

Aug 14, 2024

## Three Take-Aways

1) Benign US PPI sets off risk rally as US equities rallied and UST yields plunged.

2) Fed's Bostic's rate cut pushback hinges on "good problem" interpretation of rising unemployment rate to higher labour supply.

3) Vietnam Communist Party Chief To Lam displays policy continuity on multiple fronts.

## MACRO THEME: Progress on Prices?

- Ahead of US CPI tonight, **US producer price index (PPI) for July surprised on the downside** with headline PPI growing just 0.1% MoM coming in below expectations of 0.2% MoM and June's downwardly revised 0.3% MoM. Notably, PPI excluding food and energy was flat from June. The **benign print fuelled risk sentiments** to send US equities soaring and USTs rallied while the USD weakened.

- The contrast with Atlanta Fed President Bostic who wanted a "little more data" before supporting a reduction in interest rates **is rather stark** as he espoused readiness to cut **by the end of the year while markets have already priced in more than 100bps of cuts.**

- The difference lies in Bostic's reasoning that the increase in unemployment was due to a "large increase in supply of workers rather than a slump in demand" and it **is a good problem.** Admittedly, it is hard to disentangle encouraged worker effects (when the rate of unemployment is low, people are more willing to look for work due to ease of finding jobs) or stretched households looking for employment.

- The uncertainty over rate cut timing is epitomised by the RBNZ decision today with markets pricing in two-thirds chance of a cut.

**Yields (2Y: -8.8bps; 10Y: -6.1bps; 30Y: -4.2bps)**

- UST yield curve bull steepened.

**Equities (Nasdaq: +2.4%; S&P500: +1.7%; Dow: +1.0%)**

- US equities soared across the board as the tech heavy Nasdaq led gains and most sectors in the S&P 500 rose aside from energy.

**FX (DXY: -0.6%)**

- DXY sank towards mid-102. NZD and AUD led G10 gains, though the former may be subject to substantial gyrations from the RBNZ decision later while the latter was aided by firm wage growth.

- With worsening German investor confidence inviting easing bets, EUR landed in the middle of the pack, rising to test just below 1.10. At the bottom of the G10 pile, JPY gains were more muted as USD/JPY dipped below 147 with Governor Ueda being called to parliament to answer for the July rate hike.

- In EM-Asia, PHP has also outperformed as the BSP will keep policy rates unchanged tomorrow. BSP Governor Remolona has in fact sounded less dovish at a Senate hearing yesterday by saying that the central bank cannot provide a timeline and is giving a sense of how things may pan out rather than a commitment.

## DATA/EVENTS

Overnight	Actual	Exp.	Prior
(AU) Wage Price Index YoY (2Q)	4.1%	4.0%	4.1%
(JP) Machine Tool Orders YoY (Jul P)	8.4%	-	9.7%
(JP) PPI YoY (Jul)	3.0%	3.1%	2.9%
(GE) ZEW Survey Expectations (Aug)	19.2	34.0	41.8
(US) PPI Final Demand YoY (Jul)	2.2%	2.3%	2.6%
(US) PPI Ex Food, Energy YoY (Jul)	2.4%	2.6%	3.0%

## Today

(KR) Unemployment Rate SA (Jul)	2.9%	2.8%
(IN) Wholesale Prices YoY (Jul)	1.9%	3.3%
(EZ) GDP SA YoY (2Q P)	0.6%	0.6%
(EZ) Industrial Pdn WDA YoY (Jun)	-2.9%	-2.9%
(US) CPI/Core YoY	3.0%/3.2%	3.0%/3.3%

## China: Of Credit and Confidence

- Admittedly, contracting bank loans (all system financing aggregate) to the real economy for the first time in 19 years sparked off dismal headlines as more debt was repaid rather than taken out. Nonetheless, rather than a signal of sudden shock, this is perhaps more reflective of earlier efforts to stem the property sector debt and housing prices.

## US CPI: Cooling or Chilling?

- After US recession scare from NFP last week, fears of a policy mistake that sabotage a soft-landing continues to lurk. And the CPI data releasing later today is no exception. Specifically, there may be a fine line between US CPI cooling (on plan) and chilling on signs of demand-pull aspects fading quickly.

- Especially as markets may have a tendency to project, maybe even amplify, trends to account for notoriously "long and variable lags" of policy. The silver lining is that continued disinflation is expected to broaden through both housing and non-housing services.

- But if the deceleration in core/services inflation is more rapid than expected, upsized Fed rate cut expectations could kick in again.

- Consequent volatility in front-end yields will be par for the course. But frustratingly, whether this triggers "risk off" on policy mistake fears or supports risk on rate cut bets remains to be seen.

## Vietnam Update: Continuity

- Domestically, following the death of Chief Nguyen Phu Trong, it has been slightly less than two weeks since President To Lam has ascended to the country's top job as the Communist Party Chief. He had **pledged policy continuity on all fronts** from economic and foreign policy directions to the on-going crackdown on corruption.

- On the latter, the **anti-corruption drive has continued** in full force with recent probes on wind power projects at the EVN, Vietnam's state power monopoly as part of a wider probe on power abuse by a former deputy trade minister. In addition, he will embark on his **first** foreign trip to China next week following Vietnam's affirmation of close ties with China by agreeing to build a community with shared future in late 2023.

- As for economic policy, we also see signs of continuity with the SBV emphasizing on improving the attractiveness of the social housing loan programme with recent proposals to lower borrowing costs further.

- On FX, recent softening of the USD has allowed USD/VND to move lower and to around 1.4% below the upper limit of the SBV's +/- 5% trading range from their reference rate. This much need relief for the SBV given that the USD/VND was persistently just 0.03% below the upper limit just a month ago. Looking ahead, we expect the VND to ride episodes of weaker USD though not outperform regional peers given the SBV's need for FX reserves accumulation. The recent recovery of the VND also provides breathing room for the **SBV to keep policy rates on hold to support the economy.** On balance, while political risks bear close watching in terms of "costs" to the state coffers, markets are at risk of being increasingly desensitized to these developments insofar that growth remains resilient.

## FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	146.84	146.95	▼0.25%	145.00 - 149.00
EURUSD	1.0993	1.0996	+0.57%	1.0890 - 1.1050
GBPUSD	1.2862	1.2866	+0.72%	1.2750 - 1.2880
AUDUSD	0.6634	0.6637	+0.73%	0.6000 - 0.6690
DXY	102.6	--	▼0.56%	102.0 - 103.5
USDCNY	7.1550	--	▼0.27%	7.1200 - 7.2000
USDCNH	7.1479	7.1490	▼0.42%	7.1400 - 7.2000
USDHKD	7.7886	7.7887	▼0.03%	7.7800 - 7.8100
USDSGD	1.3176	1.3173	▼0.51%	1.3120 - 1.3220
USDKRW	1364	1366	+0.00%	1350 - 1375
USDTWD	32.48	--	+0.03%	32.20 - 32.60
USDINR	83.97	--	▼0.00%	83.85 - 84.00
USDIDR	15833	--	▼0.76%	15780 - 15980
USDMYR	4.447	4.446	▼0.15%	4.410 - 4.480
USDPHP	56.98	--	▼0.62%	56.80 - 57.40
USDTHB	35.16	35.03	▼0.37%	34.90 - 35.50
USDVND	25125	25127	▼0.00%	25000 - 25200

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

## MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.931	3.844	-8.7	-6.1
JGB (JP)	0.298	0.841	1.5	-0.3
Bunds (GE)	2.334	2.183	-5.3	-4.0
Gilts (UK)	3.599	3.887	-2.3	-2.9
AGB (AU)	3.750	4.004	-4.0	-4.4
SGS (SG)	2.767	2.807	-2.1	-5.0
CGB (CN)	1.625	2.210	-1.0	-3.1
KGB (KR)	2.988	3.046	-4.2	-8.7
SDL (IN)	6.879	6.765	1.7	1.5

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	161.42	161.59	+0.32%
GBP/JPY	188.876	189.059	+0.48%
JPY/SGD (100yen)	0.8973	0.8964	▼0.26%
JPY/HKD (100yen)	5.3045	5.3002	+0.22%
CNH/JPY	20.5	20.538	▼0.15%
CNH/HKD	1.0887	1.0886	+0.27%
EUR/GBP	0.85467	0.85469	▼0.19%
AUD/NZD	1.0916	1.0918	▼0.26%
EUR/CNH	7.8583	7.861	+0.14%
GBP/CNH	9.194	9.1975	+0.32%

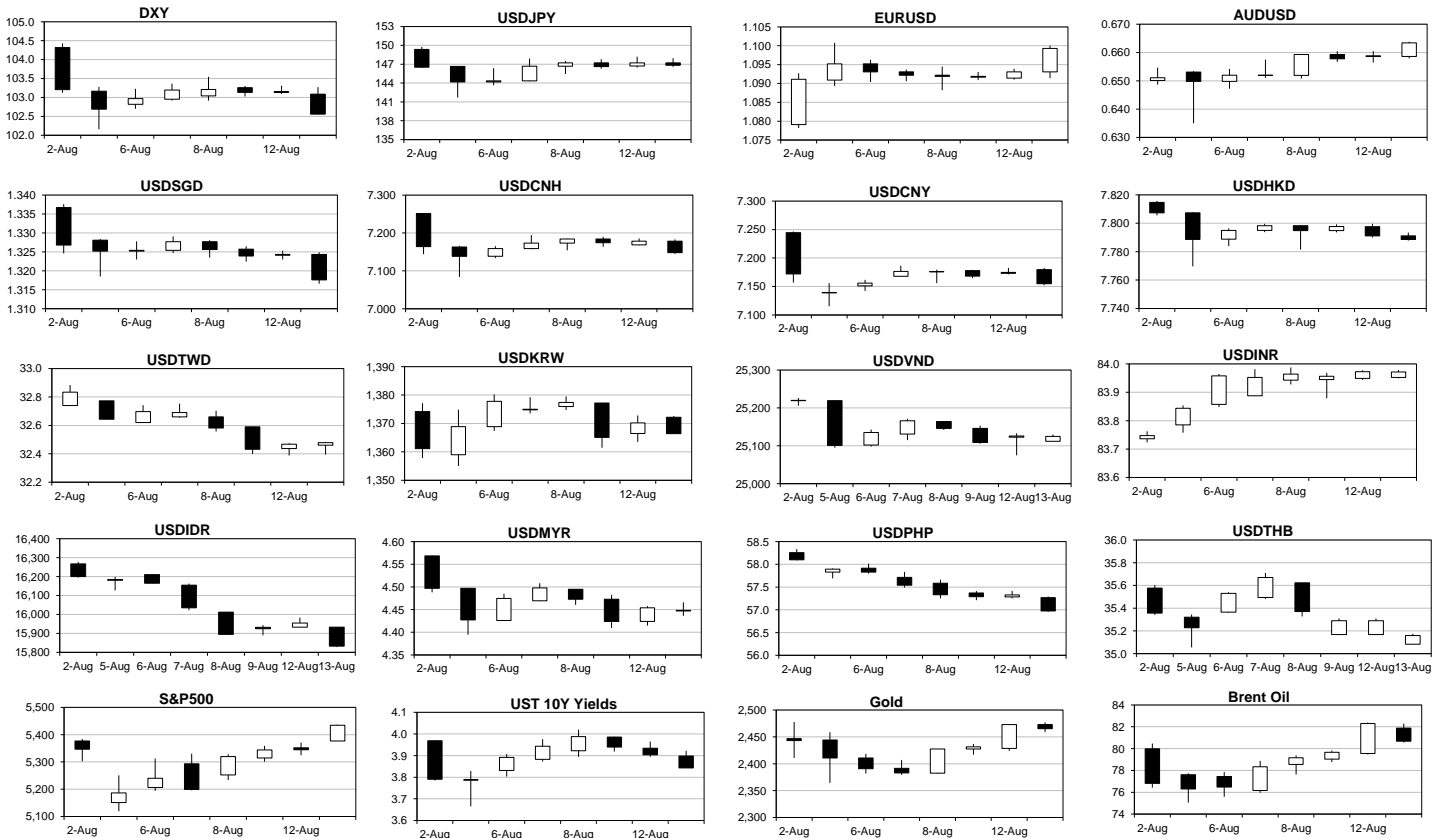
\*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5434.43	90.04	+1.68%
Nasdaq (US)	17187.61	407.00	+2.43%
DJIA (US)	39765.64	408.63	+1.04%
N225 (JP)	36232.51	1207.51	+3.45%
STOXX50 (EU)	4694.92	23.04	+0.49%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4500.11	13.64	+0.30%
STI (SG)	3258.57	23.19	+0.72%
SHCOMP (CN)	2867.946	9.74	+0.34%
SZCOMP (CN)	1554.354	7.78	+0.50%
HSI (HK)	17174.06	62.41	+0.36%
SENSEX (IN)	78956.03	-692.89	▼0.87%
JSE (ID)	7356.638	59.01	+0.81%
KLSE (MY)	1609.52	2.86	+0.18%
PSE (PH)	6650.44	37.08	+0.56%
SET (TH)	1297.79	0.72	+0.06%
VNINDEX (VN)	1230.42	0.00	+0.01%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	8,847.41	-60.77	▼0.68%
IRON ORE (CN)	99.37	-3.29	▼0.69%
GOLD	2,465.16	-7.74	▼0.31%
SILVER	80.69	-1.61	▼1.96%
OIL (BRENT)	81	-1.61	▼1.96%
OIL (WTI)	78.35	-1.71	▼2.14%
NATURAL GAS	27.85	-0.13	▼0.45%

## CHARTS



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