

Aug 22, 2024

Three Take-Aways

- 1) FOMC Minutes struck a dovish tone as several could have supported a decision to cut in July.
- 2) NFP nonfarm payrolls revisions affirms on-going concerns on softer labour markets to send UST yields lower.
- 3) BoK set to stand pat for now amid escalating housing price and debt.

MACRO THEME: Setting the Stage

- Downward revisions to US nonfarm payroll by 818k for the 12 months through March 2024 also affirms ongoing concerns on a softening labour market and **sent UST yields lower**. The final benchmark revision will be issued in February 2025.

- Subsequently, the release of FOMC Minutes stated that several observed that the recent progress on inflation and increases in the unemployment rate provided a **plausible case for reducing the target range 25 basis points at this meeting or that they could have supported such a decision**. The vast majority observed that, **if the data continued to come in about as expected, it would likely be appropriate to ease policy at the next meeting**.

- The bar for **Fed Chair Powell's speech tonight** to exceed already dovish markets expectations (Fed funds futures) of 150bps of cuts by March 2025 is increasingly a high one.

Yields (2Y: -5.3bps; 10Y: -0.6bps; 30Y: +1.7bps)

- UST yield curve steepened as front end yields build in more cuts in 2025.

Equities (Nasdaq: +0.6%; S&P500: +0.4%; Dow: +0.1%)

- Aided by the renewed expectations of easing, US equities rose across the board.

FX (DXY: -0.4%)

- Similarly, the Greenback continued to soften against G10 peers. USDJPY slipped towards 145 while EUR rose towards mid-1.10. AUD traded sideways around mid-67 cents while USD/SGD was little changed around lows of mid-1.30.

- THB weakened as the BoT kept rates unchanged in a widely expected decision though hints of concerns over tighter financial conditions had a dovish slant. Similarly, IDR also weakened as Bank Indonesia stood pat while stating that room is open for cuts in Q4.

China - Distinction between Relief & Resolution

- Welcome relief from CNH pressures reflects broad-based USD tumble (on Fed rate cut bets), not a resounding resolution of China woes and lingering CNH risks. Admittedly, the CNY fixing premium* has eroded substantially suggesting relief from unrelenting depreciation pressures. But that is **mostly driven by externalities**, led by Fed rate cut bets, corresponding USD weakness and consequent "risk on", not an organic turnaround in China's prospects/sentiments.

- And so, the best case is reprieve from the PBoC's policy dilemma (between easing and CNH support) alongside a breather from reserve drawdown to defend the CNY. Whereas underlying economic pressures, **socio-political stresses and geo-political threats behind CNH depreciation risks are not resolved**.

- Tellingly, **Chinese equities are still down 3-5% for the month**, in contrast to S&P500 that has rallied 1.3% and EuroStoxx as well as Hang Seng that have all recovered, then a bit, from early-August sell-off. What's more, China's property and job markets remain gloomy, stifling scope for a durable economic turnaround, even if supply-side helps with a lop-sided clearance of the 5% growth target. On the former recent loosening to allow developers to slash prices reveals desperation willing to assume cash-flow resumption at risk of further balance sheet hit. Finally, risks related to US elections and on-going US-China trade/technology tensions flag potential for further pressures on the CNH. The upshot being relief from external circumstances provides little comfort, and most certainly should not breed complacency, given lingering economic risks and geo-political.

* How much higher the PBoC's CNY fixing level is vis-à-vis the previous day's close

Bank of Korea: Necessary But Not Sufficient

- At their upcoming meeting, we expect the Bank of Korea to stand pat but also signal the possibility of easing in the months ahead.

- It is important to recall that at their previous meeting, the BoK introduced three conditions which backed their case for a rate hold. These are: 1. FX volatility 2. increasing trend of housing prices and 3. implications of rising household debt on financial stability.

- First, while KRW has managed to eke out small gains against USD, it remains hard to argue that volatility has gone down satisfactorily given heightened uncertainty from the carry trade unwinding.

- Second, weekly indicators show that housing prices in the Seoul area continued rising since the previous meeting and as such, fear of fueling escalating property prices will restrain the BoK for now.

- Third, household mortgage debt increased at a similarly elevated pace in July compared to June and also keeps the BoK on hold given their intent for continued deleveraging to improve financial stability. Their concerns over housing prices and debt has been made even clearer with the FSC announcing further tweaks their second phase of DSR limits to mortgage loans for houses in the Seoul metropolitan area to be subject to an increased stress rate of 1.2%pts, instead of 0.75%pts which will commence on 1 September.

- Nonetheless, our view remains that the BoK is on course for calibrated easing in Q4 given that there is underlying dis-inflation broadening within the CPI basket even though core inflation remain sticky in July. On top of higher fruit and vegetable prices due to poor weather, headline inflation had an upward spike on rising petrol prices due to pricier oil imports as well as domestic adjustments of smaller fuel tax cuts. Bumpy headline dis-inflation is par for the course ahead. All in, the KRW gains and dis-inflation progress are necessary for BoK to normalise monetary policy but they are not yet sufficient given the domestic concerns of housing prices and debt.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(ID) BI Rate	6.25%	6.25%	6.25%
(KR) PPI YoY (Jul)	2.6%		2.5%
(TH) BoT Benchmark Interest Rate	2.50%	2.50%	2.50%
(JP) Trade Balance (Jul)	-¥621.8b	-¥273.4b	¥224.0b
(US) FOMC Meeting Minutes			
Today			
(KR) BoK Base Rate		3.50%	3.50%
(MY) CPI YoY (Jul)		2.1%	2.0%
(TW) Unemployment Rate (Jul)		3.3%	3.3%
(ID) BoP Current Account Balance (2Q)		-\$2446m	-\$2161m
(US) Initial Jobless Claims		232k	227k
(US) Chicago Fed Nat. Act. Index (Jul)		0.03	0.05
(US) Kansas Fed Mfg Activity		-9.0	-13.0
(EZ) ECB account of Rate Decision			
EZ) Consumer Confidence (Aug P)		-12.6	-13.0
Powell Speaks on Economic Outlook			

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast	
USDJPY	145.21	145.11	▼0.03%	143.50	- 147.00
EURUSD	1.1150	1.1154	+0.18%	1.1000	- 1.1210
GBPUSD	1.3091	1.3091	+0.44%	1.2990	- 1.3150
AUDUSD	0.6744	0.6750	▼0.01%	0.6650	- 0.6800
DXY	101.0	--	▼0.40%	100.5	- 102.0
USDCNY	7.1314	--	+0.03%	7.1100	- 7.1500
USDCNH	7.1329	7.1307	+0.22%	7.1000	- 7.1400
USDHKD	7.7938	7.7932	+0.07%	7.7840	- 7.7920
USDSGD	1.3058	1.3055	+0.05%	1.2980	- 1.3100
USDKRW	1334	1334	+0.00%	1320	- 1340
USDTWD	31.93	--	▼0.18%	31.70	- 32.10
USDINR	83.93	--	+0.17%	83.40	- 84.00
USDIDR	15485	--	+0.32%	15300	- 15600
USDMYR	4.379	4.362	▼0.06%	4.350	- 4.390
USDPHP	56.51	--	▼0.08%	56.20	- 56.70
USDTHB	34.33	34.30	+0.37%	34.00	- 34.40
USDVND	24940	24941	+0.06%	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)	3.932	3.802	-5.4	-0.6
JGB (JP)	0.349	0.873	-0.7	-1.2
Bunds (GE)	2.350	2.188	-5.2	-2.5
Gilts (UK)	3.662	3.890	-2.2	-2.5
AGB (AU)	3.656	3.890	-5.5	-5.9
SGS (SG)	2.695	2.720	-3.4	-3.4
CGB (CN)	1.636	2.162	-1.3	-0.1
KGB (KR)	3.009	3.045	1.7	-5.4
SDL (IN)	6.857	6.755	0.4	-0.7

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	161.95	161.85	+0.17%
GBP/JPY	190.196	189.929	+0.46%
JPY/SGD (100yen)	0.8989	0.8997	+0.06%
JPY/HKD (100yen)	5.3653	5.3707	+0.07%
CNH/JPY	20.307	20.348	▼0.42%
CNH/HKD	1.0928	1.0928	+0.03%
EUR/GBP	0.85179	0.85207	▼0.25%
AUD/NZD	1.0953	1.0954	▼0.09%
EUR/CNH	7.953	7.9536	+0.40%
GBP/CNH	9.338	9.3338	+0.67%

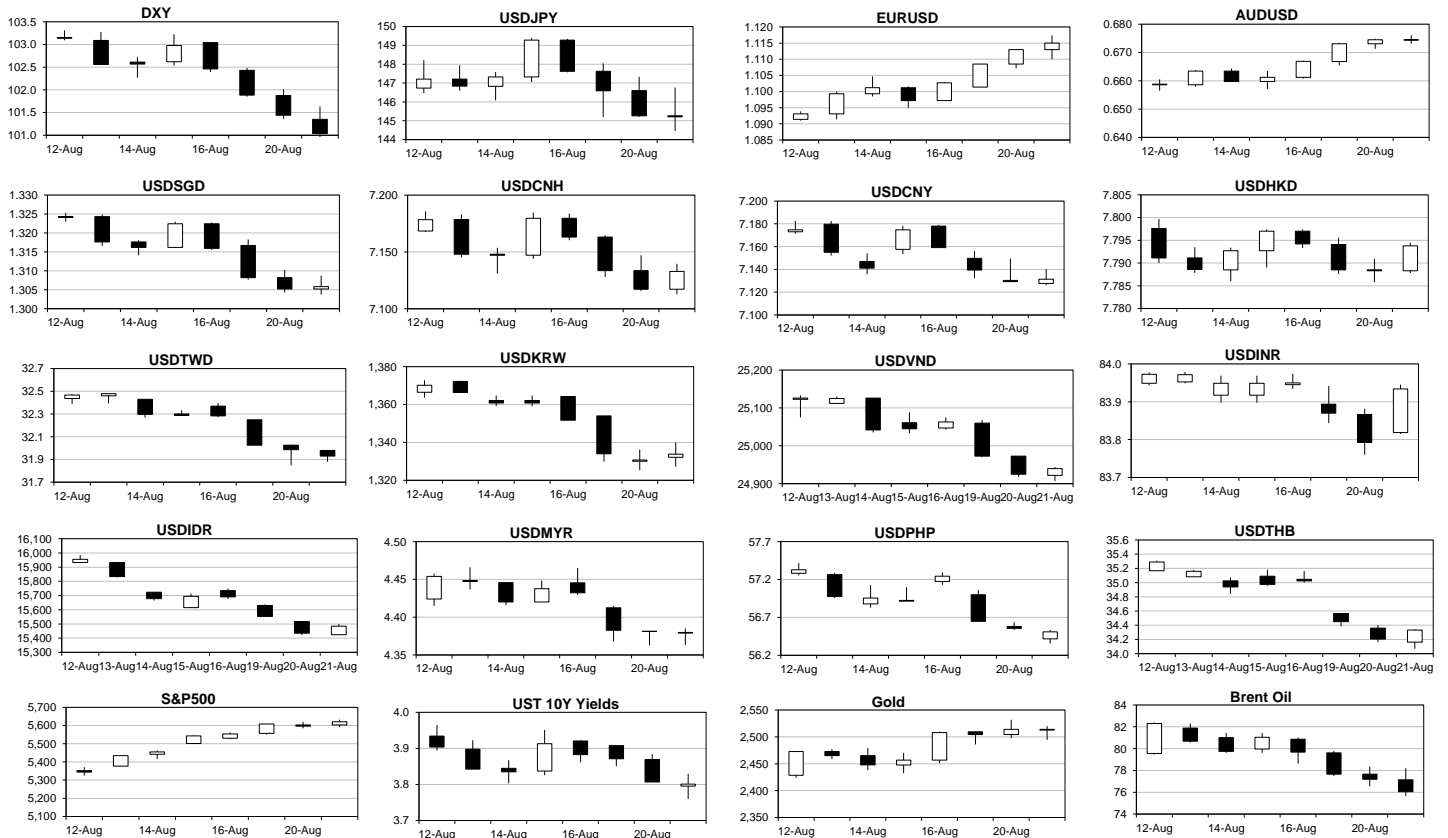
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5620.85	23.73	+0.42%
Nasdaq (US)	17918.99	102.05	+0.57%
DJIA (US)	40890.49	55.52	+0.14%
N225 (JP)	37951.8	-111.12	▼0.29%
STOXX50 (EU)	4885.28	27.70	+0.57%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4536.49	10.79	+0.24%
STI (SG)	3373.76	3.45	+0.10%
SHCOMP (CN)	2856.584	-10.08	▼0.35%
SZCOMP (CN)	1521.414	-4.27	▼0.28%
HSI (HK)	17391.01	-120.07	▼0.69%
SENSEX (IN)	80905.3	102.44	+0.13%
JSE (ID)	7554.593	20.61	+0.27%
KLSE (MY)	1635.32	-7.45	▼0.45%
PSE (PH)	6900.62	-44.14	▼0.64%
SET (TH)	1337.83	9.71	+0.73%
VNINDEX (VN)	1284.05	0.01	+0.90%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,136.11	50.27	+0.55%
IRON ORE (CN)	98.38	0.74	+1.23%
GOLD	2,511.77	-2.22	▼0.09%
SILVER	29.60	-0.02	▼0.96%
OIL (BRENT)	76.05	-1.15	▼1.49%
OIL (WTI)	71.93	-2.11	▼2.85%
NATURAL GAS	2.18	0.16	+0.55%

CHARTS



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