

Sep 04, 2024

Three Take-Aways

- 1) US equities tumble in the worst sell-off since the post-NFP carnage, led by tech hammered by Nvidia's plunge.
- 2) UST yields 5-7bp lower on haven demand and JPY higher.
- 3) Caution prevails amid US ISM soft spots and ahead of US jobs; perched between pivot relief and recession "risk off".

MACRO THEME: September Shiver

- The harsh sell-off on Wall St was a stark reminder that September has a bad rep for wavering risk appetite.

- And "September shivers" may be exacerbated by recent (July-August) scars from a conspiracy of US recession risks and JPY carry unwind. But to be sure, was plenty of blame to go around. Nvidia. Tech. Soft spots in US data (ISM Mfg). China gloom.

- After the disappointing China Mfg (official) PMI, headline pick-up (+0.4-pts to 47.2) in US ISM does not distract from persistent contraction (below 50) and worsening New Orders (-2.8pts to 44.6).

- The upshot is that even Fed rate cut bets are now precariously perched between pivot relief and recession "risk off".

Yields (2Y: -5.4bps; 10Y: -7.2bps; 30Y: -7.0bps)

- In classic "risk off" price action, UST yields fell 5-7bp across the board. This resulted in mild bull flattening of the UST curve that is now only mildly inverted. The flattening though is unlikely to deepen and a normalization to an upward sloping curve is our base case.

Equities (Nasdaq: -3.3%; S&P: -2.1%; Dow: -1.5%)

- The post-US holiday carnage on Wall St marked the worst sell-off this year since 5th August, with S&P500 tumbling 2.1% and Nasdaq plunging 3.3%. The sell-off was tech-led (S&P tech index down 4.4%) as Nvidia woes (-9.5%) persisted, dragging on the wider AI beneficiaries. But consolation in the defensive sectors was scant.

FX (DXY: +0.2%)

- Admittedly, FX moves were less pronounced. But the distinct direction of travel left no doubt that "risk off" dynamic was calling the shots. Haven currencies such as JPY (+1%) and CHF (+0.2%) were up, in sharp contrast to drops across the board elsewhere.

- To be sure, JPY surge preceded US markets sell-off. Specifically, on Governor Ueda's signal on scope and appetite for further hikes, which pressured USD/JPY from 147 to test 146, but "risk off" was the follow-through to go below mid-145.

- AUD was the worst-performer in G10, down 1.2% to test 0.67 support (from 0.68 in Asia) as oil, China and gold hit where it hurts.

- Other oil-related currencies such as the NOK (-1%), BRL (-0.5%) and CAD (-0.4%) were also smarting as Oil tumbled 4-5% (Brent down at sub-\$74 from mid-\$77). Notably, USD bid on "risk off" is subdued, if not awkward as haven demand appears to be challenged by prospects for dialled-up Fed cut bets amid data soft spots, given improved, still weak US ISM manufacturing and apprehension about NFP soft spots.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(AU) BoP Current Account Balance (2Q)	-\$10.8b	-\$5.5b	-\$6.3b
(KR) CPI/Ex Food, Energy YoY (Aug)	2.0%/2.1%	2.1%/2.1%	2.6%/2.1%
(US) ISM Mfg/Prices Paid (Aug)	47.2	47.5/52.0	46.8/52.9
Today			
(CH) Caixin China PMI Services (Aug)		52.1	52.1
(AU) GDP YoY/SA QoQ (2Q)		0.9%/0.2%	1.1%/0.1%
(US) JOLTS Job Openings (Jul)		-	8184k
(US) Trade Balance (Jul)		-\$76.8b	-\$73.1b
(US) Durable Goods Orders (Jul F)		-	9.9%
(US) Durable Goods Nondef Ex Air (Jul F)		-	-0.1%
(US) Factory Orders (Jul)		4.7%	0.0
(EZ) PPI YoY (Jul)		-2.5%	-3.2%
(US) Fed releases Beige Book			

China: Not Out of the Woods

- Despite the recent gains in the CNY, China is not out of the woods. Far from. Our note yesterday fleshed out the economic and policy conundrum that Beijing faces. Moreover, there may be an under-appreciation of just how much more policy stimulus may be needed to provide requisite relief given compromised growth multipliers.

- EV manufacturer BYD holding back on its investment in a car plant in Mexico until clarity from US elections emerges is a case in point about structural geo-political risks. The upshot is that China-/CNY-induced risks for wider Asia and EM are not put to bed yet.

Gold: Not All that Glitters

- Counter-intuitively, despite pronounced "risk off" Gold did not exhibit any "haven shine". In fact, the precious metal slipped a touch from \$2,500 test (although recovering most of that) The lack of more pronounced haven demand in Gold reflects two things.

- First, not all haven demand are created equal. Certainly not ubiquitously. Gold tends to really shine under geo-political/conflict "risk off". Whereas in market sell-off, it is liable to be dragged on more sympathetic drag from liquidation-type tendencies.

- And hence, under these conditions, it may actually under-perform USTs and even the JPY (subject to "risk off" carry unwind). Interestingly, it may also have to do with Russian selling of Gold as pressures on Gold appear to have coincided with a mind-boggling surge in Russian Ruble (+2.2%).

RUB the Wrong Way

- The reason why the Russian Ruble (RUB) is mind-bending, is because the top of the FX chart gains of 2.2%, defies a double whammy of generalized global "risk off" and Oil's 4-5% plunge.

- So, the defiant strength in the RUB surely rubs the wrong way for anyone trying to reason the move. Unless one (negatively) correlates the move in RUB to that in Gold. The rise in RUB nicely corresponds to, and is compelling synchronous with, the drop in Gold. Admittedly, your scribe's allegation is purely circumstantial (correlation without concrete causation for the data aficionados). But it does make for a reasonable assumption. More importantly, it also highlights additional drivers for Gold prices.



FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	145.48	145.35	▼0.98%	145.00 - 147.00
EURUSD	1.1043	1.1049	▼0.26%	1.1000 - 1.1100
GBPUSD	1.3114	1.3114	▼0.24%	1.3050 - 1.3200
AUDUSD	0.6711	0.6714	▼1.18%	0.6690 - 0.6800
DXY	101.8	--	+0.17%	101.2 - 102.5
USDCNY	7.1217	--	+0.06%	7.0600 - 7.1400
USDCNH	7.1208	7.1188	+0.07%	7.0500 - 7.1300
USDHKD	7.7988	7.7984	+0.03%	7.7910 - 7.8060
USDSGD	1.3071	1.3069	+0.02%	1.3000 - 1.3130
USDKRW	1343	1340	+0.00%	1325 - 1355
USDTWD	32.08	--	+0.14%	31.80 - 32.10
USDINR	83.97	--	+0.05%	83.70 - 84.00
USDIDR	15525	--	+0.00%	15300 - 15600
USDMYR	4.369	4.369	+0.26%	4.300 - 4.370
USDPHP	56.61	--	+0.41%	55.90 - 56.70
USDTHB	34.23	34.28	+0.04%	34.00 - 34.40
USDVND	24875	24876	▼0.04%	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)	3.865	3.832	-5.4	-7.2
JGB (JP)	0.382	0.918	1.5	1.2
Bunds (GE)	2.376	2.275	-4.0	-6.1
Gilts (UK)	4.079	3.989	-3.9	-6.4
AGB (AU)	3.719	4.002	-1.1	-0.8
SGS (SG)	2.566	2.732	0.3	0.6
CGB (CN)	1.450	2.142	-2.4	-0.3
KGB (KR)	3.140	3.185	-7.0	-5.4
SDL (IN)	6.871	6.772	-2.1	1.5

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	160.65	160.59	▼1.24%
GBP/JPY	190.778	190.598	▼1.23%
JPY/SGD (100yen)	0.8986	0.8992	+1.01%
JPY/HKD (100yen)	5.361	5.3654	+1.03%
CNH/JPY	20.479	20.409	▼0.78%
CNH/HKD	1.0952	1.095	▼0.01%
EUR/GBP	0.84211	0.84257	▼0.01%
AUD/NZD	1.0847	1.0851	▼0.47%
EUR/CNH	7.8639	7.8656	▼0.17%
GBP/CNH	9.3386	9.3352	▼0.19%

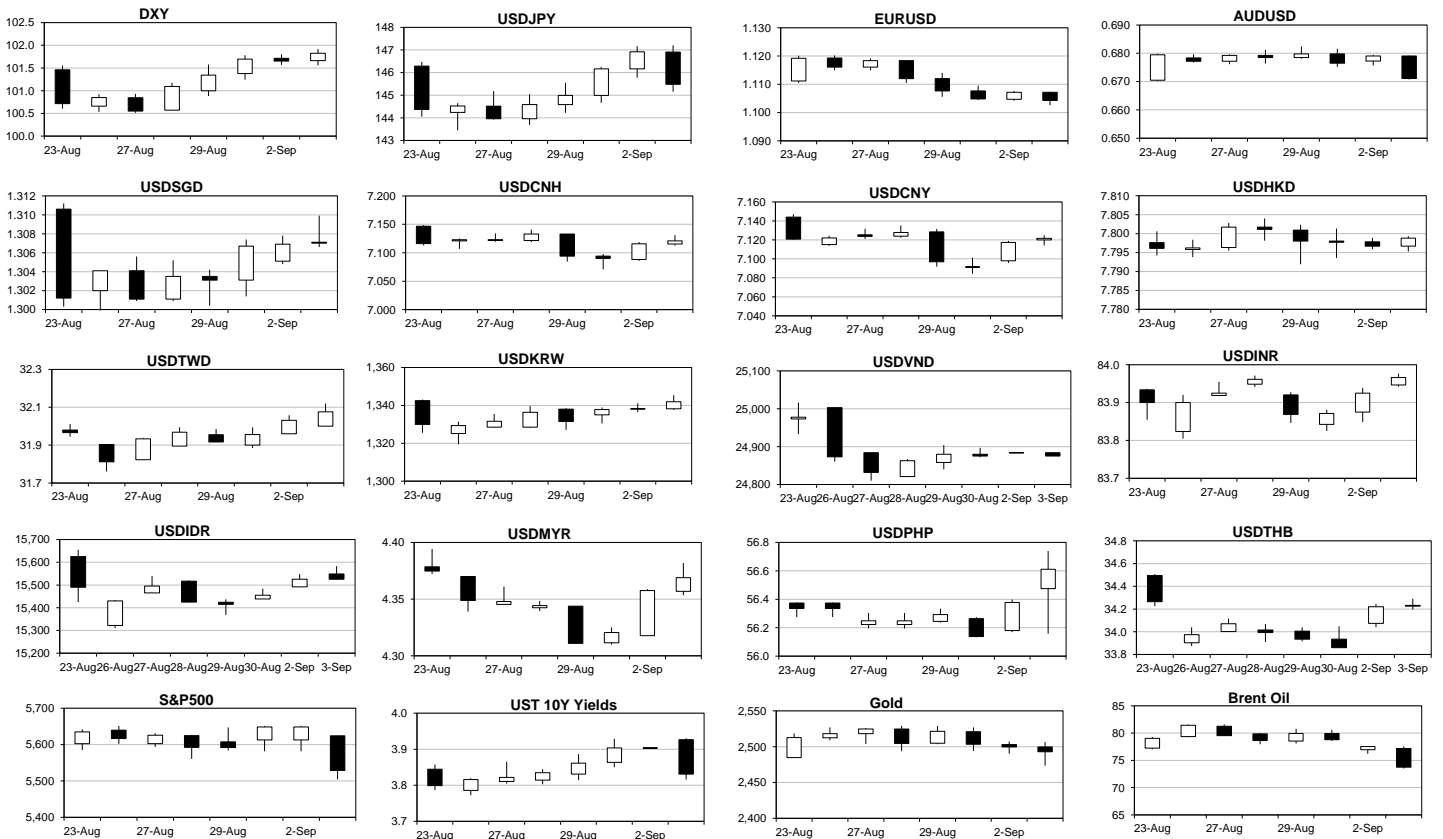
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5528.93	-119.47	▼2.12%
Nasdaq (US)	17136.3	-577.33	▼3.26%
DJIA (US)	40936.93	-626.15	▼1.51%
N225 (JP)	38686.31	-14.56	▼0.04%
STOXX50 (EU)	4912.52	-60.55	▼1.22%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4531.63	-35.83	▼0.78%
STI (SG)	3480.34	17.26	+0.50%
SHCOMP (CN)	2802.979	-8.06	▼0.29%
SZCOMP (CN)	1530.729	16.03	+1.06%
HSI (HK)	17651.49	-40.48	▼0.23%
SENSEX (IN)	82555.44	-4.40	▼0.01%
JSE (ID)	7616.521	-78.01	▼1.01%
KLSE (MY)	1676.65	-1.54	▼0.09%
PSE (PH)	6882.92	-40.49	▼0.58%
SET (TH)	1364.6	10.96	+0.81%
VNINDEX (VN)	1283.87	0.00	+0.00%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	8,829.85	-227.49	▼2.51%
IRON ORE (CN)	93.42	-5.41	▼3.29%
GOLD	2,492.91	-6.60	▼0.26%
SILVER	28.05	0.08	+3.57%
OIL (BRENT)	73.75	-3.77	▼4.86%
OIL (WTI)	70.34	-3.21	▼4.36%
NATURAL GAS	2.20	-0.50	▼1.74%

CHARTS



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