

Aug 08, 2024

Three Take-Aways

- 1) Weak 10Y UST auction sent UST yield curve steepening and US equities sold off on persistent tech fear.
- 2) Declining US stockpiles and geo-political tensions appear to backstop oil prices for now.
- 3) RBI to stand pat amid elevated inflation and INR pressures.

MACRO THEME: Unabated Fears

- Even amid the BoJ assurances, fear and volatility have certainly not abated with weak demand at 10Y UST auctions sending longer end yields higher. US equities were also unable to hold onto early gains as the tech sell-off persisted.

- Furthermore, declining US oil stockpiles saw Brent crude prices climb back to above US\$78/barrel alongside Trump's comments to fill up the US Strategic Petroleum Reserve.

- It appears that the mild period of subdued Trump volatility after the selection of Tim Walz, Governor of Minnesota as the running mate of Kamala Harris, didn't prove to be very lasting. In addition, oil markets continue to keep a close watch on middle east tensions as Hamas names Yehiya Sinwar as the political leader have doused ceasefire hopes given his role in the October 7 attacks.

- Consequently, EM-Asia FX may find little joy in this combination of higher UST yields and higher oil prices and in some instances, political instability risks have risen even if they are certainly not in the realms of the recent instability observed in Bangladesh. Specifically, in Thailand, the court's decision to dissolve the country's main opposition party will incite worries of political instability, even though major social unrest remain long end tail risks.

Yields (2Y: -1.4bps; 10Y: +5.1bps; 30Y: +6.7bps)

- UST yield curve steepened and with the 10-2 UST yield differential at 2bps, at time of writing. The sight of reversion of the yield curve to an upward sloping one may continue to incite another round of "indicator" induced fears as the reversion often points to recession.

Equities (Nasdaq: -1.1%; S&P500: -0.8%; Dow: -0.6%)

- US equities fell across the board with continued sell-off in the semiconductor related sectors.

FX (DXY: +0.2%)

- The Greenback was mixed among G10 peers with the likes of the NOK aided by oil price resurgence.

- EUR traded sideways above 1.09. ECB's Rehn stating that rate cuts can continue if inflation softens merely affirms current OIS pricing of 84% chances of an ECB cut in September.

- AUD was unable to retain traction above mid-65 cents.

China: Slowing?

- China's exports growth slowed to 7.0% in July from the 8.6% in June

. Nonetheless, given the elevated levels in recent months, one should not be too quick to ascribe scenarios of external demand collapse but rather this is more likely to underscore the need to shore up domestic demand especially amid potential for moderation in global growth.

- From a current account perspective, it is coming off record highs and not dropping off worryingly. Geo-political shocks to trade remain a far bigger worry compared to cyclical bumps.

BoJ-JPY Risks: Mitigated, Not Vindicated

- So, the BoJ has blinked, with a bail option on hikes, saying they "won't raise rate when market is unstable". Essentially, and all else equal, this ought to subdue inadvertent upside JPY volatility from over-extended hawkish BoJ bets. But for this merely mitigates, not vindicates, risks of sharp (short) JPY squeeze and resultant "carry unwind". Simply because the JPY is not exclusively within the BoJ's remit. Notably, the Fed dictates a key lever for JPY.

- Specifically, preventing a painfully sharp JPY squeeze (vs. USD) will require that the Fed does not resort to drastic rate cuts. So, while mitigated on the BoJ's end, threats of an abrupt, policy-induced JPY squeeze/carry liquidation are no less prominent with the Fed. In fact, the triggers for this might have migrated to the Fed (and arguably a little further out). For now, JPY pullback has stalled short of full recouping post NFP gains.

RBI: Holding Horses

- Justifiably Resisting Scope to Cut: The RBI will hold its horses for now despite headline indicators suggest scope for cut. And justifiably so as a look under the hood reveals far less wiggle room.

- Inflation Needs Tyre-Kicking: Admittedly, inflation has been a lot tamer than feared. But trouble is, in price pressures remain liable to upside tendencies (as was evident from June's pick-up from May). What's more, inflation continues to be at the upper side of the RBI's 4+/-2%-pt target range. Which highlights the risks of premature easing.

- Headline Fiscal Leeway: On the surface, there is prima facie case to suggest that incremental fiscal tightening allows for monetary easing to compensate. And the principle of assessing policy collectively on fiscal-monetary impulse flawed in and of itself.

- Specifically, recent post-election Budget tightening FY25 deficit to 4.9% (of GDP) from preliminary target of 5.1% arguably posits monetary easing scope from a 0.2%-pt fiscal tightening impulse.

- Undermined by Dividend Impulse: But that does not withstand scrutiny. Not when the RBI divided windfall of 0.4%-pt of GDP, which more than offsets is considered. So, in effect, the dividend cash-flows will provide a first pass boost of 0.2%-pt of GDP. Which means spending multipliers add to inflationary flows.

- Rupee Bugbear: Finally, rupee pressure re-surfacing, with the INR underperforming in July, is a stark reminder that front-running the Fed could exacerbate risks to macro/FX-stability. The upshot is that a hold is the low bar, with a hawkish hold a more rigorous means, to ensure stability.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(PH) Unemployment Rate (Jun)	3.1%	--	4.1%
(KR) Current Account Balance (Jun)	\$12.2b	--	\$8.9b
(TH) CPI/Core YoY (Jul)	0.8%/0.5%	0.7%/0.4%	0.6%/0.4%
(CH) Exports/Imports YoY (Jul)	7.0%/7.2%	9.5%/3.2%	8.6%/-2.3%
(JP) Coincident Index	113.7	113.8	117.1
(JP) Leading Index Cl	108.8	108.9	111.2

Today

RBI Repurchase Rate	6.50%	6.50%
(PH) GDP YoY (2Q)	7.2%	5.7%
(TW) Exports/Imports YoY (Jul)	5.9%/10.7%	23.5%/33.9%
(US) Initial Jobless Claims		249k%
(US) Wholesale Inventories MoM (Jun F)	--	0.2%
(JP) BoP Current Account Balance (Jun)	¥1873.7b	¥2849.9b
(JP) Eco Watchers Survey Current (Jul)		47.0

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	146.68	146.08	+1.62%	144.00 - 148.00
EURUSD	1.0922	1.0928	▼0.08%	1.0890 - 1.1000
GBPUSD	1.2692	1.2680	+0.01%	1.2650 - 1.2780
AUDUSD	0.6519	0.6516	▼0.02%	0.6470 - 0.6580
DXY	103.2	--	+0.22%	102.0 - 104.5
USDCNY	7.1766	--	+0.29%	7.1000 - 7.2000
USDCNH	7.1733	7.1633	+0.20%	7.1000 - 7.2000
USDHKD	7.7983	7.7928	+0.04%	7.7700 - 7.8100
USDSGD	1.3277	1.3266	+0.17%	1.3200 - 1.3310
USDKRW	1379	1375	+0.00%	1340 - 1384
USDTWD	32.69	--	▼0.02%	32.50 - 32.85
USDINR	83.95	--	▼0.01%	83.75 - 84.00
USDIDR	16035	--	▼0.80%	16000 - 16250
USDMYR	4.498	4.495	+0.52%	4.450 - 4.550
USDPHP	57.54	--	▼0.50%	57.40 - 58.20
USDTHB	35.67	35.60	+0.39%	35.40 - 35.90
USDVND	25166	25168	+0.12%	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)	3.963	3.944	-1.4	5.1
JGB (JP)	0.275	0.890	-1.3	-0.4
Bunds (GE)	2.403	2.266	2.0	6.8
Gilts (UK)	3.644	3.948	-0.8	3.0
AGB (AU)	3.805	4.078	4.5	5.8
SGS (SG)	2.770	2.864	7.6	11.1
CGB (CN)	1.507	2.135	0.1	-1.1
KGB (KR)	3.018	3.035	6.7	-1.4
SDL (IN)	6.863	6.742	-0.8	-1.3

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	160.22	159.64	+1.54%
GBP/JPY	186.183	185.222	+1.64%
JPY/SGD (100yen)	0.9056	0.9082	▼1.37%
JPY/HKD (100yen)	5.3163	5.3345	▼1.55%
CNH/JPY	20.478	20.362	+1.00%
CNH/HKD	1.0866	1.0859	▼0.23%
EUR/GBP	0.86061	0.86186	▼0.09%
AUD/NZD	1.0876	1.0885	▼0.68%
EUR/CNH	7.8351	7.8281	+0.11%
GBP/CNH	9.1052	9.0827	+0.21%

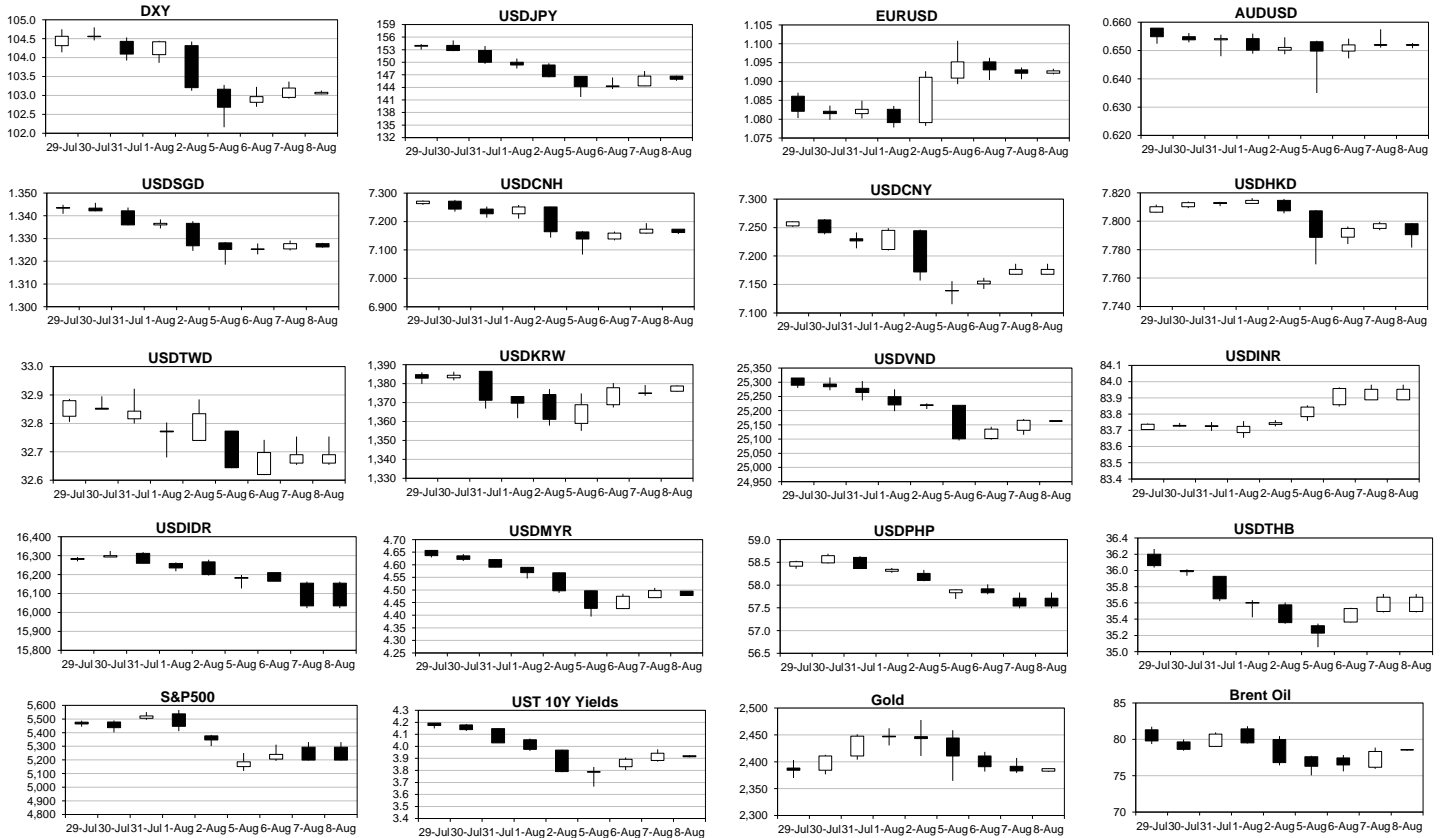
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5199.5	-40.53	▼0.77%
Nasdaq (US)	16195.81	-171.04	▼1.05%
DJIA (US)	38763.45	-234.21	▼0.60%
N225 (JP)	35089.62	414.16	+1.19%
STOXX50 (EU)	4668.06	92.84	+2.03%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4462.58	71.81	+1.64%
STI (SG)	3249.72	51.28	+1.60%
SHCOMP (CN)	2869.834	2.55	+0.09%
SZCOMP (CN)	1566.103	-0.93	▼0.06%
HSI (HK)	16877.86	230.52	+1.38%
SENSEX (IN)	79468.01	874.94	+1.11%
JSE (ID)	7212.131	82.92	+1.16%
KLSE (MY)	1591.87	17.48	+1.11%
PSE (PH)	6535.17	101.93	+1.58%
SET (TH)	1290.55	16.54	+1.30%
VNINDEX (VN)	1215.88	0.00	+0.46%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	8,640.93	-163.09	▼1.85%
IRON ORE (CN)	101.36	-4.58	▼1.27%
GOLD	2,382.92	-7.90	▼0.33%
SILVER	78.33	1.85	+2.42%
OIL (BRENT)	78	1.85	+2.42%
OIL (WTI)	75.23	2.03	+2.77%
NATURAL GAS	26.61	-0.37	▼1.39%

CHARTS



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