

Aug 15, 2024

Three Take-Aways

- 1) With US dis-inflation broadly in place, attention increasingly turns towards growth.
- 2) NZD led losses on RBNZ's surprise cut motivated by growth concerns; EUR gained on competitive pivot dynamics.
- 3) BSP to hold as hot July inflation urge restrain, even as household consumption poses downside risks.

MACRO THEME: Growth Considerations

- While US inflation print affirmed that dis-inflation was in place, the data may not have been compelling enough to justify aggressive rate reductions at next month's meeting with supercore services rising 0.2% MoM after two months of declines. Front-end UST yields rose after yesterday's decline, as market pared back slightly expectations of a 50bps cut in September.

- Attention may now turn more to the jobs markets. As Fed Goolsbee expressed, he was more concerned about jobs mandate 'on the margin' as rising unemployment may indicate worsening job markets. The economy was not overheating as policy was 'very restrictive', while economic conditions will determine size of rate cuts.

Yields (2Y: +2.9bps; 10Y: -0.7bps; 30Y: -3.3bps)

- UST yield curve inverted, which could suggest some repricing of growth risks on recession fears.

Equities (Nasdaq: +0.0%; S&P500: +0.4%; Dow: +0.6%)

- Stocks continued to climb, albeit at a smaller margin compared to yesterday's rally, but tech lagged with Tesla and Alphabet down.

FX (DXY: +0.0%)

- DXY was stable at around mid-102 levels. NZD led losses on RBNZ's 25bps cut, motivated by growth risks. RBNZ forecasts show growth contraction in 2Q and 3Q 2024, while recent indicators give confidence that inflation will return sustainably to target within a reasonable time frame. Nonetheless, the statement also noted that policy will need to remain restrictive for some time, with pace of further easing will thus be conditional on inflation trajectory. AUD dipped below 66 cents on NZD spillovers ahead of jobs data today.

- JPY weakened against the greenback on higher UST yields, paring some gains after PM Kishida announced that he will not be running for a second term as leader of the long-ruling Liberal Democratic Party in September. Markets are expecting that Kishida's exit would pave the way for a more hawkish BoJ.

- Meanwhile, competitive pivot dynamics, with EUR gaining amid anticipation the Fed may cut rates more than the ECB in the coming months. Money markets are currently pricing over 100bps of cuts in the US by December, compared to ~70bps in by ECB.

- In contrast, EM Asia FX fared better, with USD/SGD retained traction below 1.32 handle.

- While THB gained against in yesterday's session, these gains could be pared after the Thai court ruled PM Srettha guilty in ethics case after market close, ousting him from parliament. This sets the stage for Parliament to vote for a new PM tomorrow. Chaikasem Nitisiri, senior politician of Pheu Thai Party is speculated to be nominated given unfavourable political headwinds facing Paetongtarn, youngest daughter of ex-PM Thaksin.

China: Downbeat

- CNH underperformed EM Asia FX, weakening against the greenback. Chinese equities down as well, in contrast to other Asian equity indexes which broadly gained, underscore the downbeat sentiments on the Chinese economy ahead of a slew of data releases today.

- Dimmed growth prospects on China is also reflected in iron ore extending drop below \$100 on little optimism that Beijing's efforts could boost the beleaguered construction sector amid subdued credit indicators. What's more, moderating iron imports since March 2023 with stable inventory levels could suggest that steel mills/traders have mostly finished replenishing inventories earlier in the year, and demand for the coming months could remain soft.

BSP: Cautiously Restrained

- Given the spike in headline inflation for July which exceeded their target range, we expect the BSP to continue to stand pat even as household consumption poses downside risks.

- Admittedly, the BSP continues to lean dovishly as they had raised the possibility of cut as early as August at the last two meetings, with Finance Minister Recto (who is also a BSP board member) expressly supporting a cut should BSP Governor Remolona intend to ease policy. The BSP had also asserted independence of policy direction from the Fed. As such, they are likely to continue to signal the possibility of easing in October and even hint that off cycle easing remains on the table should growth falter.

- The consequent impetus for BSP's easing will be dependent on the return of inflation to within-target range and the extent of stuttering of the domestic economy. On the former, headline inflation's return to the BSP's range is critical given the large weight of food and energy as a moderating core inflation is of little consolation. In fact, given the substantial deployment of tariffs to check food inflation, the sight of food prices rising at 6.7% YoY, faster than the 6.5% in June is an uncomfortable sight.

- Nonetheless, the BSP will have their sight fixated on growth as Q2 GDP growth accelerating to 6.3% from 5.8% in Q1 is of little comfort. Household consumption contracted for the second straight quarter albeit at a small 0.1% QoQ SA basis with overall growth being held up by government consumption as well as government investment spending on construction projects.

- While growth concerns are certainly warranted, the irony is that overtly dovish BSP inclinations may restrain PHP gains which would otherwise have serve to dampen imported inflation and aid them in the normalisation journey.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(KR) Unemployment Rate SA (Jul)	2.5%	2.9%	2.8%
(IN) Wholesale Prices YoY (Jul)	2.0%	1.9%	3.4%
(EZ) GDP SA YoY (2Q P)	0.6%	0.6%	0.6%
(US) CPI/Core YoY	2.9%/3.2%	3.0%/3.2%	3.0%/3.3%
Today			
(CH) Industrial Production YoY (Jul)		5.2%	5.3%
(CH) FAI YTD YoY (Jul)		3.5%	3.9%
(CH) Retail Sales YoY (Jul)		2.6%	2.0%
(PH) Cash Remittances YoY (Jun)		3.2%	3.6%
(AU) Emp Chg./Unemp. Rate (Jul)		20k/4.1%	50k/4.1%
(US) Empire Manufacturing (Aug)		-6.0	-6.6
(US) Retail Sales Adv/Ex Auto,Gas (Jul)		0.3%/0.2%	0.0%/0.8%
(US) Initial Jobless Claims		235k	233k
(US) Industrial Production MoM (Jul)		-0.3%	0.6%
(JP) GDP Annualized SA QoQ (2Q P)	3.1%	2.3%	-2.3%
(JP) GDP Deflator YoY (2Q P)	3.0%	2.6%	3.4%
PBoC 1Y Medium-Term Lending Facility Rate			
BSP Overnight Borrowing Rate			

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	147.33	147.28	+0.33%	145.00 - 149.00
EURUSD	1.1012	1.1012	+0.17%	1.0940 - 1.1100
GBPUSD	1.2829	1.2826	▼0.26%	1.2750 - 1.2900
AUDUSD	0.6598	0.6599	▼0.54%	0.6550 - 0.6660
DXY	102.6	--	+0.01%	102.0 - 103.2
USDCNY	7.1411	--	▼0.19%	7.1200 - 7.1700
USDCNH	7.1471	7.1478	▼0.01%	7.1200 - 7.1800
USDHKD	7.7927	7.7919	+0.05%	7.7800 - 7.8100
USDSGD	1.3162	1.3169	▼0.11%	1.3110 - 1.3230
USDKRW	1361	1357	+0.00%	1350 - 1370
USDTWD	32.30	--	▼0.56%	32.15 - 32.50
USDINR	83.95	--	▼0.03%	83.80 - 84.00
USDIDR	15678	--	▼0.98%	15550 - 15900
USDMYR	4.420	4.420	▼0.61%	4.390 - 4.460
USDPHP	56.96	--	▼0.04%	56.40 - 57.40
USDTHB	34.94	35.10	▼0.63%	34.80 - 35.40
USDVND	25042	25042	▼0.33%	24900 - 25200

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.960	3.837	2.9	-0.7
JGB (JP)	0.292	0.815	-0.6	-2.6
Bunds (GE)	2.349	2.178	1.5	-0.5
Gilts (UK)	3.553	3.824	-4.0	-6.3
AGB (AU)	3.656	3.930	-9.4	-7.4
SGS (SG)	2.696	2.748	-7.0	-5.9
CGB (CN)	1.637	2.179	1.1	-3.1
KGB (KR)	2.961	3.087	-3.3	2.9
SDL (IN)	6.858	6.753	0.4	-0.6

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	162.25	162.18	+0.51%
GBP/JPY	189.012	188.888	+0.07%
JPY/SGD (100yen)	0.8934	0.8942	▼0.43%
JPY/HKD (100yen)	5.2889	5.2907	▼0.29%
CNH/JPY	20.621	20.624	+0.59%
CNH/HKD	1.0913	1.0911	+0.24%
EUR/GBP	0.85851	0.8586	+0.45%
AUD/NZD	1.1	1.1	+0.77%
EUR/CNH	7.8711	7.8712	+0.16%
GBP/CNH	9.1672	9.1674	▼0.29%

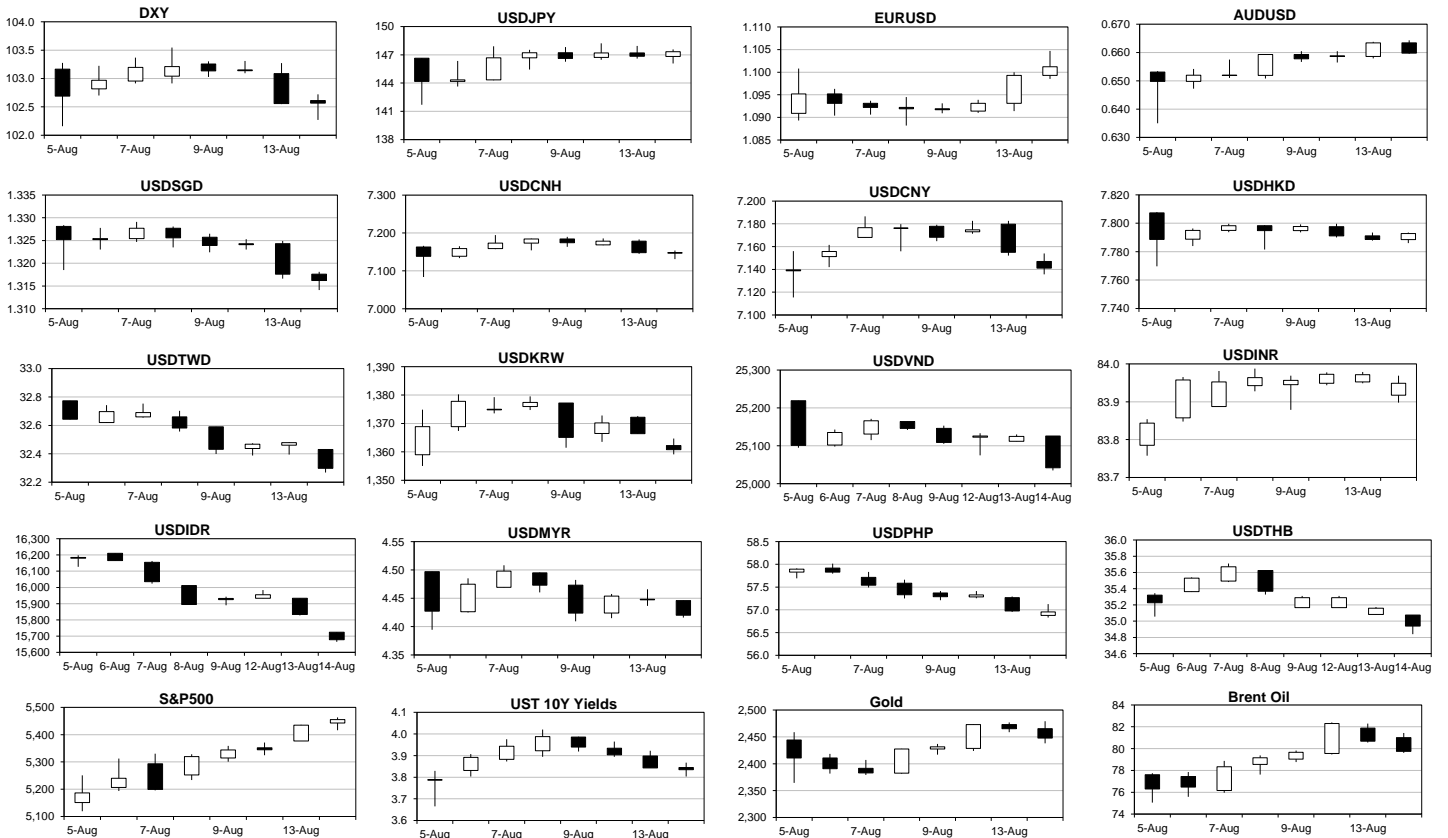
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5455.21	20.78	+0.38%
Nasdaq (US)	17192.6	4.99	+0.03%
DJIA (US)	40008.39	242.75	+0.61%
N225 (JP)	36442.43	209.92	+0.58%
STOXX50 (EU)	4727.6	32.68	+0.70%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4527.66	27.55	+0.61%
STI (SG)	3286.28	27.71	+0.85%
SHCOMP (CN)	2850.654	-17.29	▼0.60%
SZCOMP (CN)	1540.925	-13.43	▼0.86%
HSI (HK)	17113.36	-60.70	▼0.35%
SENSEX (IN)	79105.88	149.85	+0.19%
JSE (ID)	7436.039	79.40	+1.08%
KLSE (MY)	1612.35	2.83	+0.18%
PSE (PH)	6704.96	54.52	+0.82%
SET (TH)	1292.69	-5.10	▼0.39%
VNINDEX (VN)	1230.36	0.00	▼0.00%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	8,863.80	16.39	+0.19%
IRON ORE (CN)	97.64	-3.72	▼1.74%
GOLD	2,447.85	-17.31	▼0.70%
SILVER	79.76	-0.93	▼1.15%
OIL (BRENT)	80	-0.93	▼1.15%
OIL (WTI)	76.98	-1.37	▼1.75%
NATURAL GAS	27.57	-0.28	▼1.02%

CHARTS



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