

Sep 02, 2024

Three Take-Aways

- 1) US equities supported by indications of strong US consumers; ECB officials appearing to have some consensus around Sep cut.
- 2) More stimulus expected in China, but delayed or insufficient implementation present growth risks.
- 3) Australia Q2 GDP to be driven by public spending; while household spending remains tepid.

MACRO THEME: Waiting Game?

- Following some moderation in aggressive Fed rate cuts expectations on Thursday, bets on Sep rate cuts (based on Fed Funds futures) were little changed on Friday amid PCE print coming in-line with expectations and as markets await labour market data due this week. Nonetheless, UST yields rose, possibly on some rebalancing amid expectations of sizeable corporate bonds issuances this week.

- Meanwhile, stocks were supported by resiliency seen in consumer spending and supportive industrial data. Personal income and spending both accelerated MoM on a seasonally-adjusted basis, while industrial activity surprised to the upside.

- Brent fell below \$79/bbl (-1.4%) following news that OPEC+ is leaning towards reviving oil production amid ongoing demand woes.

Yields (2Y: +2.3bps; 10Y: +4.2bps; 30Y: +4.9bps)

- UST yields climbed across the curve, in a steepening move.

Equities (Nasdaq: +1.1%; S&P: +1.0%; Dow: +0.6%)

- US equities indexes rose, with gains across all sectors.

FX (DXY: +0.4%)

- The USD gained against the G10 currencies.

- JPY led losses, with USD/JPY moving above 146 (from mid-144) amid signs of increasing growth risks, which could potentially derail rate hike prospects. Retail sales and industrial production both disappointed.

- EUR dipped below mid-1.05 as ECB speakers appeared to have some broad consensus around a September cut. While ECB Schnabel noted stalling service disinflation, Rehn remarked that falling inflation and weaker growth reinforces case for September cut. In addition, Kazaks expressed openness to a September discussion on policy easing even as he acknowledged sticky services inflation, Muller said confidence in September rate cut was growing and Villeroy noted that victory on inflation is within sight and it was "fair and wise" to cut rates in September even as wariness of growth risks was warranted.

- Elsewhere, AUD moved dipped below 68 cents while USD/SGD moved above mid-1.30 levels.

DATA/EVENTS

Last Friday/Over the Weekend	Actual	Exp.	Prior
(AU) Retail Sales MoM (Jul)	0.0%	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)	276945	-	135712
(IN) GDP YoY (2Q)	6.7%	6.8%	7.8%
(TH) BoP Current Account Balance (Jul)	\$270m	\$550m	\$1950m
(TH) Exports/Imports YoY (Jul)	15.3%/15.8%	-	0.3%/-0.1%
(US) MNI Chicago PMI (Aug)	46.1	44.8	45.3
(US) PCE Deflator/Core YoY (Jul)	2.5%/2.6%	2.5%/2.7%	2.5/2.6%
(US) Personal Income/Spending (Jul)	0.3%/0.5%	0.2%/0.5%	0.2%/0.3%
(EZ) Unemployment Rate (Jul)	6.4%	6.5%	6.5%
(EZ) CPI Estimate/Core YoY (Aug/Aug P)	2.2%/2.8%	2.2%/2.8%	2.6%/2.9%
(CH) Mfg/Non-Mfg PMI (Aug)	49.1/50.3	49.5/50.0	49.4/50.2
Today			
(CH) Caixin China PMI Mfg (Aug)		50.0	49.8
(SG) Purch. Manages Index (Aug)		-	50.7
(SG) Electronics Sector Index (Aug)		-	51.0
(AU) Building Approvals MoM (Jul)		2.8%	-6.5%
(ID) CPI/Core YoY (Aug)		2.1%/2.0%	2.1%/2.0%
(JP) Capital Spending YoY (2Q)	7.4%	10.0%	6.8%

China: Downside Growth Risks

- China's August manufacturing PMI disappointed. The weakening was broad-based and caused by relatively weak domestic demand and unfavorable weather conditions. The subindex of new orders fell to a YTD low of 48.9 in August, while the production subindex dipped below the expansion threshold for the first time since February. High-tech and equipment manufacturing were the least impacted while large manufacturing enterprises outperformed smaller ones. The PMI for new export orders improved to a four-month high of 48.7.

- Meanwhile, China's non-manufacturing PMI was slightly up to 50.3 in August, helped by improved sentiment during the summer holiday. While services PMI rose, capital market and real estate services remained the drag in August. Additionally, the construction sector faced growing headwinds amid heat and heavy rainfalls, with its PMI sliding to a new low since the start of the pandemic.

- Although we expect coordinated fiscal and monetary policy measures to be introduced by the end of the year to aid the economy, the risk of delayed or insufficient implementation is on the rise as local governments are suffering from curtailed fiscal revenue. In our view, the ongoing decline in property prices and a lack of policy support are posing downside risks to China's growth prospects for this year and the following year.

Australia Q2 GDP: The Public Private Asymmetry

- Following Q1's GDP growth of 1.1% YoY, we expect Australia's Q2 GDP (due 4 Sep) to come it at around 1.0%, which still represents a rather decent 0.3% QoQ growth.

- Nonetheless, this is not bona fide relief considering that government spending is likely to remain the main driver of growth as was the case in Q1 as household spending remains lacklustre.

- The persistent increase of government operating expenses in April and May (19% YoY on average) implies that support from fiscal spending remains outsized.

- In contrast, for the second straight quarter, real retail sales continued to contract in Q2 on lower expenditure on food items, apparel and at departmental store.

- The weak private consumption is unsurprising given the diminished household savings ratio depicting stretched households with inflation eroding purchasing power. In addition, the persistence of below trend savings ratio also imply the need to draw on existing savings.

- Amid the falling demand for coal and iron ore, the external sector is also likely to remain a drag on growth as trade balance headed lower in Q2.

- Consequently, this Q2 GDP print will sound caution for AUD bulls hoping to extend rallies especially after the CPI print last week affirms the difficulty in guiding underlying inflation lower.

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	146.17	146.41	+0.81%	145.00 - 147.50
EURUSD	1.1048	1.1045	▼0.26%	1.0950 - 1.1160
GBPUSD	1.3127	1.3130	▼0.31%	1.3050 - 1.3200
AUDUSD	0.6765	0.6768	▼0.49%	0.6710 - 0.6820
DXY	101.7	--	+0.35%	101.2 - 102.5
USDCNY	7.0913	--	▼0.08%	7.0600 - 7.1400
USDCNH	7.0900	7.0983	▼0.06%	7.0500 - 7.1300
USDHKD	7.7977	7.7982	▼0.00%	7.7910 - 7.8060
USDSGD	1.3067	1.3061	+0.28%	1.3000 - 1.3130
USDKRW	1338	1338	+0.00%	1325 - 1345
USDTWD	31.96	--	+0.12%	31.80 - 32.10
USDINR	83.87	--	+0.00%	83.70 - 83.95
USDIDR	15455	--	+0.26%	15300 - 15600
USDMYR	4.321	4.325	+0.22%	4.290 - 4.360
USDPHP	56.14	--	▼0.28%	55.90 - 56.60
USDTHB	33.86	34.08	▼0.22%	33.75 - 34.30
USDVND	24875	24876	▼0.02%	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)	3.919	3.904	2.3	4.2
JGB (JP)	0.362	0.889	0.3	0.0
Bunds (GE)	2.388	2.298	3.6	2.6
Gilts (UK)	4.104	4.014	-0.5	-0.3
AGB (AU)	3.672	3.967	0.0	1.3
SGS (SG)	2.528	2.688	-2.4	1.9
CGB (CN)	1.528	2.170	-0.1	0.3
KGB (KR)	3.106	3.195	4.9	2.3
SDL (IN)	6.864	6.764	1.0	0.3

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5648.4	56.44	+1.01%
Nasdaq (US)	17713.63	197.20	+1.13%
DJIA (US)	41563.08	228.03	+0.55%
N225 (JP)	38647.75	285.22	+0.74%
STOXX50 (EU)	4957.98	-8.29	▼0.17%

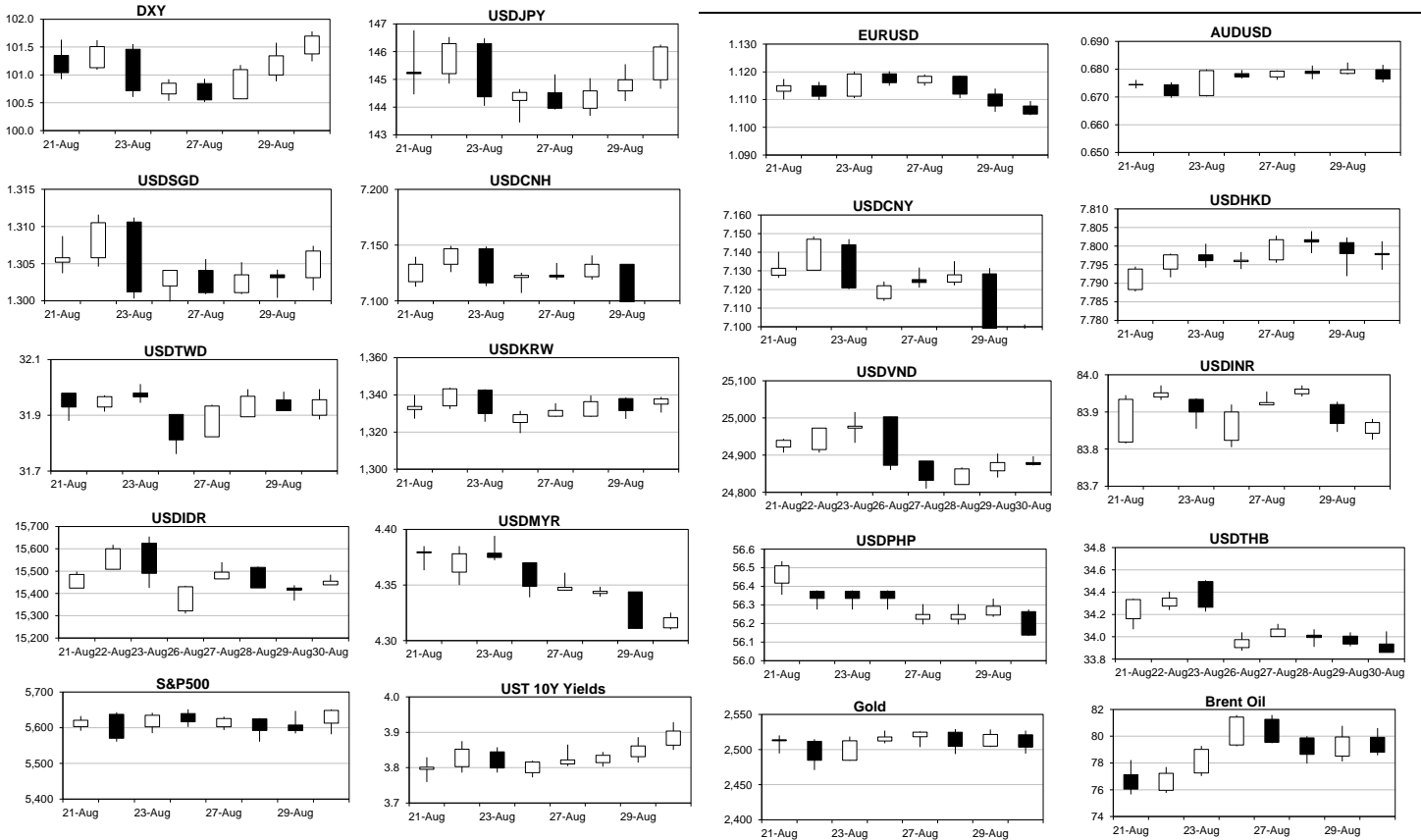
Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,118.14	-7.50	▼0.08%
IRON ORE (CN)	98.70	1.10	▼0.04%
GOLD	2,503.39	-18.01	▼0.71%
SILVER	28.86	-0.01	▼0.47%
OIL (BRENT)	78.80	-1.14	▼1.43%
OIL (WTI)	73.55	-2.36	▼3.11%
NATURAL GAS	2.13	-0.56	▼1.89%

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	161.49	161.7	+0.54%
GBP/JPY	191.893	192.23	+0.49%
JPY/SGD (100yen)	0.8937	0.8921	▼0.57%
JPY/HKD (100yen)	5.3342	5.3265	▼0.82%
CNH/JPY	20.605	20.646	+0.99%
CNH/HKD	1.0996	1.0997	+0.09%
EUR/GBP	0.84149	0.8412	+0.03%
AUD/NZD	1.0825	1.0835	▼0.37%
EUR/CNH	7.8333	7.8401	▼0.32%
GBP/CNH	9.3083	9.3201	▼0.37%

*Open is as at 8am HKT/SGT.

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4576.73	0.39	+0.01%
STI (SG)	3442.93	38.46	+1.13%
SHCOMP (CN)	2842.214	19.11	+0.68%
SZCOMP (CN)	1544.227	33.81	+2.24%
HSI (HK)	17989.07	202.75	+1.14%
SENSEX (IN)	82365.77	231.16	+0.28%
JSE (ID)	7670.733	43.13	+0.57%
KLSE (MY)	1678.8	25.25	+1.53%
PSE (PH)	6897.54	5.99	+0.09%
SET (TH)	1359.07	1.66	+0.12%
VNINDEX (VN)	1283.87	0.00	+0.19%

CHARTS



RESEARCH TEAM

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

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