDSGD	1.3252	1.3252	▼0.12%	1.3200 - 1.3300
USDKRW	1372	1370	+0.00%	1340 - 1380
USDTWD	32.64	--	▼0.58%	32.50 - 32.85
USDINR	83.84	--	+0.11%	83.40 - 83.90
USDIDR	16185	--	▼0.09%	16000 - 16250
USDMYR	4.427	4.426	▼1.55%	4.400 - 4.500
USDPHP	57.90	--	▼0.35%	57.80 - 58.20
USDTHB	35.23	35.51	▼0.36%	35.20 - 35.60
USDVND	25101	25108	▼0.47%	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)	3.922	3.789	4.0	-0.2
JGB (JP)	0.287	0.784	-11.1	-15.8
Bunds (GE)	2.346	2.188	0.1	1.6
Gilts (UK)	3.607	3.868	1.8	4.1
AGB (AU)	3.801	4.051	0.0	0.0
SGS (SG)	2.647	2.671	-17.8	-11.1
CGB (CN)	1.498	2.138	-0.9	2.0
KGB (KR)	2.898	2.923	-3.5	4.0
SDL (IN)	6.861	6.745	-3.0	-11.1

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	157.9	159.54	▼1.26%
GBP/JPY	184.216	186.295	▼1.89%
JPY/SGD (100yen)	0.9192	0.9096	+1.54%
JPY/HKD (100yen)	5.4023	5.3486	+1.40%
CNH/JPY	20.126	20.407	▼1.46%
CNH/HKD	1.0908	1.0915	+0.18%
EUR/GBP	0.85717	0.85638	+0.60%
AUD/NZD	1.0938	1.0953	+0.08%
EUR/CNH	7.8173	7.8246	+0.04%
GBP/CNH	9.1203	9.1368	▼0.59%

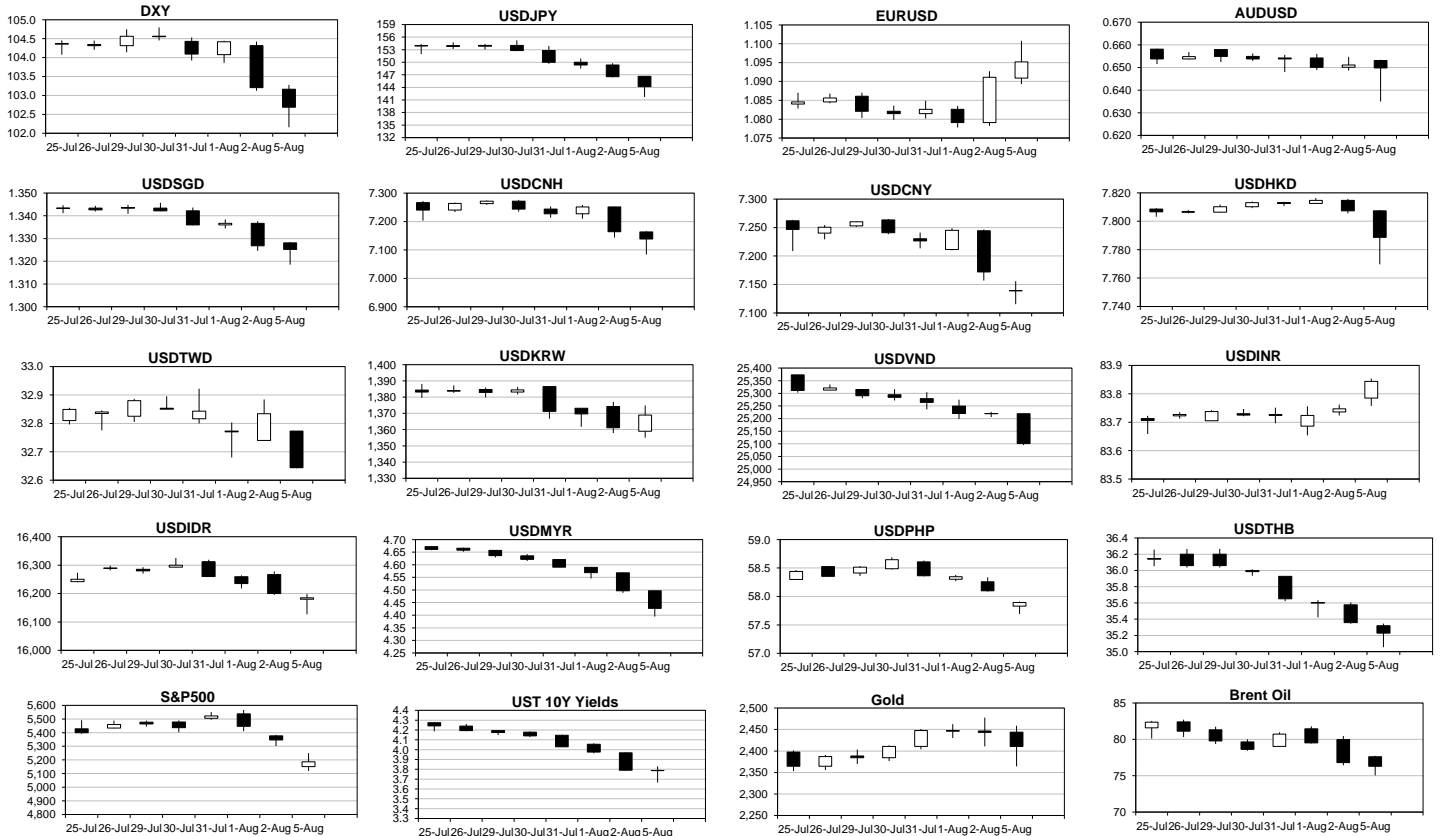
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5186.33	-160.23	▼3.00%
Nasdaq (US)	16200.08	-576.08	▼3.43%
DJIA (US)	38703.27	-1033.99	▼2.60%
N225 (JP)	31458.42	-4451.28	▼12.40%
STOXX50 (EU)	4571.6	-67.10	▼1.45%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4377.74	-96.66	▼2.16%
STI (SG)	3243.67	-137.78	▼4.07%
SHCOMP (CN)	2860.698	-44.64	▼1.54%
SZCOMP (CN)	1548.828	-32.97	▼2.08%
HSI (HK)	16698.36	-247.15	▼1.46%
SENSEX (IN)	78759.4	-2222.55	▼2.74%
JSE (ID)	7059.653	-248.47	▼3.40%
KLSE (MY)	1536.48	-74.57	▼4.63%
PSE (PH)	6434.73	-170.57	▼2.58%
SET (TH)	1274.67	-38.41	▼2.93%
VNINDEX (VN)	1188.07	-0.04	▼3.92%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	8,765.32	-168.53	▼1.89%
IRON ORE (CN)	103.71	-2.38	▼0.12%
GOLD	2,410.79	-32.45	▼1.33%
SILVER	76.30	-0.51	▼0.66%
OIL (BRENT)	76	-0.51	▼0.66%
OIL (WTI)	72.94	-0.58	▼0.79%
NATURAL GAS	27.26	-1.30	▼4.54%

CHARTS



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