

Aug 16, 2024

Three Take-Aways

- 1) **US retail sales outperformance and lower initial jobless claims buoyed risks sentiments. UST yields rose and backed the USD.**
- 2) **AUD held ground alongside strong employment gains as unemployment rate tick up on increase labour supply.**
- 3) **BSP sets off calibrated easing with 25bps as growth concerns take hold. PHP pressures watched.**

MACRO THEME: US Exceptionalism Returns?

- **US exceptionalism** narrative surfaced with **retail sales outperformance and lower initial jobless claims**. For retail sales, the increase was broad based with increases across 10 out of 13 categories. Admittedly some quirks played out, a snap back in car sales from June in which dealerships faced cyberattacks and also sales from the likes of Target and Walmart alongside Amazon's Prime Day. The outsized 1.6% MoM increase in electronics and appliance sales is reflective of demand price elastic nature of electronics and also underlying price sensitivities of consumers.

- Consequently, recession fears faded as markets dialed back bets for outsized Fed cuts and sparked a risk rally as equities soared and USTs sold off.

- Meanwhile, Fed officials kept to their stance that the time to ease may be near. St Louis Fed President Musalem reiterated that the **time may be nearing for an adjustment** as risks to both sides of the mandate seems more balanced. Atlanta Fed President also added that he was **open to moving** before the fourth quarter.

Yields (2Y: +13.7bps; 10Y: +7.8bps; 30Y: +4.5bps)

- UST yield curve inversion deepened, as front end yields soared.

Equities (Nasdaq: +2.3%; S&P500: +1.6%; Dow: +1.4%)

- US equities was buoyant across the board. Aside from real estate and utilities, all sectors in the S&P 500 rose.

FX (DXY: +0.4%)

- Aided by higher UST yields, USD gained against most G10 peers except the AUD and GBP which also latched on to the "exceptionalism". The **AUD** was volatile post-jobs as markets had to digest **stronger employment gains** alongside rising unemployment rate from 4.1% to 4.2% on higher labour supply (participation rates rose from 66.9% to 67.1%). Chances are this may be viewed from the "good problem" angle. In turn, AUD was able to hold above 66 cents. Similarly, GBP maintained traction as **UK GDP growth rose** in Q2. In contrast, EUR plunged back below 1.10 and USD/JPY rose above 149.

- In EM-Asia, PHP will come under scrutiny after the BSP's decision to ease. THB will remain volatile with the ruling coalition set to put up Paetongtarn Sinawatra to be nominated as PM as Mr Chaikasem was reportedly found to have supported amending the lese majeste law before.

China: Little Improvement

- The slower growth in the value added of industrial is consistent with the slowdown in China's export growth during the same month. While hi-tech manufacturing remained resilient and rose 10% YoY in July, up from 8.8% in June, the moderation was mainly seen in pharmaceuticals and metal processing.

- The recovery in retail sales was mainly helped by the low base from last year and a slower decline in sales of auto vehicles. The latter fell 4.9% YoY in July, compared to -6.2% in June.

- Most importantly, the growth rate in fixed asset investment (FAI) notably disappointed. According to our estimate, monthly FAI rose 1.9% YoY in July, slowing from the 3.6% increase in June. While the moderation was seen in both the public and private sectors, growth in private investment turned negative again to -0.6% YoY in July, marking the fastest decline in a year.

BSP: More Easing to Come?

- While we had flagged the underlying growth concerns in the Philippines with household consumption contracting for two consecutive quarters on a SA QoQ basis, the BSP took it one step further to kickstart their calibrated easing cycle, the first of the pack among EM Asia central banks, **cutting its benchmark interest rate by 25bps to 6.25%**. The BSP noted that the economy would operate at negative output gap in the near term.

- Notably, inflation (which had motivated the Oct'23 off-cycle hike) took a backseat, especially even as July inflation print at 4.4% exceeded the target range and 2024 risk-adjusted inflation forecast was revised upwards to 3.3% (from 3.1% at the June meeting). In fact, BSP expressed confidence in continued dis-inflationary path and that inflation expectations remain well anchored.

- More easing is expected to be forthcoming, **with BSP highlighting the possibility of a 25bps cut in Oct or December**. While BSP expressed that a cumulative 75bps cut for this year would be premised on "something really bad" happening, we think that **the risk of two 25 bps cuts in Q4 is rather material**. Point being, with inflation expected to return back towards their 4% upper-bound in the months ahead and the BSP's downgrade to their risk adjusted 2025 forecast, there is **significant room for easing in real rate terms**, and this is barring any worsening to household sentiments. Critically, given their large step hikes of 50-75bps in 2022, **consecutive 25 bp cuts could still be very much in the realm of being "calibrated"**.

- Easing may also come in the form of RRR cuts, which BSP had signalled would be reduced quite substantially. Even after the 250bps cut in June'23, Philippines' RRR remains the highest among regional peers. That said, this would also depend on the domestic liquidity conditions.

- Nonetheless, policy trade-offs in term of PHP depreciation may restrain the BSP's inclinations especially as market trims bets of outsized 50bps cut by the Fed in September which the BSP had assumed.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(CH) Industrial Production YoY (Jul)	5.1%	5.2%	5.3%
(CH) FAI YTD YoY (Jul)	3.6%	3.9%	3.9%
(CH) Retail Sales YoY (Jul)	2.7%	2.6%	2.0%
(PH) Cash Remittances YoY (Jun)	2.5%	3.2%	3.6%
(AU) Emp Chg./Unemp. Rate (Jul)	58k/4.2%	20k/4.1%	50k/4.1%
(US) Empire Manufacturing (Aug)	-4.7	-6.0	-6.6
(US) Retail Sales Adv/Ex Auto,Gas (Jul)	1.0%/0.4%	0.3%/0.2%	0.0%/0.8%
(US) Initial Jobless Claims	227k	235k	233k
(US) Industrial Production MoM (Jul)	-0.6	-0.3%	0.3%
(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%
Today			
(SG) Non-oil Dom. Exports YoY (Jul)		1.2%	-8.7%
(MY) GDP YoY (2Q F)		5.8%	5.8%
(US) Housing Starts/Building Permits(Jul)		1333k/1425k	1353k/1446k
(US) Uni. Of Mich Sentiment (Aug P)		66.9	66.4
(US) U Of Mich 1Yr Inflation (Aug P)		2.9%	2.9%
(US) U Of Mich 5-10 Yr Inflation (Aug P)		2.9%	3.0%

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	149.28	149.20	+1.32%	147.00 - 150.00
EURUSD	1.0972	1.0973	▼0.36%	1.0940 - 1.1040
GBPUSD	1.2855	1.2859	+0.20%	1.2750 - 1.2900
AUDUSD	0.6612	0.6612	+0.21%	0.6570 - 0.6660
DXY	103.0	--	+0.40%	102.5 - 103.5
USDCNY	7.1747	--	+0.47%	7.1300 - 7.1890
USDCNH	7.1796	7.1824	+0.45%	7.1300 - 7.1990
USDHKD	7.7970	7.7970	+0.06%	7.7800 - 7.8100
USDSGD	1.3224	1.3224	+0.47%	1.3170 - 1.3270
USDKRW	1361	1366	+0.00%	1355 - 1378
USDTWD	32.29	--	▼0.03%	32.20 - 32.50
USDINR	83.95	--	+0.00%	83.80 - 84.00
USDIDR	15695	--	+0.11%	15550 - 15900
USDMYR	4.438	4.446	+0.40%	4.410 - 4.470
USDPHP	56.93	--	▼0.05%	56.80 - 57.40
USDTHB	34.98	35.10	+0.10%	34.80 - 35.40
USDVND	25045	25046	+0.01%	24900 - 25150

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.095	3.914	13.5	7.7
JGB (JP)	0.317	0.831	2.5	1.6
Bunds (GE)	2.455	2.260	10.5	8.1
Gilts (UK)	3.655	3.921	10.9	9.8
AGB (AU)	3.627	3.875	-2.9	-5.5
SGS (SG)	2.729	2.781	3.5	3.3
CGB (CN)	1.660	2.193	2.3	1.4
KGB (KR)	2.961	3.087	4.6	13.5
SDL (IN)	6.858	6.753	1.6	2.5

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	163.8	163.71	+0.96%
GBP/JPY	191.911	191.842	+1.53%
JPY/SGD (100yen)	0.8859	0.8864	▼0.84%
JPY/HKD (100yen)	5.2228	5.226	▼1.25%
CNH/JPY	20.769	20.794	+0.72%
CNH/HKD	1.0865	1.0867	▼0.44%
EUR/GBP	0.85361	0.85337	▼0.57%
AUD/NZD	1.1047	1.1056	+0.43%
EUR/CNH	7.8779	7.8812	+0.09%
GBP/CNH	9.2301	9.2355	+0.69%

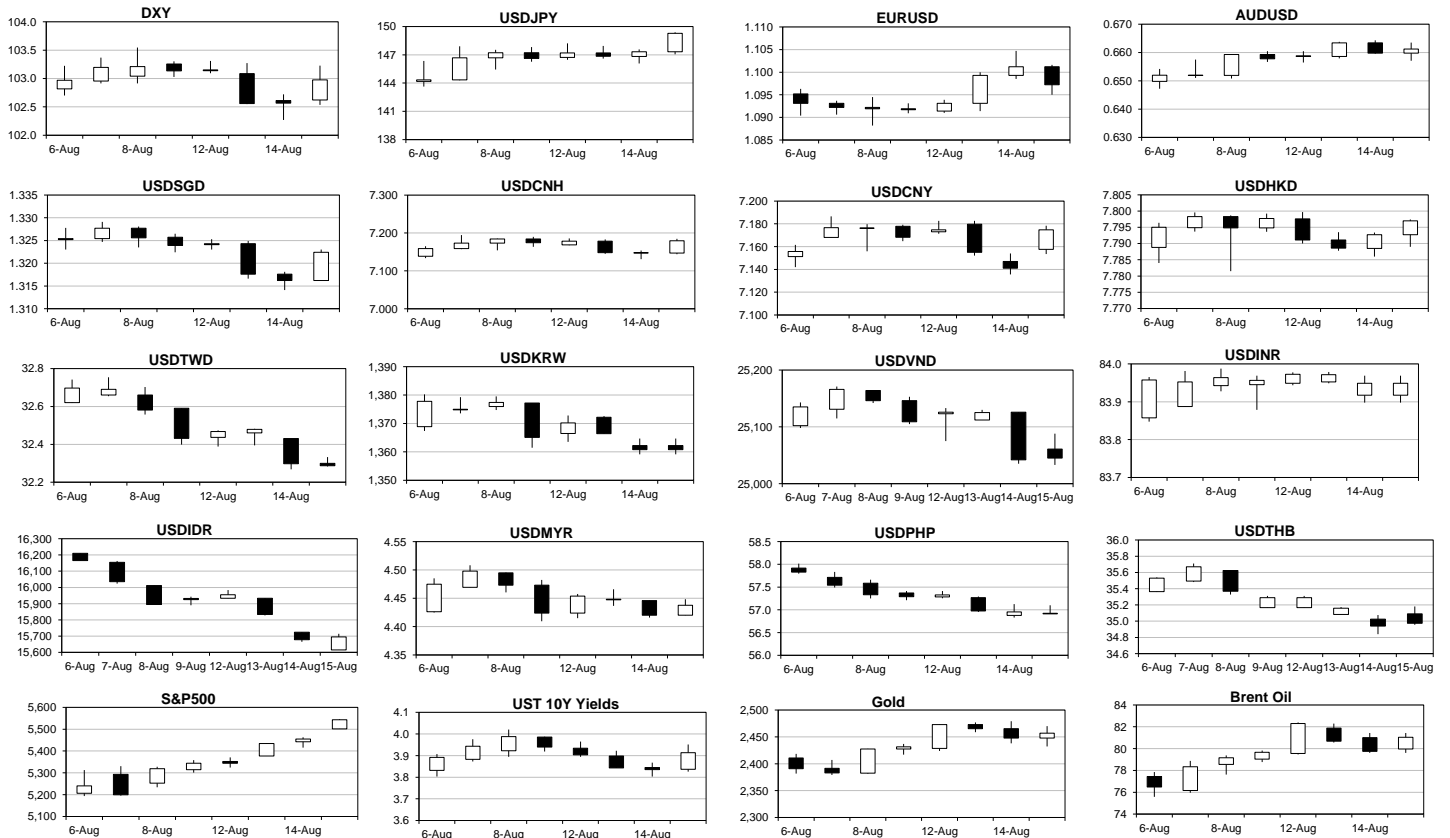
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5543.22	88.01	+1.61%
Nasdaq (US)	17594.5	401.90	+2.34%
DJIA (US)	40563.06	554.67	+1.39%
N225 (JP)	36726.64	284.21	+0.78%
STOXX50 (EU)	4807.77	80.17	+1.70%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4562.82	35.16	+0.78%
STI (SG)	3315.73	29.45	+0.90%
SHCOMP (CN)	2877.358	26.70	+0.94%
SZCOMP (CN)	1553.554	12.63	+0.82%
HSI (HK)	17109.14	-4.22	▼0.02%
SENSEX (IN)	79105.88	0.00	+0.00%
JSE (ID)	7409.501	-26.54	▼0.36%
KLSE (MY)	1612.94	0.59	+0.04%
PSE (PH)	6692.91	-12.05	▼0.18%
SET (TH)	1289.84	-2.85	▼0.22%
VNINDEX (VN)	1223.56	-0.01	▼0.55%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,050.88	187.08	+2.11%
IRON ORE (CN)	96.28	-3.86	▼1.39%
GOLD	2,456.79	8.94	+0.37%
SILVER	81.04	1.28	+1.60%
OIL (BRENT)	81	1.28	+1.60%
OIL (WTI)	78.16	1.18	+1.53%
NATURAL GAS	28.35	0.79	+2.85%

CHARTS



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