

Aug 12, 2024

Three Take-Aways

- 1) Markets continue to reduce odds of outsized September cuts as Fed officials warn against getting ahead of the data.
- 2) China's CPI remains soft at the core.
- 3) Australia jobs likely report warrants caution but not over-reaction as SAHM rule is not as unanimous.

MACRO THEME: Coin Toss

- Recent market movements really serve as a good reminder that markets and central banks are afforded different constraints and as such behaviours are distinctly varied.

- Specifically, after the initial jobless claims which surprised to the upside last Thursday, markets (Fed funds futures) have continued to **reduce the odds of a 50bps cut** from pre claims data of **80% to just about 50% probability this morning** as Fed officials display **caution and conditionality**.

- Boston Fed President Collins has **warned against getting ahead of the data** as she stated that easing is appropriate if data continue the way I expect. With US CPI this week, a coin toss probability reflects the finely balanced delicate situation right now.

- In fact, one should be reminded from Fed Governor Bowman's speech, that even after this week's US CPI print, **there is still one more jobs report and one more CPI print before the September meeting** as she said that she will remain cautious in adjusting the current stance.

Yields (2Y: +1.5bps; 10Y: -4.8bps; 30Y: -5.6bps)

- UST yield curve inversion deepened with front end yields being calibrated by pared back odds of outsized easing.

Equities (Nasdaq: +0.5%; S&P500: +0.5%; Dow: +0.1%)

- As recession fears fade at the margin, US equities rose across the board.

FX (DXY: -0.07%)

- Amid a mixed performance among G10 peers, the USD largely held up with the DXY above 103.

- USD/JPY remains buoyed above mid-146. This morning, ex-BoJ board member Makoto Sakurai said that the **BoJ won't be able to raise the policy rate again this year and it is a toss up whether they can do one hike by next March**.

- EUR continue sideways just above 1.09 and may find it tough to outperformed considering the proximity of heightened Russia-Ukraine developments and pipeline risk of Iran's retaliation.

- Meanwhile AUD was unable to retain ground above 66 cents as impulse from hawkish RBA vibes fade.

- In EM-Asia, USD/SGD slipped below mid 1.32. The MYR outperformed as state firms continue to pledge focus on domestic investments.

China: Softness in Core Inflation

- China's July inflation rate came in above market consensus, rising to a five-month high of 0.5% YoY.

- However, this uptick was not driven by improved consumer demand, but higher food prices. Food inflation climbed to 0% YoY in July, the first non-negative reading in 13 months. In detail, fresh vegetable prices rose 0.4% YoY, compared to -3.9% in June, amid unfavorable weather conditions, while pork prices rose 20.4% YoY due to the low base from last year.

- On the other hand, China's core inflation moderated further, to a six-month low of 0.4% YoY in July, as the decline in prices of big-ticket consumer goods continued. Note that prices for home appliances and transportation vehicles both fell at a faster pace in July, at -1.8% and -5.6% YoY, respectively.

- As for policy implications, the softness in China's core inflation suggests continued policy room for coordinated fiscal and monetary support, especially given the government's pro-growth stance set at China's July politburo meeting.

Australia: Does the SAHM rule apply?

- Amid the recent focus on the SAHM rule in the US alongside the upcoming job report in Australia (15 August), we find that the SAHM rule is not as unanimous as a statistical indicator for economic recession in Australia compared to the US. As of June 2024, the SAHM rule indicator for Australia stands at 0.42 reflecting the creep up in unemployment rate.

- While the SAHM rule did correspond to the recession in the early 1980s, 1991 recession and GFC, there were false positives in 1987 as well as in 2013 where the 0.5% threshold was breached but the economy did not enter a technical recession.

- As such, while the uptick in unemployment rate ought to induce caution from the RBA, one should refrain from over-reaction and unwarranted extrapolation from the limited applicability from the case in the US.

- One could arguably make the case for a higher threshold for a modified SAHM rule above the 0.5% mark, though the case of not being overly reactive would still stand.

- Either way, given the significant distance of current inflation to the RBA's target, it remains a high bar for the jobs report to move the policy needle especially with RBA's Bullock categorically saying that cuts are off the table for the next six months.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(CH) CPI/PPI YoY (Jul)	0.5%/-0.8%	0.3%/-0.9%	0.2%/-0.8%
(MY) Industrial Production YoY (Jun)	4.2%	5.0%	2.4%

Today

(IN) CPI YoY (Jul)	3.6%	5.1%
(IN) Industrial Production YoY (Jul)	5.5%	5.9%

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	146.61	147.04	▼0.42%	144.00 - 148.00
EURUSD	1.0917	1.0914	▼0.02%	1.0890 - 1.0970
GBPUSD	1.2761	1.2750	+0.10%	1.2650 - 1.2780
AUDUSD	0.6578	0.6570	▼0.23%	0.6510 - 0.6610
DXY	103.1	--	▼0.07%	102.0 - 104.0
USDCNY	7.1683	--	▼0.11%	7.1000 - 7.2000
USDCNH	7.1744	7.1786	▼0.14%	7.1000 - 7.2000
USDHKD	7.7977	7.7986	+0.04%	7.7700 - 7.8100
USDSGD	1.3239	1.3244	▼0.13%	1.3200 - 1.3310
USDKRW	1365	1365	+0.00%	1340 - 1384
USDTWD	32.43	--	▼0.46%	32.20 - 32.60
USDINR	83.96	--	▼0.01%	83.75 - 84.00
USDIDR	15925	--	+0.19%	15800 - 16000
USDMYR	4.424	4.424	▼1.10%	4.400 - 4.500
USDPHP	57.29	--	▼0.08%	57.10 - 57.60
USDTHB	35.29	35.23	▼0.23%	35.10 - 35.60
USDVND	25109	25110	▼0.15%	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)	4.055	3.941	1.6	-4.9
JGB (JP)	0.283	0.844	1.3	0.1
Bunds (GE)	2.379	2.223	-1.2	-4.2
Gilts (UK)	3.630	3.944	-1.4	-3.4
AGB (AU)	3.779	4.058	0.8	-1.1
SGS (SG)	2.754	2.848	0.0	0.0
CGB (CN)	1.541	2.198	1.5	3.3
KGB (KR)	3.026	3.038	-6.0	1.6
SDL (IN)	6.881	6.754	0.5	1.3

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	160	160.47	▼0.48%
GBP/JPY	187.108	187.469	▼0.33%
JPY/SGD (100yen)	0.9029	0.9007	+0.30%
JPY/HKD (100yen)	5.3179	5.3037	+0.46%
CNH/JPY	20.463	20.513	▼0.35%
CNH/HKD	1.0878	1.0879	+0.15%
EUR/GBP	0.85552	0.85599	▼0.11%
AUD/NZD	1.0956	1.0961	▼0.06%
EUR/CNH	7.8333	7.8344	▼0.13%
GBP/CNH	9.1589	9.1524	▼0.01%

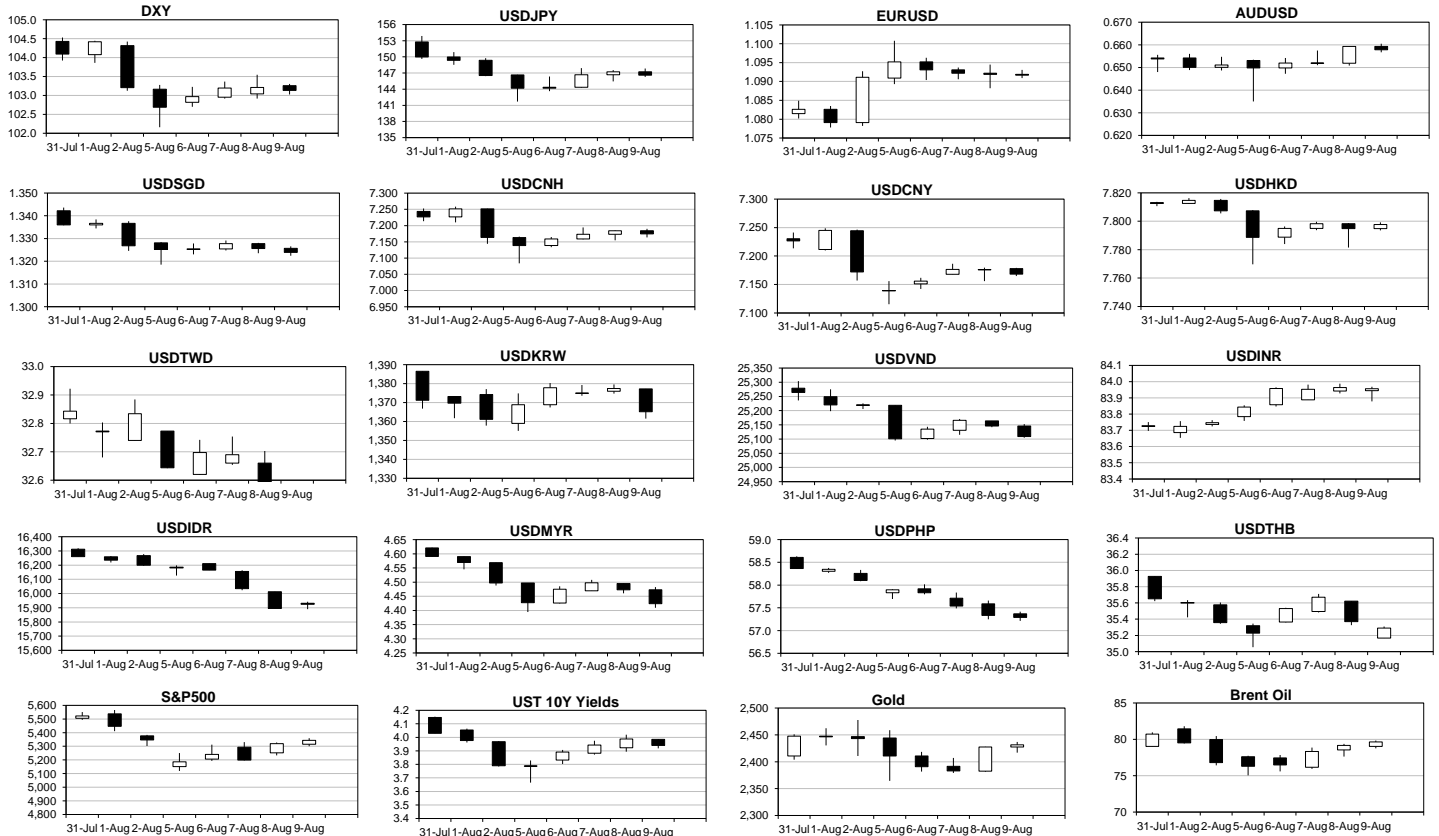
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5344.16	24.85	+0.47%
Nasdaq (US)	16745.3	85.28	+0.51%
DJIA (US)	39497.54	51.05	+0.13%
N225 (JP)	35025	193.85	+0.56%
STOXX50 (EU)	4675.28	6.54	+0.14%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4465.04	14.56	+0.33%
STI (SG)	3261.83	0.00	+0.00%
SHCOMP (CN)	2862.194	-7.71	▼0.27%
SZCOMP (CN)	1553.934	-10.33	▼0.66%
HSI (HK)	17090.23	198.40	+1.17%
SENSEX (IN)	79705.91	819.69	+1.04%
JSE (ID)	7256.996	61.88	+0.86%
KLSE (MY)	1596.05	5.67	+0.36%
PSE (PH)	6647.8	98.53	+1.50%
SET (TH)	1297.07	0.82	+0.06%
VNINDEX (VN)	1223.64	0.01	+1.27%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	8,747.28	76.36	+0.88%
IRON ORE (CN)	101.49	-2.34	+1.35%
GOLD	2,431.32	3.79	+0.16%
SILVER	79.66	0.50	+0.63%
OIL (BRENT)	80	0.50	+0.63%
OIL (WTI)	76.84	0.65	+0.85%
NATURAL GAS	27.46	-0.08	▼0.31%

CHARTS



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