

Aug 30, 2024

Three Take-Aways

1) Aggressive Fed rate cuts pared back on cautious FedSpeak, while GDP was revised higher and absence of deterioration in labour market; USD was stronger on higher UST yields.

2) EUR slid on moderating inflation in Germany and Spain even as ECB Nagel moderated rate cuts expectations.

3) India GDP to moderate on slowdown in government spending and industrial sector growth amid slower credit growth.

MACRO THEME: Cautionary Tone

- Aggressive Fed rate cut bets (i.e. 50bps at Sep meeting) pared back slightly on a cautionary tone from FedSpeak, strong US consumers and an absence of a deterioration in job markets. In a reference to Powell's comments at Jackson Hole, Fed Bostic said it while may be time to cut, he still saw the need for additional data to avoid the situation of having to raise rates again after cutting, thereby indicating preference to err on the side of waiting longer.

- Meanwhile, an upwards revision in GDP supported by a consumer spending, and initial jobless claims broadly-in-line with expectations gave less support to more aggressive cuts.

- Across the Atlantic, moderating inflation beefed up the case for another cut next month even as ECB Nagel continued to sound caution. August Inflation in Germany slowed more-than-expected to 2% (July: 2.6%) on the back of lower energy prices. Meanwhile, headline inflation in Spain also eased. But caution could be due as services inflation in Germany and core inflation in Spain edged up higher.

- On this note, ECB Nagel opined that ECB must not lower rates to quickly as elevated core inflation remains a concern. He remarked that EZ was "not there yet" in taming inflation. While the inflation target is in sight, inflation could bounce back again and remain above target well in 2025 due to persistently strong gains in services costs.

- Brent crude climbed +1.6% to above \$79/bbl as the discord in Libya continued, paring some losses after declining by about 3.7% in the previous two days.

Yields (2Y: +2.9bps; 10Y: +2.6bps; 30Y: +2.1bps)

- UST yields climbed higher across the curve.

Equities (Nasdaq: -0.2%; S&P: +0.6%; Dow: +0.6%)

- US equities traded mixed amid resilient growth and (perhaps) moderated lofty expectation on exceptional growth from AI.

FX (DXY: +0.3%)

- USD broadly stronger against G10 currencies on higher UST yields.

- EUR slid under 1.11 as the moderation in CPI increased wagers on rate cut bets, while USD/JPY mostly traded above mid-144.

- NZD bucked the trend and strengthened against the greenback as business confidence surged in August, which could push any further rate cuts back. AUD was supported at around 68 cents on NZD spillovers.

- Elsewhere, USD/SGD hovered above 1.30 handle.

China: Still Soft

- Even as CNH traded firmer yesterday, sentiments remain soft with Chinese equity benchmark indices closing mixed.

- Softer PMI prints are also expected for Saturday's data release.

India Q2 GDP: Normalising (Lower)

- We expect that Q2 GDP will moderate substantially to 6.5-6.8%, but even this may be overstated if cyclical headwinds are accounted for.

- To be sure, the moderation in GDP gels with three dimensions of headwinds for various sectors.

- One is the government/election cycle. Fade in, albeit not complete absence of, election spending will start to come through.

- Second, is slowing industrial sector growth, in line with softer IP output on the whole. Not only is industrial output historically correlated to aggregated economic growth, but sharper slowdown has also tended to result in softer growth multipliers.

- Third is the slowdown in headline credit growth, that tends to dampen nominal growth momentum. Trouble is, without a meaningful decline in inflation, dampened credit growth may not be more than offset by consumption boost.

- To be sure, headline inflation has eased. But it is only modestly lower from earlier in 2024. So, hopes of a substantial and offsetting (real) consumption boost to be derived may be overly optimistic. What's more, implied GDP deflator ought to be meaningfully higher from exceptionally and unsustainably low levels in the last few quarters. What this means is that for the same rates of nominal growth, real GDP is likely to be somewhat more constrained.

- Consequently, the moderation in growth is but an inevitable normalization, further accentuated by cyclical headwinds (albeit fairly gentle). In coming quarters, amid elevated global uncertainty, underlying growth momentum of 6-7% is expected, with some pockets of slippage below.

- Nonetheless, this does not guarantee imminent and pre-emptive rate cuts from the RBI. Instead, measured rate cuts, contingent on macro-stability, to be initiated in Q4 2024 and extended in 2025.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(US) Initial Jobless Claims	231k	232k	233k
(US) GDP Annualized QoQ (2Q S)	3.0%	2.8%	2.8%
(US) Personal Consumption (2Q S)	2.9%	2.2%	2.3%
(US) Wholesale Inventories MoM (Jul P)	0.3%	0.3%	0.1%
Today			
(AU) Retail Sales MoM (Jul)		0.3%	0.5%
(KR) Industrial Production YoY (Jul)	5.5%	7.5%	3.8%
(JP) Retail Sales YoY (Jul)	2.6%	2.8%	3.8%
(JP) Jobless Rate (Jul)	2.7%	2.5%	2.5%
(JP) Industrial Production MoM (Jul P)	2.8%	3.5%	-4.2%
(IN) Fiscal Deficit YTD INR Crore (Jul)		-	135712
(IN) GDP YoY (2Q)		6.8%	7.8%
(TH) BoP Current Account Balance (Jul)		-	\$1950m
(TH) Exports/Imports YoY (Jul)		-	0.3%/-0.1%
(US) MNI Chicago PMI (Aug)		45.1	45.3
(US) PCE Deflator/Core YoY (Jul)		2.6%/2.7%	2.5/2.6%
(EZ) Unemployment Rate (Jul)		6.5%	6.5%
(EZ) CPI Estimate/Core YoY (Aug/Aug P)		2.2%/2.8%	2.6%/-
Over the Weekend			
(CH) Mfg/Non-Mfg PMI (Aug)		49.5/50.0	49.4/50.2

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast	
USDJPY	144.99	144.93	+0.28%	143.00	- 146.50
EURUSD	1.1077	1.1080	▼0.39%	1.0910	- 1.1180
GBPUSD	1.3168	1.3166	▼0.17%	1.3050	- 1.3300
AUDUSD	0.6798	0.6796	+0.19%	0.6710	- 0.6870
DXY	101.3	--	+0.25%	100.5	- 102.0
USDCNY	7.0970	--	▼0.43%	7.0600	- 7.1400
USDCNH	7.0943	7.0902	▼0.54%	7.0500	- 7.1400
USDHKD	7.7980	7.7975	▼0.04%	7.7910	- 7.8060
USDSGD	1.3031	1.3028	▼0.03%	1.2970	- 1.3120
USDKRW	1335	1333	+0.00%	1325	- 1345
USDTHW	31.92	--	▼0.16%	31.80	- 32.10
USDINR	83.87	--	▼0.11%	83.70	- 84.00
USDIDR	15415	--	▼0.06%	15250	- 15600
USDMYR	4.311	4.312	▼0.77%	4.290	- 4.360
USDPHP	56.29	--	+0.08%	56.00	- 56.60
USDTHB	33.94	33.92	▼0.17%	33.70	- 34.30
USDVND	24880	24884	+0.07%	24700	- 25000

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.896	3.862	2.9	2.6
JGB (JP)	0.373	0.889	0.0	-0.6
Bunds (GE)	2.351	2.272	-3.0	1.4
Gilts (UK)	4.109	4.017	-0.2	1.7
AGB (AU)	3.672	3.954	1.1	2.4
SGS (SG)	2.556	2.668	-0.3	0.6
CGB (CN)	1.528	2.167	-1.3	0.1
KGB (KR)	3.099	3.185	2.1	2.9
SDL (IN)	6.864	6.760	0.0	0.0

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5591.96	-0.22	▼0.00%
Nasdaq (US)	17516.43	-39.60	▼0.23%
DJIA (US)	41335.05	243.63	+0.59%
N225 (JP)	38362.53	-9.23	▼0.02%
STOXX50 (EU)	4966.27	53.24	+1.08%

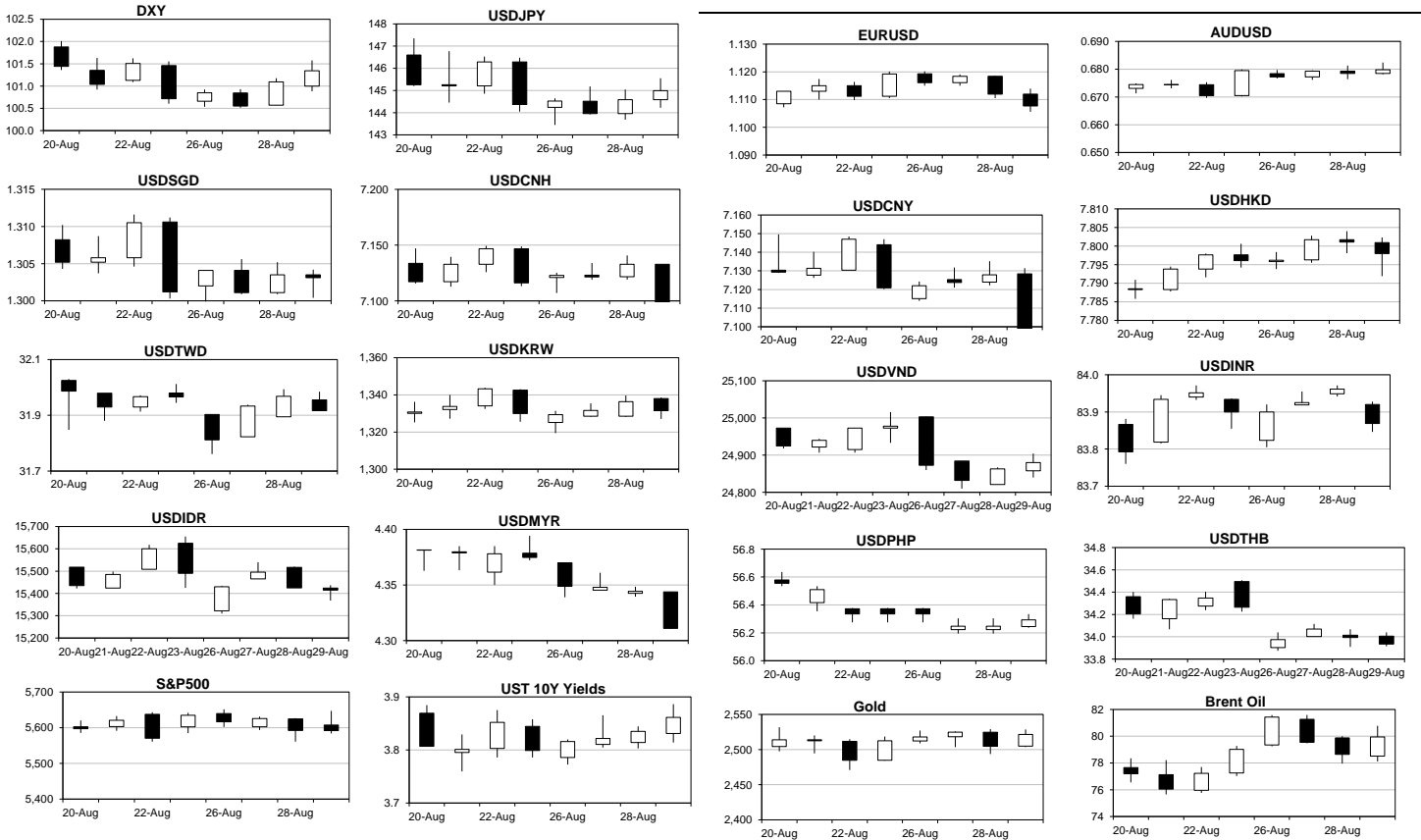
Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,125.64	-4.33	▼0.05%
IRON ORE (CN)	98.74	0.85	+0.01%
GOLD	2,521.40	16.79	+0.67%
SILVER	29.42	0.04	+1.91%
OIL (BRENT)	79.94	1.29	+1.64%
OIL (WTI)	75.91	1.39	+1.87%
NATURAL GAS	2.14	0.29	+1.01%

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	160.62	160.58	▼0.10%
GBP/JPY	190.949	190.801	+0.12%
JPY/SGD (100yen)	0.8988	0.8989	▼0.31%
JPY/HKD (100yen)	5.3783	5.3804	▼0.32%
CNH/JPY	20.403	20.418	+0.53%
CNH/HKD	1.0986	1.0986	+0.39%
EUR/GBP	0.84125	0.84159	▼0.21%
AUD/NZD	1.0865	1.0851	▼0.02%
EUR/CNH	7.8588	7.8559	▼0.92%
GBP/CNH	9.3425	9.3346	▼0.70%

*Open is as at 8am HKT/SGT.

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4576.34	15.60	+0.34%
STI (SG)	3404.47	13.44	+0.40%
SHCOMP (CN)	2823.106	-14.32	▼0.50%
SZCOMP (CN)	1510.418	16.83	+1.13%
HSI (HK)	17786.32	93.87	+0.53%
SENSEX (IN)	82134.61	349.05	+0.43%
JSE (ID)	7627.604	-31.27	▼0.41%
KLSE (MY)	1653.55	-21.69	▼1.29%
PSE (PH)	6891.55	-66.46	▼0.96%
SET (TH)	1357.41	-8.31	▼0.61%
VNINDEX (VN)	1281.47	0.00	+0.00%

CHARTS



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