

Aug 21, 2024

Three Take-Aways

- 1) Fed cut bets continue to pile, sending USD yields lower and USD weaker.
- 2) RBA minutes revealed hawkish tendencies, noting that holding for longer could achieve a comparable degree of tightening as a hike, given market expectations of easing.
- 3) Bank Indonesia hold on IDR volatility risks despite stable macrofundamentals.

MACRO THEME: Piling Expectations

- Fed rate cuts bet continued to piled, supported by FedSpeak. Fed Bowman reiterated that rate cuts are appropriate if inflation keeps slowing, even upside risk to inflation remains. Her view on labour market was however more neutral, noting that labour market continues to loosen and is coming into a "better balance".

- Meanwhile, Brent oil edged lower on higher inventories, growing concern about the global demand outlook and news of a potential cease-fire in Gaza.

Yields (2Y: -8.2bps; 10Y: -6.4bps; 30Y: -6.1bps)

- UST yield curve bull steepened on increased Fed cut expectations.

Equities (Nasdaq: -0.3%; S&P500: -0.2%; Dow: -0.2%)

- US equities closed lower as the rally in the past two weeks took a breather.

FX (DXY: -0.4%)

- DXY moved lower amid lower UST yields. SEK outperformed most G10 currencies despite Riksbank cutting policy rate by 25bps to 3.50% (as expected). This was likely on the back of adjusting positioning as Riksbank signalled 2 or 3 more cuts this year, against market expectations of more than three cuts prior the meeting. The cut was motivated by below 2%-inflation since June and consumers under pressure from high borrowing costs. Household consumption has been contracting since April amid higher unemployment.

- CAD trailed gains as inflation in Canada decelerated, cementing rate cut wagers.

- AUD was buoyed above 67 cents on hawkish tendencies revealed in RBA minutes while EUR moved above 1.11, with gains constrained as German wage growth showed little signs of easing, which could keep inflation high. Bundesbank highlighted that unions' demands remain high. Coupled with high level of willingness to strike until recently and still widespread labour shortage, comparatively high wage increase could continue.

- USD/JPY moved below mid-145. Notably, wariness on further hikes remained in place, with USD/JPY little moved even as BoJ published research papers highlighting the persistence of inflationary pressures in the economy, indicating there is still a case to be made for another interest rate hike.

- Elsewhere, USD/SGD moved below mid-1.30.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(CH) 1Yr/5Yr Loan Prime Rate	3.35%/3.85%	3.35%/3.85%	3.35%/3.85%
RBA Minutes			
(TW) Export Orders YoY (Jul)	4.8%	2.7%	3.1%
(TW) BoP CA Balance (2Q)	\$21,819m	-	\$29,670m
(EZ) CPI/Core YoY (Jul F)	2.6%/2.9%	2.6%/2.9%	2.6%/2.9%
Today			
(ID) BI Rate		6.25%	6.25%
(KR) PPI YoY (Jul)	2.6%		2.5%
(TH) BoT Benchmark Interest Rate		2.50%	2.50%
(JP) Trade Balance (Jul)	-¥621.8b	-¥273.4b	¥224.0b
(US) FOMC Meeting Minutes			

China: More Stimulus To Come?

- Chinese banks left their Loan Prime Rates (LPRs) unchanged as expected, amid narrowing net interest margin (which stayed at a record low of 1.54% at end-2Q). Banks more likely to cut their loan rates after PBoC policy rate cuts could probably see further PBoC's monetary easing. Domestic demand has remained stubbornly weak amid a persistent slump in the housing market. Official data released last week showed a subdued increase in retail sales while investment growth weakened.

- In signs that more stimulus would be forthcoming, news reported that China is considering allowing local governments to fund home purchases by issuing special bonds, after a series a rescue packages failed to prop up the market.

RBA Minutes: How A Hold Was A Hike

- The RBA minutes leaned hawkishly as they gave various observations such as persistence in cost pressures, much higher demand in excess of supply and material risk of inflation not returning to target by late 2025 - all of which could "justify an immediate increase in the cash rate".

- Nonetheless, RBA noted that inflation forecast trajectory returning back to target was built on the assumption (derived from markets' expectations) of easing in late 2024, and into 2025. Accordingly, RBA viewed it possible that **holding for longer could achieve a comparable degree of tightening in financial conditions as a hike. Simply put, the RBA hold and associated hawkish comments served to close the expectations gap.**

Bank Indonesia: Comfortable Hold

- It should be a comfortable hold by BI at the meeting today.

- **Macrofundamentals have been broadly stable.** GDP moderated slightly to 5.0% YoY in Q2 (Q1: 5.1%) while private consumption held up and exports registered a 6.8% YoY growth. Meanwhile, inflation has been stable with food inflation moderating since May.

- In addition, the worst for IDR may have been over with Fed cuts imminent, and BoJ hinting at a pause to further hikes. The IDR has appreciated ~4.3% since the last meeting, while SRBI auctions indicated healthy demand with weighted cut-off yields trending down since the last meeting while bid amounts remain supported.

- While IDR strength coupled with stable fundamentals may make a case for policy normalisation, we think it is unlikely at this juncture. Point being, **BI's references to its view on Fed have eased expectations that BI is unlikely to frontrun the Fed.** Specifically, BI signalled that scope of easing would be dependent on FFR, UST yields and USD strength, while being much more conservative in its Fed cut expectations (at July meeting, BI only say a higher chance of cut in Nov, vs markets' expectation of 1 cut in Sep). Accordingly, it is unlikely that BI would risk an IDR sell-off on a surprise cut. In addition, that IDR's recent gains is arguably on the back of some return to carry trades may mean that the **IDR is not yet out of the woods.** Reason being, Fed pivots on demand shocks risks inciting "risk-off", which could be accentuated by JPY carry unwind. Accordingly, BI is likely to play the cautious game for now.

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	145.26	145.31	▼0.91%	143.50 - 147.50
EURUSD	1.1130	1.1128	+0.41%	1.1000 - 1.1250
GBPUSD	1.3034	1.3034	+0.33%	1.2900 - 1.3150
AUDUSD	0.6745	0.6746	+0.21%	0.6650 - 0.6850
DXY	101.4	--	▼0.44%	100.5 - 102.0
USDCNY	7.1293	--	▼0.14%	7.1100 - 7.1500
USDCNH	7.1172	7.1137	▼0.23%	7.1000 - 7.1400
USDHKD	7.7883	7.7883	▼0.00%	7.7840 - 7.7920
USDSGD	1.3052	1.3046	▼0.23%	1.2980 - 1.3100
USDKRW	1329	1331	+0.00%	1320 - 1340
USDTWD	31.99	--	▼0.12%	31.70 - 32.10
USDINR	83.79	--	▼0.09%	83.40 - 84.00
USDIDR	15435	--	▼0.76%	15300 - 15600
USDMYR	4.382	4.380	▼0.03%	4.350 - 4.390
USDPHP	56.56	--	▼0.17%	56.20 - 56.70
USDTHB	34.21	34.15	▼0.71%	34.00 - 34.40
USDVND	24925	24926	▼0.19%	24800 - 25000

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.986	3.808	-8.2	-6.4
JGB (JP)	0.356	0.885	-0.6	0.4
Bunds (GE)	2.402	2.213	-2.7	-3.1
Gilts (UK)	3.690	3.915	0.9	-0.7
AGB (AU)	3.711	3.949	3.3	3.3
SGS (SG)	2.731	2.754	1.3	-0.3
CGB (CN)	1.649	2.163	0.1	-0.7
KGB (KR)	3.014	3.051	-6.1	-8.2
SDL (IN)	6.856	6.753	-0.2	-0.6

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	161.67	161.7	▼0.51%
GBP/JPY	189.327	189.391	▼0.58%
JPY/SGD (100yen)	0.8984	0.8978	+0.68%
JPY/HKD (100yen)	5.3615	5.36	+0.91%
CNH/JPY	20.393	20.382	▼0.73%
CNH/HKD	1.0925	1.0925	+0.14%
EUR/GBP	0.85396	0.85377	+0.09%
AUD/NZD	1.0963	1.0957	▼0.44%
EUR/CNH	7.9217	7.9161	+0.18%
GBP/CNH	9.2763	9.272	+0.11%

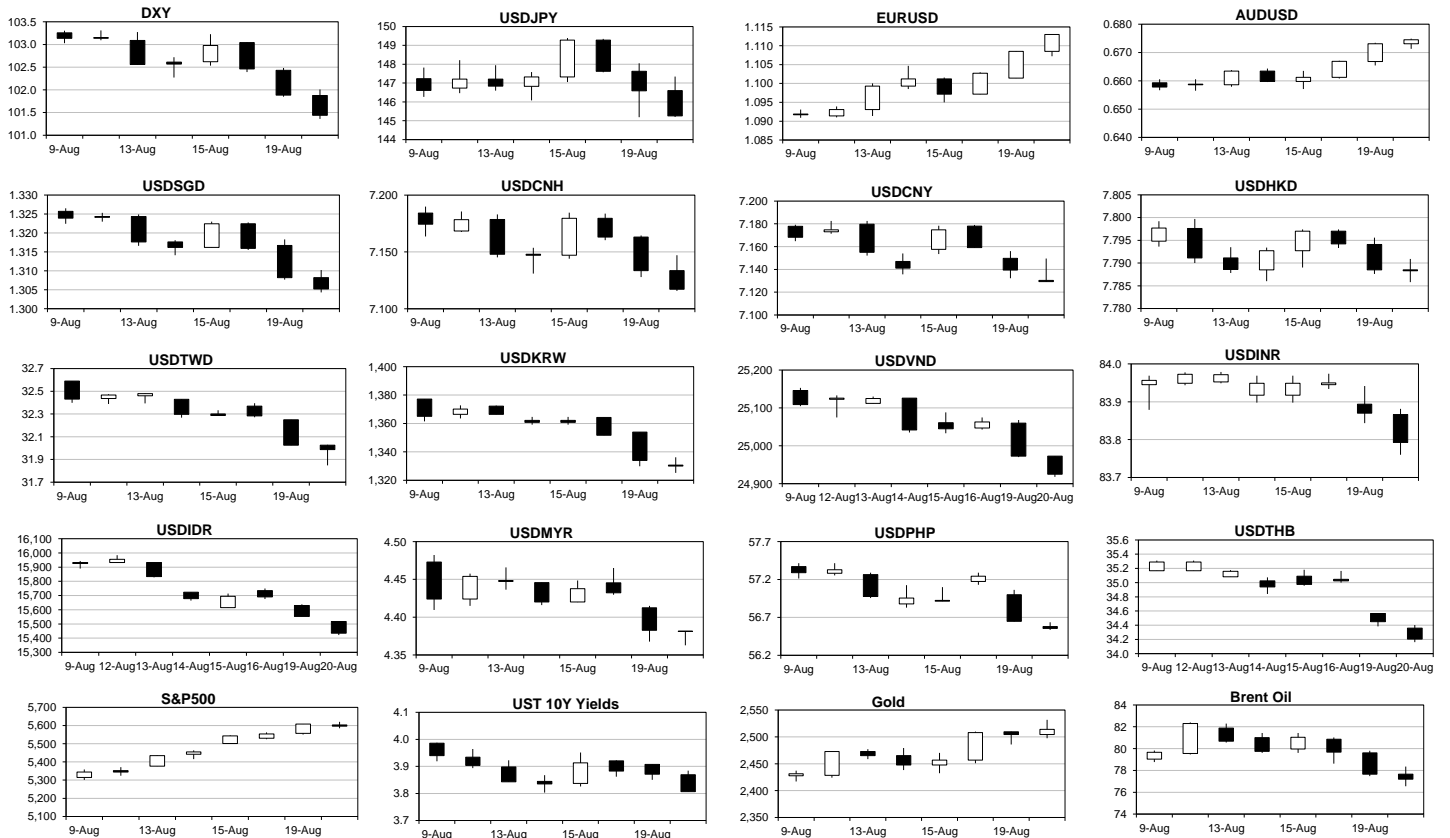
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5597.12	-11.13	▼0.20%
Nasdaq (US)	17816.94	-59.83	▼0.33%
DJIA (US)	40834.97	-61.56	▼0.15%
N225 (JP)	38062.92	674.30	+1.80%
STOXX50 (EU)	4857.58	-13.83	▼0.28%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4525.7	-43.82	▼0.96%
STI (SG)	3370.31	14.75	+0.44%
SHCOMP (CN)	2866.661	-27.01	▼0.93%
SZCOMP (CN)	1525.681	-21.77	▼1.41%
HSI (HK)	17511.08	-58.49	▼0.33%
SENSEX (IN)	80802.86	378.18	+0.47%
JSE (ID)	7533.985	67.15	+0.90%
KLSE (MY)	1642.77	-5.93	▼0.36%
PSE (PH)	6944.76	54.89	+0.80%
SET (TH)	1328.12	4.74	+0.36%
VNINDEX (VN)	1272.55	0.01	+0.87%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,085.84	-56.80	▼0.62%
IRON ORE (CN)	97.18	-2.19	+0.33%
GOLD	2,513.99	9.71	+0.39%
SILVER	29.44	-0.04	▼1.66%
OIL (BRENT)	77.20	-0.46	▼0.59%
OIL (WTI)	74.04	-0.33	▼0.44%
NATURAL GAS	2.20	-0.01	▼0.04%

CHARTS



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