

Aug 26, 2024

Three Take-Aways

- 1) Fed Chair Powell signals time for easing to send UST yields lower though size of September cut remains open.
- 2) JPY led gains as BoJ remains divergent with Governor Ueda keeping options open for rate hike.
- 3) EM-Asia FX set to ride on weaker USD though rate cut prospects to set contrast in gains.

MACRO THEME: All on the Table or All in?

- It was yet another pivotal Jackson hole speech for markets, turning what ought to be an academic conference to one which investors pore over. Fed Chair Powell remarked that his confidence has grown that inflation is on path to 2% and critically he stated that "we do not seek or welcome any further labour market cooling".

- Admittedly, guidance on the size of the September cut remains a wide open question as he said "**The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks**". Even amid the slew of dovish remarks, it is perhaps notable that markets also perhaps remain somewhat restrained in raising odds of a 50bps cut in September from 25% to 36%.

- Nonetheless, **hypersensitivities to upcoming data is perhaps taken up another notch** as any improvement in the next jobs report could squash these odds (unless the Fed decides for an insurance cut) or any further job market deterioration may emphatically increase the chances of a large cut given his explicit aversion to further labour market cooling.

- Unsurprisingly, other FOMC officials also struck a dovish tone with Bostic saying that more than one rate cut is in play and **affirming that size of the first rate cut will depend on the data**. Meanwhile, Philadelphia Fed President Harker said he like the word "methodical" and just start the process and keep moving.

- While BoE Governor Andrew Bailey espoused optimism that second round inflation effects appear to be smaller than expected alongside notes of caution such as being too early to declare victory, it is also worth recalling that the BoE's previously decision to cut was a razor thin one. Similarly, ECB's officials also sounded more dovish at the conference as Chief Economist Lane cited good progress on making sure inflation returns to target in a timely manner.

Yields (2Y: -8.8bps; 10Y: -5.3bps; 30Y: -3.5bps)

- UST yield curve bull steepened on dovish Jackson hole remarks.

Equities (Nasdaq: +1.5%; S&P500: +1.2%; Dow: +1.1%)

- Equities rallied across the board with Nasdaq leading gains as Powell's dovishness raises hopes of lower borrowing costs.

FX (DXY: -0.8%)

- JPY led gains among all G10 peers with the USD/JPY now heading below 144 this morning as UST yields fell.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(SG) CPI/Core YoY (Jul)	2.4%/2.5%	2.5%/2.9%	2.4%/2.9%
(TW) Industrial Production YoY (Jul)	12.3%	12.2%	13.2%
(US) New Home Sales (Jul)	739k	623k	617k
(US) Kansas Fed Svcs Activity (Aug)	5	--	-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			
Today			
(US) Durable Goods Orders (Jul P)		4.9%	-6.7%
(US) Non-def Ex Air Orders (Jul P)		0.1%	0.9%
(GE) IFO Business Climate (Aug)		86.0	87.0
(JP) Leading Index CI (Jun F)		--	108.6
(US) Dallas Fed Mfg Activity (Aug)		-16.0	-17.5
(CH) 1Yr Medium Term Lending Rate		2.30%	2.30%
(SG) Industrial Production YoY (Jul)		-0.5%	-3.9%

- The BoJ remains the most divergent in terms of policy paths as Governor Ueda retained option to hike rates on the condition that economy and prices stay in line with forecast. In second, AUD also outperformed rising to approach near 68 cents with the RBA's recent dismissal of near term cuts also forming a stark contrast to buoy AUD bulls. Relatively, EUR's gain were milder as it attempts to surmount 1.12 and reflects the dovish tones from ECB officials at Jackson hole.

- In EM-Asia, the USD/SGD has plummeted to 1.30 and EM-Asia will latch onto the tailwinds of weaker Greenback to start the week.

China: Reasonable?

- The PBoC continues to reiterate the need to support the economy though **warned against expectations of drastic measures** and encourage financial institutions to enable "reasonable" consumer financing demands.

Examining Scope For Cuts: The North Asia Edition

- Looking past the inherent risks of shifting policy expectations, risk sentiments and FX volatility which constrain the scope of EM-Asia central banks to cut (see Mizuho Brief - Can EM Asia Start Cutting Rates Now?), we turn to examine neutral rates (r*) in EM-Asia to lay out the varying differentials in terms of their room to cuts.

- In Korea, the BoK has just flagged scope to cut in Q4 (October or November) but pushed back on excessive expectations of sharp rate cuts. In our view, these expectations are not entirely unwarranted from a long term neutral rate perspective. Specifically, over the decade pre-Covid (2011-19) when GDP growth averaged 2.9%, nominal policy rates average around 2% which is a significant 150bps away from the current rates. That said, in real rates terms, the policy stance is far less restrictive at just 30-50bps above historical trends. In fact, by modelling a long term structural perspective and take into consideration unfavourable demographic headwinds and lack of TFP growth, some studies have put the long run neutral rate at between 1.0% to 2.0%. That said, it is important to remember that the near and medium term policy calculus needs to reflect inflation and also financial stability in the form of credit risks and housing prices.

- In turn, in the 1-2 year horizon, r* incorporating these macro concerns is likely to be in the 2.5%-3.0% region depending on the stage of semiconductor cycles.

- In Taiwan, the similarities persist in terms of current concerns over escalating housing prices with the CBC asking banks to curb surging real estate loans this week. That said, the nominal policy rate averaged ~1.6% (2011-19) reveals a much smaller nominal differential of around 50bps to the current policy rate. In inflation adjusted real rates terms, one could even point out that current policy is only less restrictive than 80% of the period 2011-19.

- On balance, the Bank of Korea face the reality of 50-75bps of cuts in the quarters ahead even though 150bps of cuts is not unwarranted should demand and inflation falter synchronously. Whereas the CBC is likely more restrained with only scope for 25-50bps of easing in 2025.

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	144.37	143.98	▼1.31%	143.00 - 145.00
EURUSD	1.1192	1.1188	+0.72%	1.1100 - 1.1250
GBPUSD	1.3214	1.3211	+0.94%	1.2990 - 1.3200
AUDUSD	0.6795	0.6787	+1.34%	0.6640 - 0.6820
DXY	100.7	--	▼0.78%	100.5 - 101.5
USDCNY	7.1209	--	▼0.37%	7.0800 - 7.1500
USDCNH	7.1162	7.1146	▼0.43%	7.0800 - 7.1500
USDHKD	7.7961	7.7967	▼0.02%	7.7800 - 7.8000
USDSGD	1.3012	1.3012	▼0.71%	1.2950 - 1.3100
USDKRW	1325	1327	+0.00%	1300 - 1345
USDTWD	31.97	--	▼0.00%	31.50 - 32.00
USDINR	83.90	--	▼0.06%	83.60 - 84.00
USDIDR	15490	--	▼0.71%	15200 - 15550
USDMYR	4.375	4.370	▼0.07%	4.340 - 4.390
USDPHP	56.34	--	+0.00%	55.90 - 56.50
USDTHB	34.27	33.96	▼0.24%	33.90 - 34.40
USDVND	24978	24986	+0.02%	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)	3.916	3.800	-9.0	-5.3
JGB (JP)	0.366	0.892	1.3	2.5
Bunds (GE)	2.370	2.223	-2.3	-1.9
Gilts (UK)	3.665	3.911	-4.5	-4.8
AGB (AU)	3.662	3.919	2.9	3.3
SGS (SG)	2.675	2.724	0.7	1.7
CGB (CN)	1.580	2.149	-3.6	-0.1
KGB (KR)	3.022	3.029	-3.5	-9.0
SDL (IN)	6.859	6.768	1.1	1.3

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	161.58	161.08	▼0.60%
GBP/JPY	190.785	190.205	▼0.36%
JPY/SGD (100yen)	0.9011	0.9037	+0.58%
JPY/HKD (100yen)	5.4001	5.4151	+1.32%
CNH/JPY	20.265	20.218	▼0.96%
CNH/HKD	1.0943	1.0948	+0.28%
EUR/GBP	0.84682	0.8469	▼0.24%
AUD/NZD	1.0901	1.0906	▼0.22%
EUR/CNH	7.9646	7.9598	+0.29%
GBP/CNH	9.4018	9.3987	+0.49%

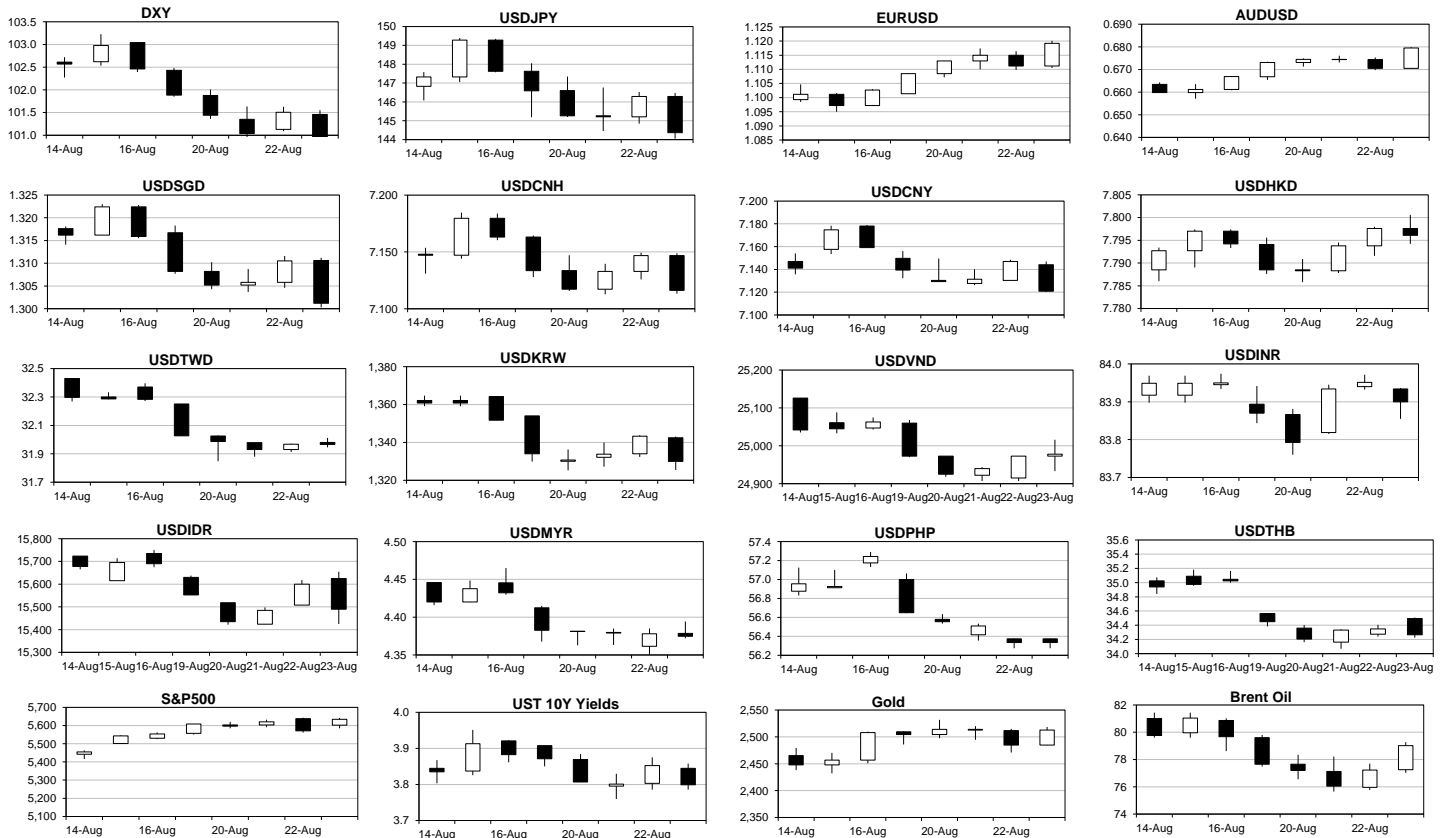
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5634.61	63.97	+1.15%
Nasdaq (US)	17877.79	258.44	+1.47%
DJIA (US)	41175.08	462.30	+1.14%
N225 (JP)	38364.27	153.26	+0.40%
STOXX50 (EU)	4909.2	24.20	+0.50%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4557.24	21.22	+0.47%
STI (SG)	3387.99	14.41	+0.43%
SHCOMP (CN)	2854.367	5.60	+0.20%
SZCOMP (CN)	1506.22	1.13	+0.08%
HSI (HK)	17612.1	-28.90	▼0.16%
SENSEX (IN)	81086.21	33.02	+0.04%
JSE (ID)	7544.298	55.62	+0.74%
KLSE (MY)	1635.74	-5.92	▼0.36%
PSE (PH)	6961.96	0.00	+0.00%
SET (TH)	1354.87	13.84	+1.03%
VNINDEX (VN)	1285.32	0.00	+0.20%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,173.38	163.10	+1.81%
IRON ORE (CN)	97.60	2.05	▼0.30%
GOLD	2,512.59	27.84	+1.12%
SILVER	29.82	-0.03	▼1.51%
OIL (BRENT)	79.02	1.80	+2.33%
OIL (WTI)	74.83	1.82	+2.49%
NATURAL GAS	2.02	0.83	+2.86%

CHARTS



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