

Aug 20, 2024

Three Take-Aways

- 1) Fed's Daly and Kashkari signal appropriateness of gradual easing continuing to pushback on outsized cuts.
- 2) Improved sentiments aided US equities to rally and weakened the USD.
- 3) Aligning with debt deleveraging efforts, the BoT is set to hold rates on fiscal policy uncertainty and expected creep up in headline inflation.

MACRO THEME: Controlled Descent

- San Francisco President Daly called for a prudent approach to adjusting borrowing costs. She said "Gradualism is not weak, it's not slow, it's not behind, it's just prudent".
- Similarly, Minneapolis Fed President Kashkari signaled that potentially cutting rates in September is an appropriate one to have.
- Amid the continued pushback against outsized cuts, markets continued to trim the odds for a 50bps next month as Fed funds futures saw chances of a 50bps cut reduced to 24% from 31% just last Friday. With the Fed's continued shaping of a soft landing narrative involving gradual cuts and labour market which still has a low level of layoffs, **risk sentiments remained buoyant**.
- Nonetheless, this may be a bumpier path than envisaged if employee expectations are anything to do by. NY Fed labour market survey showed average expected likelihood of becoming unemployed rose to 4.4%. That said, the survey also showed significant churn as higher proportion of individuals who reported searching for a job in the past four weeks alongside deteriorating satisfaction with wage, nonwage benefits and promotion opportunities. Consequently, the decline in wage pressures may also not be straightforward.
- Geo-political tensions may also find it hard to be on a controlled descent. US Secretary of State Anthony Blinken saying that Israel accepts cease-fire and that the next step is for Hamas to say yes saw Brent crude prices decline another 2.5% to below US\$78/barrel. Any deal may be hard to endure given the prospect of Iran's retaliation still on the cards.

Yields (2Y: +1.6bps; 10Y: -1.1bps; 30Y: -1.8bps)

- UST yield curve flattened as markets continue to adjust rate cut prospects.

Equities (Nasdaq: +1.4%; S&P500: +1.0%; Dow: +0.6%)

- US equities rallied led by the Nasdaq amid broad based gains across all sectors.

FX (DXY: -0.6%)

- The Greenback weakened against all G10 peers as the SEK led gains ahead of the Riksbank's decision today. The Riksbank is expected to cut interest rates today.

- AUD rallied above 67 cents with the RBA minutes this morning set to reveal considerations behind the decision to keep rate unchanged as well as parameter for hiking rates given that Governor Bullock said that tightening was discussed.

-The diminished haven appeal of the USD amid buoyed risk sentiments was also evident in EM-Asia's FX gains. The THB led gains on spillovers from JPY gains and the immediate reaction of the PM Paetongtarn taking helm. Admittedly, expectations of prolonged BoT rate hold and strong tourism recovery underpin the THB prospects which had faced political and fiscal headwinds. THB consolidation of gains may rest on the PM's fiscal policy direction.

- KRW also outperformed with looming sight of the BoK which is also likely to stand pat for now.

China: Currency Reflections

- In contrast, CNY and CNH gains were more muted as the PBoC kept the fixing levels similar which indicates smaller fixing premium to support the currency. This perhaps provide **better alignment for future policy easing and diminishing the costs of trying to overcome the impossible trinity**.

BOT: Positions and Paths

- We expect the BoT to keep rates on hold at their upcoming meeting tomorrow. Core inflation has returned to pre-covid rates and headline inflation for June at 0.8% is still below the BoT's target range of 1-3%.

- The state of inflation is no real reason for immediate easing given that headline inflation is likely to creep up into the target range as effects of higher diesel price cap continue to bite.

- More importantly, it is worth recapping that the BoT views the current policy rate as "consistent with improving growth and inflation outlook, while fostering macro-financial stability in the longer term".

- While growth may indeed be below trend, it remains on a moderate recovery path. With the government's digital wallet plans in Q4 imparting both growth impulse and fiscal risks in an unfavourable risk-reward ratio, it adds to the case for the BoT to keep to the current rates.

- Specifically, household debt ratio is at a significantly elevated position above 90% of GDP relative to the 83% pre-Covid (2016-18 average) ratio and the BoT has embarked on credit initiatives to deleverage and therefore would not want unnecessary monetary easing to complicate the process.

- As for FX, THB gains on weaker UST yields and positive JPY spillovers in recent weeks provide room but not cause to ease. We keep our call for a continued rate hold for the rest of 2024 and expect improving underlying THB fundamentals on tourism flows to be subjected to bumpy gyrations from fiscal worries.

- In fact, the recent change in PM also imparts policy uncertainty which implies a greater need for the BoT to anchor macro-economic stability.

DATA/EVENTS

| Overnight | Actual | Exp. | Prior |
|------------------------------------|-------------|-------------|------------|
| (MY) Exports/Imports YoY (Jul) | 12.3%/25.4% | 11.3%/16.1% | 1.7%/17.8% |
| (PH) BoP Overall (Jul) | \$62m | -- | -\$155m |
| (TH) GDP YoY (Q2) | 2.3% | 2.2% | 1.5% |
| (US) Leading Index (Jul) | -0.6% | -0.3% | -0.2% |
| (JP) Core Machine Orders YoY (Jun) | -1.7% | 1.1% | 10.8% |

Today

| | | |
|------------------------------|-------------|-------------|
| (CH) 1Yr/5Yr Loan Prime Rate | 3.35%/3.85% | 3.35%/3.85% |
| RBA Minutes | | |
| (TW) Export Orders YoY (Jul) | 2.7% | 3.1% |
| (EZ) CPI/Core YoY (Jul F) | 2.6%/2.9% | 2.6%/2.9% |

FX OUTLOOK

| FX | Close (NY) | Open* | Daily %Δ | Forecast |
|--------|------------|--------|----------|-----------------|
| USDJPY | 146.59 | 146.71 | ▼0.70% | 145.00 - 149.00 |
| EURUSD | 1.1085 | 1.1086 | +0.53% | 1.1020 - 1.1100 |
| GBPUSD | 1.2991 | 1.2990 | +0.36% | 1.2900 - 1.3100 |
| AUDUSD | 0.6731 | 0.6735 | +0.93% | 0.6650 - 0.6750 |
| DXY | 101.9 | -- | ▼0.56% | 101.5 - 102.5 |
| USDCNY | 7.1395 | -- | ▼0.28% | 7.1300 - 7.1890 |
| USDCNH | 7.1336 | 7.1303 | ▼0.41% | 7.1300 - 7.1990 |
| USDHKD | 7.7885 | 7.7896 | ▼0.07% | 7.7820 - 7.8100 |
| USDSGD | 1.3082 | 1.3080 | ▼0.59% | 1.3000 - 1.3150 |
| USDKRW | 1332 | 1334 | +0.00% | 1325 - 1350 |
| USDTWD | 32.03 | -- | ▼0.80% | 31.80 - 32.20 |
| USDINR | 83.87 | -- | ▼0.10% | 83.80 - 84.00 |
| USDIDR | 15553 | -- | ▼0.87% | 15500 - 15650 |
| USDMYR | 4.383 | 4.382 | ▼1.12% | 4.370 - 4.410 |
| USDPHP | 56.65 | -- | ▼1.04% | 56.80 - 57.40 |
| USDTHB | 34.45 | 34.38 | ▼1.64% | 34.20 - 34.90 |
| USDVND | 24973 | 24973 | ▼0.36% | 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) | 4.068 | 3.872 | 1.6 | -1.2 |
| JGB (JP) | 0.362 | 0.881 | 1.3 | 1.2 |
| Bunds (GE) | 2.429 | 2.244 | -0.1 | -0.1 |
| Gilts (UK) | 3.688 | 3.921 | 2.3 | -0.4 |
| AGB (AU) | 3.678 | 3.916 | -1.4 | -1.3 |
| SGS (SG) | 2.720 | 2.757 | -3.4 | -5.5 |
| CGB (CN) | 1.647 | 2.170 | -0.8 | -1.4 |
| KGB (KR) | 3.005 | 3.051 | -1.9 | 1.6 |
| SDL (IN) | 6.865 | 6.762 | 1.0 | 1.3 |

| Cross FX | Close (NY) | Open* | Daily %Δ |
|------------------|------------|---------|----------|
| EUR/JPY | 162.5 | 162.64 | ▼0.18% |
| GBP/JPY | 190.438 | 190.562 | ▼0.35% |
| JPY/SGD (100yen) | 0.8923 | 0.8916 | +0.10% |
| JPY/HKD (100yen) | 5.3131 | 5.3097 | +0.63% |
| CNH/JPY | 20.543 | 20.548 | ▼0.43% |
| CNH/HKD | 1.091 | 1.0911 | +0.19% |
| EUR/GBP | 0.85322 | 0.85346 | +0.16% |
| AUD/NZD | 1.1012 | 1.1009 | ▼0.05% |
| EUR/CNH | 7.9071 | 7.9047 | +0.10% |
| GBP/CNH | 9.2665 | 9.2619 | ▼0.06% |

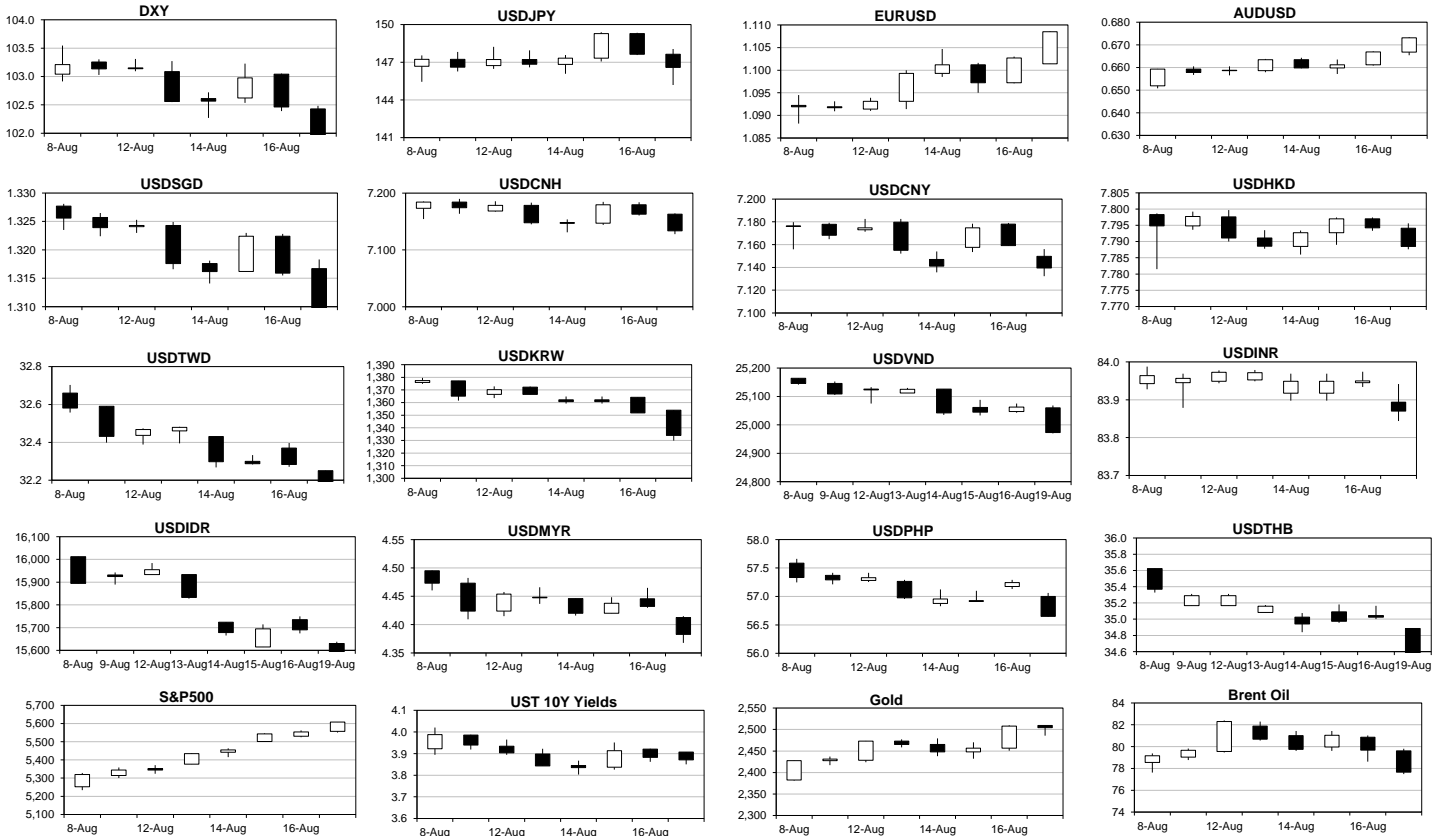
*Open is as at 8am HKT/SGT.

| G3 Equities | Close | Net Chg | Daily %Δ |
|--------------|----------|---------|----------|
| S&P500 (US) | 5608.25 | 54.00 | +0.97% |
| Nasdaq (US) | 17876.77 | 245.05 | +1.39% |
| DJIA (US) | 40896.53 | 236.77 | +0.58% |
| N225 (JP) | 37388.62 | -674.05 | ▼1.77% |
| STOXX50 (EU) | 4871.41 | 30.89 | +0.64% |

| Asia Equities | Close | Net Chg | Daily %Δ |
|---------------|----------|---------|----------|
| ASX (AU) | 4569.52 | 24.55 | +0.54% |
| STI (SG) | 3355.56 | 2.67 | +0.08% |
| SHCOMP (CN) | 2893.674 | 14.24 | +0.49% |
| SZCOMP (CN) | 1547.451 | -1.48 | ▼0.10% |
| HSI (HK) | 17569.57 | 139.41 | +0.80% |
| SENSEX (IN) | 80424.68 | -12.16 | ▼0.02% |
| JSE (ID) | 7466.831 | 34.74 | +0.47% |
| KLSE (MY) | 1648.7 | 24.80 | +1.53% |
| PSE (PH) | 6889.87 | 42.50 | +0.62% |
| SET (TH) | 1323.38 | 20.38 | +1.56% |
| VNINDEX (VN) | 1261.62 | 0.01 | +0.75% |

| Commodity | Close | Net Chg | Daily %Δ |
|---------------|----------|---------|----------|
| COPPER (LME) | 9,142.64 | 136.39 | +1.51% |
| IRON ORE (CN) | 96.86 | -3.20 | +1.37% |
| GOLD | 2,504.28 | -3.73 | ▼0.15% |
| SILVER | 29.45 | 0.11 | +5.28% |
| OIL (BRENT) | 77.66 | -2.02 | ▼2.54% |
| OIL (WTI) | 74.37 | -2.28 | ▼2.97% |
| NATURAL GAS | 2.24 | 0.47 | +1.62% |

CHARTS



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