

Aug 23, 2024

## Three Take-Aways

1) Pre-Jackson Hole markets pare back aggressive rate cut bets resulting in higher UST yields (bear flatteners) softer equities and modest USD traction.

2) Volatility could however persist through Jackson Hole given uncertainty is a feature. China risk relief is stretched.

3) BoJ is likely to stand by gradualism and position for JPY volatility to stand down.

## MACRO THEME: Reining In or RORO?

- Aggressive, all-in, and overdone central bank wagers are being reined in ahead of key speeches, and justifiably so. For one, it appears that markets have sensibly calibrated expectations of Sep FOMC rate cut signals from Jerome Powell at Jackson Hole.

- Specifically, coming to terms with the likelihood that the is rather high for Powell to overtly favour a 50bp cut, much less guarantee it.

- Which in turn squares with the overnight session's sharp reversal of overdone (pivot) "risk on" that had been premised on enthused Fed rate cut bets. Specifically, resulting in higher UST yields amid bear flattening (from earlier bull steepeners being moderated), alongside modest retracement of previous "pivot" USD weakness. Elsewhere, BoJ chief Ueda, in first speech in Parliament since the end-July/early-August JPY carry unwind, is also likely to rein in BoJ expectations. In particular, he is likely to "walk back" post-BoJ mis-perceptions about unqualified tightening bias, instead underpinning a gradual and cautious BoJ.

- The intent, not merely to backstop nascent economic mend, given underlying fragility in consumer confidence. Crucially also help settle the JPY and subdue exceptionally out-sized two-way volatility that had marked JPY's mind-boggling sub-142 to 162 within these two months! But the broader, unanswered, question though is whether cautious restraint ahead of Jackson Hole BoJ's Parliament testimony are merely anticipatory, but temporary restraint.

- Whereas the propensity for RORO "risk on- risk off" rollercoaster inclinations remains entrenched in hyper-sensitive markets prone to over-interpret, and swing between greed and fear.

## Yields (2Y: +7.4bps; 10Y: +5.1bps; 30Y: +4.9bps)

- As markets sensibly scaled back from aggressive (and overdone) Fed rate cut bets ahead of Powell's remarks at Jackson Hole (later today), UST yields were lifted higher in bear flattening fashion.

- 2Y UST yields were lifted 7-8bp to bring yields a touch above 4%, while the 10Y was up ~5bp at 3.85%. This aligns with Sep FOMC rate cut bets being pared back towards one (>80% probability).

## Equities (Nasdaq: -1.7%; S&P500: -0.9%; Dow: -0.4%)

- Equities stumbled as markets came to terms with the likelihood that Powell will not be overly dovish. Specifically, coming to terms with a considerably high bar for a 50bp rate cut even if he flags that a 25bp cut is likely.

- The surge in yields from reining in overdone rate cut bets hurt Nasdaq the worst, with a 1.7% drop, as tech exuberance wavered the most; Whereas European equities were effectively flat and Nikkei, aided by a softer JPY, a decent 0.7% boost during the earlier Far East session.

## FX (DXY: +0.5%)

- Given the backdrop of moderated rate cut bets, USD bears being reeled in was par for the course. With the exception of Sterling, which held its own, most Majors were down against the Greenback. Notably, JPY took one of the most jarring hits in the G12 FX space, down almost 1% (USD/JPY lifted back above 146). Whereas the Swiss Franc was mostly unchanged retaining traction.

- This arguably underpins the notion that relative policy shifts were at the fore of FX dynamics. And that was arguably led recalibration for Powell to disappoint aggressive rate cut bets at Jackson Hole, in contrast to BoJ's Ueda expected to temper earlier tightening bias.

## Jerome in Jackson Hole: One-in-Hole

- The context for Jerome Powell's Jackson Hole guidance is that he goes in with a policy guidance advantage that is his to lose. That is, with markets doing the job for the Fed on unequivocal pivot to rate cut mode, he gets to say why just the one (for Sep) and not two.

- That way, the Fed can retain maximum optionality on data-dependence amid uncertainty. Yet not be slow-footed on initiating cuts. More aggressive rate cut bets are almost sure to be disappointed. But with aggressive rate cut bets washed out, any perceptions of "Goldilocks" soft-landing in play could still lift risk sentiments.

## BoJ's Inaction Gambit

- "Do no harm" is arguably a baseline premise for any central banker. But is nonetheless a critical sacrificial gambit to tame JPY volatility. The BoJ's proclamation, a week after the July BoJ meeting, that it "won't raise rate when market is unstable" arguably sacrifices policy autonomy to markets. But ironically, by relinquishing control on further policy tightening, the BoJ exercises greater control over run-away JPY bulls (over-interpreting the BoJ's hawkish propensity). And this is an acceptable gambit in the context of a more unequivocal Fed pivot that checks earlier threats from excessive JPY weakness. Especially as the dangers of too much JPY appreciation too soon supplant excessive JPY weakness as the greater threat to Japan. However, this comes at a cost. And that is, the Fed now has an even greater and highly disproportionate sway on JPY.

## China's Policy Dilemma Continues

- Elsewhere, the more effectively that Powell checks aggressive rate cut bets at Jackson Hole, the more likely that China risks re-emerge. Especially if USD declines are arrested (or worse reversed), resulting in a revival of inconvenient tensions between CNH stability and PBoC's economic stimulus. Furthermore, bond market dissonance, whereby PBoC forcibly propping up longer-end rates, only complicate policy further. On the latter, shooting the messenger (of deflation) comes at a further cost of market distortions, without the benefit of actual economic relief.

## DATA/EVENTS

Overnight	Actual	Exp.	Prior
(KR) BoK Base Rate	3.50%	3.50%	3.50%
(MY) CPI YoY (Jul)	2.0%	2.1%	2.0%
(TW) Unemployment Rate (Jul)	3.3%	3.3%	3.3%
(ID) BoP Current Account Balance (2Q)	-\$3021m	-\$2446m	-\$2407m
(US) Initial Jobless Claims	232k	232k	227k
(US) Chicago Fed Nat. Act. Index (Jul)	-0.34	0.03	-0.09
(US) Kansas Fed Mfg Activity	-3	-9	-13
(EZ) Consumer Confidence (Aug P)	-13.4	-12.6	-13.0
ECB account of Rate Decision			

## Today

(SG) CPI/Core YoY (Jul)		2.5%/2.9%	2.4%/2.9%
(TW) Industrial Production YoY (Jul)		12.2%	13.2%
(US) New Home Sales (Jul)			617k
(US) Kansas City Fed Svcs Activity (Aug)			-4
(JP) CPI YoY (Jul)	2.8%	2.7%	2.8%
(JP) CPI Ex Food, Energy YoY (Jul)	1.9%	1.9%	2.2%
Powell Speaks on Economic Outlook			

## FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast	
USDJPY	146.29	146.18	+0.74%	143.50	- 147.50
EURUSD	1.1112	1.1117	▼0.34%	1.1000	- 1.1250
GBPUSD	1.3091	1.3097	+0.00%	1.2990	- 1.3200
AUDUSD	0.6705	0.6708	▼0.58%	0.6640	- 0.6800
DX	101.5	--	+0.46%	100.5	- 102.0
USDCNY	7.1470	--	+0.22%	7.1200	- 7.1700
USDCNH	7.1467	7.1451	+0.19%	7.1100	- 7.1700
USDHKD	7.7976	7.7972	+0.05%	7.7900	- 7.8100
USDSGD	1.3105	1.3102	+0.36%	1.2990	- 1.3200
USDKRW	1343	1343	+0.00%	1325	- 1355
USDTWD	31.97	--	+0.12%	31.70	- 32.20
USDINR	83.95	--	+0.02%	83.75	- 84.10
USDIDR	15600	--	+0.74%	15500	- 15750
USDMYR	4.378	4.379	▼0.02%	4.350	- 4.400
USDPHP	56.34	--	▼0.31%	56.00	- 56.80
USDTHB	34.35	34.51	+0.04%	34.10	- 34.60
USDVND	24973	24973	+0.13%	24800	- 25100

\*Open is as at 8am HKT/SGT.

## MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.006	3.853	7.4	5.1
JGB (JP)	0.353	0.867	0.4	-0.6
Bunds (GE)	2.393	2.242	4.1	5.3
Gilts (UK)	3.737	3.959	8.2	6.9
AGB (AU)	3.633	3.886	-2.3	-0.4
SGS (SG)	2.673	2.707	-2.0	-1.3
CGB (CN)	1.615	2.150	-2.1	-1.2
KGB (KR)	2.994	3.029	4.9	7.4
SDL (IN)	6.853	6.752	-0.9	0.4

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	162.56	162.5	+0.38%
GBP/JPY	191.476	191.418	+0.67%
JPY/SGD (100yen)	0.8959	0.8963	▼0.33%
JPY/HKD (100yen)	5.33	5.3342	▼0.66%
CNH/JPY	20.461	20.453	+0.76%
CNH/HKD	1.0912	1.091	▼0.15%
EUR/GBP	0.84887	0.84886	▼0.34%
AUD/NZD	1.0925	1.092	▼0.26%
EUR/CNH	7.9419	7.9432	▼0.14%
GBP/CNH	9.3558	9.357	+0.19%

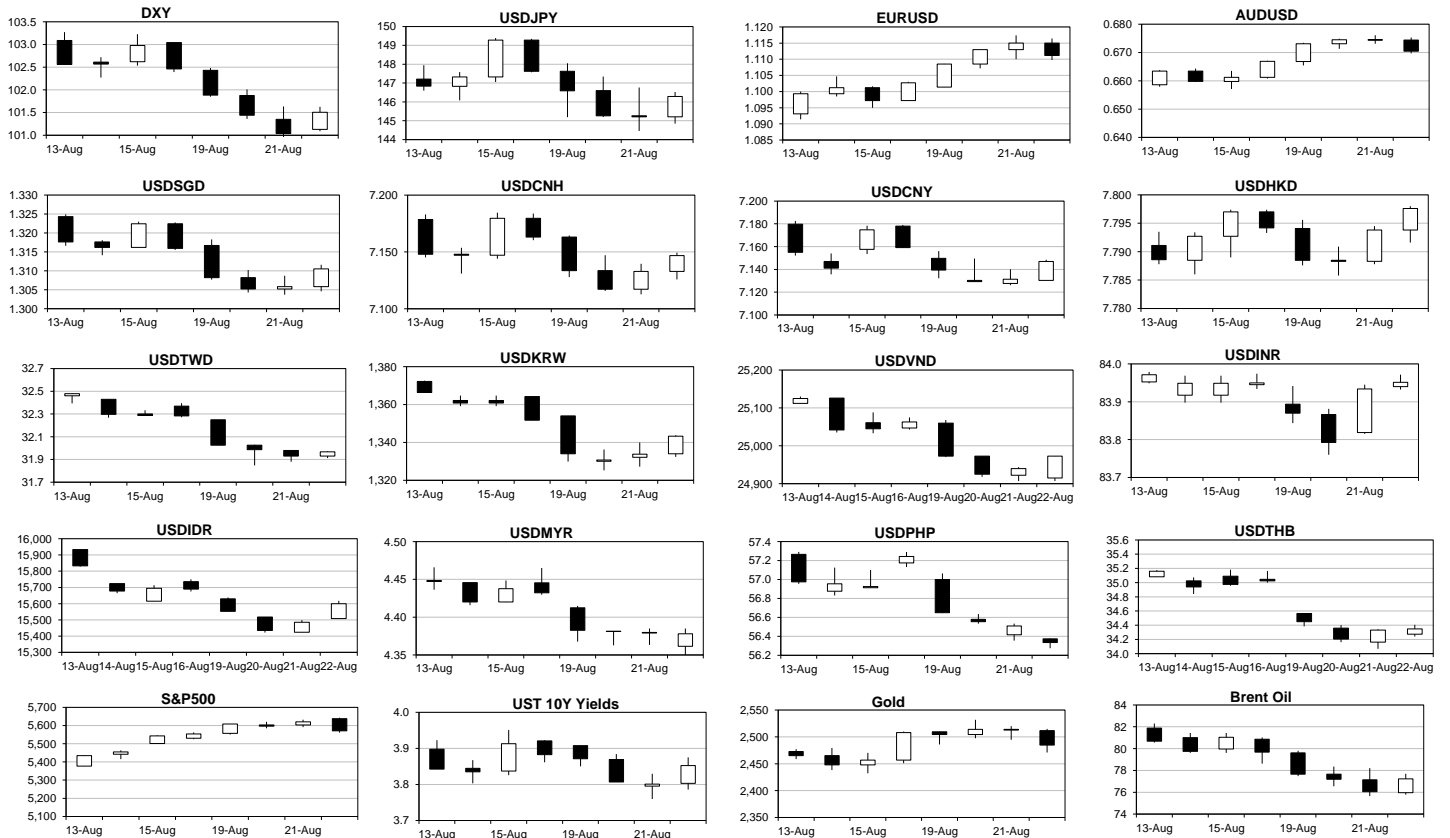
\*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5570.64	-50.21	▼0.89%
Nasdaq (US)	17619.35	-299.64	▼1.67%
DJIA (US)	40712.78	-177.71	▼0.43%
N225 (JP)	38211.01	259.21	+0.68%
STOXX50 (EU)	4885	-0.28	▼0.01%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4536.02	-0.47	▼0.01%
STI (SG)	3373.58	-0.18	▼0.01%
SHCOMP (CN)	2848.772	-7.81	▼0.27%
SZCOMP (CN)	1505.085	-16.33	▼1.07%
HSI (HK)	17641	249.99	+1.44%
SENSEX (IN)	81053.19	147.89	+0.18%
JSE (ID)	7488.676	-65.92	▼0.87%
KLSE (MY)	1641.66	6.34	+0.39%
PSE (PH)	6961.96	61.34	+0.89%
SET (TH)	1341.03	3.20	+0.24%
VNINDEX (VN)	1282.78	0.00	▼0.10%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,010.28	-125.83	▼1.38%
IRON ORE (CN)	97.89	1.61	▼0.50%
GOLD	2,484.75	-27.81	▼1.11%
SILVER	28.99	-0.12	▼5.70%
OIL (BRENT)	77.22	1.17	+1.54%
OIL (WTI)	73.01	1.08	+1.50%
NATURAL GAS	2.05	-0.61	▼2.08%

## CHARTS



## RESEARCH TEAM

Vishnu Varathan | Serena Zhou | Ken Cheung | Tan Boon Heng | Tan Jing Yi

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