

Sep 06, 2024

## Three Take-Aways

1) **US labour demand concerns linger even as US ISM Services indicate activity expansion.**

2) **UST yields declined and equities were mixed as market remain cautious on most fronts with oil languishing despite OPEC+ delay in supply hike.**

3) **Vietnam CPI set to cool on lower food and fuel inflation, retail sales buoyed while industrial production growth may see slightly moderation.**

## MACRO THEME: Mixed Signals and Inflection Points

- **ADP employment change came in below expectations** last night to compound earlier worries from lower job openings though **initials jobless claims edging lower** appear to send mixed signals. However, **it is actually not incongruent** given that **for net hiring to be growing at a slower pace and claims to be low** if job separations remain contained after all we did see that the unemployment rate increases have been in part due to higher labour force participation rate.

- That said, this does not absolve the risks of slowing labour demand. Specifically, this can be observed from the slight outperformance of **ISM services index only partially reversing some of the decline in UST yields post ADP report. While new orders indeed came in higher, the employment sub-index for August was below July's print and below expectations though in expansionary territory.**

- Furthermore, heading into tonight's NFP print, cautious market positioning is certainly warranted especially as the likes of **Brent crude languishing below US\$73/barrel despite OPEC+ officially confirming a delay of their supply hike by two months.**

**Yields (2Y: -1.1bps; 10Y: -2.8bps; 30Y: -3.8bps)**

- Last night, UST yields declined across the curve, in a flattening move to send the 10Y-2Y part of the curve back to an inversion after being upward sloping during the Asia session.

- The shape shifting yield curve is making markets rather tentative on the interpretation that the reversion back to a positively sloped UST yield curve often precedes a recession.

**Equities (Nasdaq: +0.3%; S&P: -0.3%; Dow: -0.5%)**

- US equities were mixed as the Nasdaq holding onto mild gains while S&P500 and Dow slipped.

**FX (DXY: -0.2%)**

- USD lost ground against most G10 peers amid lower UST yields. EUR rose towards 1.10 alongside continued retail sales growth, albeit at a slower pace.

- USD/JPY languished around mid-143.

- AUD gains were more restrained, edging towards mid-67 cents. RBA Governor Bullock's warning of higher inflation denting labour market outcomes and that "it might be best medicine.. end up putting more restriction into the economy" appears to be challenged by markets as weak GDP growth dilutes her case.

- In EM-Asia, **THB outperformed** after the confirmation of the new cabinet amid headline inflation staying at 0.4% while core inflation edged higher to 0.6% to back the case for a BoT hold which watching for credit risks.

## China: Tools and Goals

- While PBoC official signalled room for RRR cuts, there was also accompanying caution on lowering deposit and lending rates as they highlighted the impact on bank profit margins and flows into asset management products. The latter erodes effectiveness of policy transmission into the real economy. Lastly, given that the situation remains a confidence issue impacting credit demand rather than insufficient liquidity, the potential to ease monetary policy should not be taken as the potential to resolve the underlying challenge.

## Vietnam: Moderation - Seasons and Cycles

- On the inflation front, while underlying economic growth and wage growth is likely to underpin buoyancy, we also note some supply side pressures abating. On balance, we expect **Vietnam's CPI in August to edge down** from July's 4.4% YoY print on lower fuel prices and softer food inflation as rice prices is likely to continue to decline.

- India's expanded rice cultivation in the new monsoon has continued to exert downward pressure on global exports prices and sent rice export prices in Thailand and Vietnam lower.

- On the consumer goods front, durables may see seasonal discounts. While sales campaigns for autos during the Hungry Ghost Month are a seasonal norm which drive prices lower to stimulate sales, these price effects may be more accentuated this year with the excess inventories issues in China spilling over.

- Nonetheless, softer retail sales is not a foregone conclusion. In fact, given economic recovery and recent salary adjustments, we expect **retail sales to stay buoyant** around August's 9.4% print as **consumers take advantage discounts**. This was also observed in 2022, though this bounce may not be as strong given real estate woes. Meanwhile, tourism sector is likely robust with arrivals performing above pe-covid level for most part of this year except for July and February. As such, a snap back in arrivals and services activity for August is likely.

- Turning to manufacturing, **industrial production growth is likely to moderate from the 11.2% YoY growth** in July as growth of imported inputs from Korea show signs of slowing. That said, this mild moderation is no cause for any easing with the SBV's policy rate just 50bps above pandemic lows, which is reflective of their on-going support for growth.

## DATA/EVENTS

Yesterday/Overnight	Actual	Exp.	Prior
(SG) Retail Sales/Ex Auto YoY (Jul)	1.0%/3.1%	1.5%/-	-0.6%/-3.1%
(AU) Trade Balance (Jul)	A\$6000m	A\$5000m	A\$5425m
(KR) GDP YoY/SA QoQ (2Q P)	2.3%/-0.2%	2.3%/-0.2%	2.3%/-0.2%
(MY) BNM Overnight Policy Rate	3.00%	3.00%	3.00%
(TH) CPI/Core YOY (Aug)	0.4%/0.6%	0.4%/0.5%	0.8%/0.5%
(PH) CPI YoY	3.3%	3.6%	4.4%
(TW) CPI/Core YoY (Aug)	2.4%/1.8%	2.3%/1.9%	2.5%/1.8%
(US) ADP Employment Change (Aug)	99k	145k	122k
(US) Initial Jobless Claims	227k	230k	231k
(US) ISM Services Index/Prices Paid (Aug)	51.5/57.3	51.4/56.0	51.4/57.0
(EZ) Retail Services MoM (Jul)	0.1%	0.2%	-0.3%
(JP) Labor/Real Cash Earnings YoY (Jul)	3.6%/0.4%	2.9%/-0.6%	4.5%/1.1%
<b>Today</b>			
(KR) Current Account Balance (Jul)	\$0.9b	--	\$1.2b
(PH) Unemployment Rate (Jul)			3.1%
(VN) CPI YoY (Aug)		3.9%	4.4%
(VN) Retail Sales YoY (Aug)			9.4%
(VN) Industrial Production (YoY)			11.2%
(US) Change in NFP (Aug)		165k	114k
(US) Unemployment Rate (Aug)		4.2%	4.3%
(US) Average Hourly Earnings YoY (Aug)		3.7%	3.6%

## FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	143.45	143.40	▼0.20%	141.50 - 145.00
EURUSD	1.1111	1.1111	+0.26%	1.1000 - 1.1160
GBPUSD	1.3180	1.3177	+0.25%	1.3050 - 1.3200
AUDUSD	0.6741	0.6740	+0.24%	0.6670 - 0.6800
DXY	101.1	--	▼0.25%	100.0 - 102.0
USDCNY	7.0887	--	▼0.34%	7.0800 - 7.1400
USDCNH	7.0899	7.0888	▼0.33%	7.0800 - 7.1400
USDHKD	7.7933	7.7941	▼0.05%	7.7910 - 7.8060
USDSGD	1.3001	1.2998	▼0.28%	1.2950 - 1.3130
USDKRW	1334	1334	+0.00%	1325 - 1350
USDTWD	32.08	--	▼0.37%	31.90 - 32.30
USDINR	83.98	--	+0.01%	83.80 - 84.10
USDIDR	15398	--	▼0.50%	15300 - 15600
USDMYR	4.338	4.337	▼0.35%	4.310 - 4.370
USDPHP	56.23	--	▼0.63%	56.00 - 56.70
USDTHB	33.67	33.61	▼1.65%	33.50 - 34.00
USDVND	24743	24743	▼0.49%	24700 - 24900

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

## MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.745	3.728	-1.1	-2.8
JGB (JP)	0.372	0.872	0.1	-0.6
Bunds (GE)	2.291	2.206	-2.9	-1.7
Gilts (UK)	3.995	3.913	-3.2	-2.1
AGB (AU)	3.668	3.926	-2.4	-2.4
SGS (SG)	2.473	2.610	-4.1	-4.2
CGB (CN)	1.450	2.136	-1.1	1.1
KGB (KR)	3.049	3.135	-3.8	-1.1
SDL (IN)	6.855	6.756	-0.3	0.1

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	159.38	159.33	+0.05%
GBP/JPY	189.063	188.952	+0.04%
JPY/SGD (100yen)	0.9063	0.9064	▼0.10%
JPY/HKD (100yen)	5.4327	5.4354	+0.15%
CNH/JPY	20.237	20.228	+0.04%
CNH/HKD	1.0996	1.0994	+0.32%
EUR/GBP	0.84299	0.84321	+0.01%
AUD/NZD	1.0831	1.0829	▼0.16%
EUR/CNH	7.878	7.8764	▼0.07%
GBP/CNH	9.3447	9.3409	▼0.09%

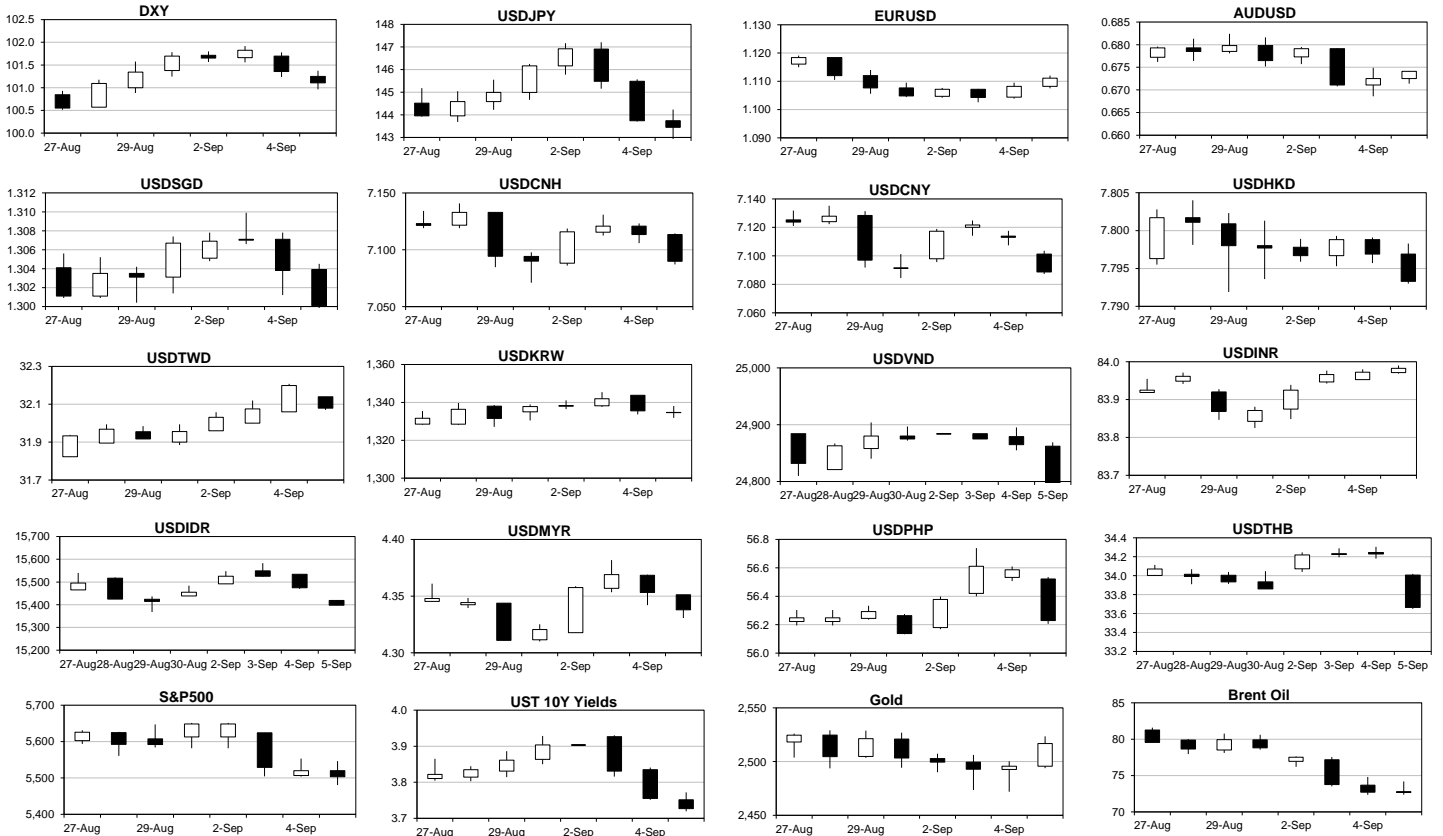
\*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5503.41	-16.66	▼0.30%
Nasdaq (US)	17127.66	43.36	+0.25%
DJIA (US)	40755.75	-219.22	▼0.54%
N225 (JP)	36657.09	-390.52	▼1.05%
STOXX50 (EU)	4815.15	-33.03	▼0.68%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4503.76	-14.29	▼0.32%
STI (SG)	3458.66	17.28	+0.50%
SHCOMP (CN)	2788.314	4.04	+0.14%
SZCOMP (CN)	1529.62	7.98	+0.52%
HSI (HK)	17444.3	-13.04	▼0.07%
SENSEX (IN)	82201.16	-151.48	▼0.18%
JSE (ID)	7681.043	8.15	+0.11%
KLSE (MY)	1664.82	-5.42	▼0.32%
PSE (PH)	6907.97	25.85	+0.38%
SET (TH)	1404.28	38.79	+2.84%
VNINDEX (VN)	1268.21	-0.01	▼0.59%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	8,978.71	141.89	+1.61%
IRON ORE (CN)	91.26	-7.48	▼1.37%
GOLD	2,516.76	21.04	+0.84%
SILVER	28.82	0.11	+5.08%
OIL (BRENT)	72.69	-0.01	▼0.01%
OIL (WTI)	69.15	-0.05	▼0.07%
NATURAL GAS	2.25	0.55	+1.94%

## CHARTS



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