

Sep 09, 2024

## Three Take-Aways

- 1) NFP print was below expectations and downward revisions to prior months set risk off tone to markets.
- 2) UST yields and equities plunged while haven bid to USD allure retained.
- 3) China inflation uptick on supply woes a worry rather than a silver lining.

## MACRO THEME: Unwelcomed

- For Friday's NFP print, **142k of net hiring shown for August which was below expectations and came alongside 89k of downward revisions** for the prior two months confirm worries of a softening labour market. Most sectors showed an improvement in hiring aside from manufacturing (-24k) which showed the most layoffs followed by retail services (-11k). By now, the manufacturing job losses are unsurprising following the weak activity indicators. Labour market worries set the tone for continued risk-off sentiments to end last week as US equities and front end UST yields plunged.

- There was also subsequent dovish policy signals by **Fed Governor Waller who was open minded** about the potential for a bigger rate cut as the balance of risks has shifted towards the employment side of their dual mandate. Admittedly, there was substantial post NFP volatility seen in 2Y UST yields to underscore potential for interpreting the unemployment rate decline as a positive and varied policy options available to the Fed. Increase in odds of a 50bps cut from 32% to 37% is hardly surprising given that **Fed Chair Powell does not welcome any further softening in labour market conditions during Jackson hole**.

**Yields (2Y: -9.7bps; 10Y: -1.9bps; 30Y: -0.2bps)**

- UST yield curve bull steepened with the 10Y-2Y now firmly reverting back to a positive slope. This week's Trump-Harris will be unable shake off the structural sight of higher term premium from fiscal spending needs.

**Equities (Nasdaq: -2.6%; S&P: -1.7%; Dow: -1.0%)**

- US equities sold off led by tech heavy Nasdaq as easing prospects were unable to shake off growth worries.

**FX (DXY: +0.1%)**

- Despite the decline in UST yields, USD remains largely buoyant against G10 peers underscoring the USD's haven appeal in a risk off mood relative to risk on Fed pivots, except for the JPY with the USD/JPY declining toward mid-142. Furthermore, Brent crude prices headed lower to mid-\$71/barrel and saw the likes of AUD and NOK at the bottom of the G10 pile. AUD sank below 67 cents. With ECB's looming rate cut this week, EUR slipped below 1.11. In EM-Asia, USD/SGD buoyed above 1.30.

## DATA/EVENTS

Yesterday/Overnight	Actual	Exp.	Prior
(KR) Current Account Balance (Jul)	\$0.9b	--	\$1.2b
(PH) Unemployment Rate (Jul)	4.7%	--	3.1%
(VN) CPI YoY (Aug)	3.4%	3.9%	4.4%
(VN) Retail Sales YoY (Aug)	7.9%	--	9.4%
(VN) Industrial Production (YoY)	9.5%	--	11.2%
(US) Change in NFP (Aug)	142k	165k	89k
(US) Unemployment Rate (Aug)	4.2%	4.2%	4.3%
(US) Average Hourly Earnings YoY (Aug)	3.8%	3.7%	3.6%
<b>Today</b>			
(JP) GDP SA QoQ (2Q F)	0.7%	0.8%	0.8%
(JP) BoP Current Account balance (Jul)	¥3193b	¥2498.0b	¥1533.5b
(EZ) Sentix Investor Confidence (Sep)	-11.0	-13.9	
(CH) CPI/PPI YoY (Aug)	0.7%/-1.5%	0.5%/-0.8%	
(TH) Consumer Confidence Eco. (Aug)	--	51.3%	
(TW) Exports/Imports YoY (Aug)	9.0%/19.6%	3.1%/16.2%	

## China: Inflation Uptick on Supply Woes a Worry

- For consumer prices, we expect a faster YoY increase in August, driven mainly by higher food prices.

- Fresh vegetable prices surged amid heat and heavy rainfall, and pork prices reached their highest levels since the end of 2022. Furthermore, higher tourism prices during the summer holiday are also expected to exert upward pressure on inflation. Factory prices, however, faced increasing downward pressure, with both the producing and producer price indices in the PMI survey falling to a 15-month low in August.

## KRW: Extension, Not Inclusion?

- As we step into September, one potential announcement to watch for is the potential inclusion of Korea into the FTSE World Government Bond Index (WGBI) coming end-September 2024, exactly 2 years after it was put on the watch list for potential upgrade.

- While Korea has fulfilled criteria of market size (at least USD 50 billion, EUR 40 billion and JPY 5 trillion of index eligible debt) and credit rating (A- by S&P and A3 by Moody's), the main hurdle has been more qualitative in terms of achieving Market Accessibility Level 2.

- This involves 4 broad categories: 1. Market, Macroeconomic and Regulatory Environment, 2. Foreign Exchange Market Structure, 3. Bond Market Structure and 4. Global Settlement and Custody.

- We note that since the March Review, plan for improving foreign accessibility proceeded smoothly with Korean government bonds Euroclearable and also via Clearstream as of late June/early July.

- FX trading hours have also been successfully extended till 2am to enhance trading convenience. Admittedly, the fact that the likes of Malaysia being in the WGBI despite limited trading hours for the MYR is reflective of the multi-faceted nature of these qualitative criteria.

- On that note, inclusion of Korea into the WGBI at this September FTSE review might be a little early. While the authorities' review of FX reforms implemented in July showed increased volumes and improved bid-ask spreads, market feedback was that there is a continued need to increase participation and trading of Registered Foreign Institutions (RFIs) and ensuring liquidity in the late night hours.

- Furthermore, encouraging participation is a tedious process with RFIs expressing need to observe market liquidity and volatility for at least six months to a year before fully engaging in the FX markets.

- While efforts have been made to streamline reporting needs for RFIs with monthly task force setup to collect feedback and improve transactions and settlement processes, the on-going reforms also imply inadvertent hesitancy for FTSE Russell to incorporate Korea into the index given the potential for large inflows. In turn, the potential benefits for KRW and improving demand for KGB are more likely to be deferred to March 2025.

## FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	142.30	142.49	▼0.80%	141.50 - 145.00
EURUSD	1.1084	1.1087	▼0.24%	1.1000 - 1.1140
GBPUSD	1.3129	1.3133	▼0.39%	1.3050 - 1.3200
AUDUSD	0.6671	0.6671	▼1.04%	0.6650 - 0.6770
DXY	101.2	--	+0.07%	100.0 - 102.0
USDCNY	7.0980	--	+0.13%	7.0800 - 7.1400
USDCNH	7.0948	7.1013	+0.07%	7.0800 - 7.1400
USDHKD	7.7955	7.7958	+0.03%	7.7910 - 7.8060
USDSGD	1.3027	1.3034	+0.20%	1.2950 - 1.3130
USDKRW	1337	1339	+0.00%	1325 - 1350
USDTHW	31.94	--	▼0.44%	31.90 - 32.30
USDINR	83.95	--	▼0.04%	83.80 - 84.10
USDIDR	15365	--	▼0.21%	15300 - 15600
USDMYR	4.330	4.335	▼0.18%	4.290 - 4.370
USDPHP	55.92	--	▼0.56%	55.70 - 56.20
USDTHB	33.52	33.72	▼0.43%	33.50 - 34.00
USDVND	24615	24616	▼0.52%	24600 - 24900

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

## MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.648	3.710	-9.7	-1.8
JGB (JP)	0.371	0.846	-0.1	-2.6
Bunds (GE)	2.226	2.170	-6.6	-3.6
Gilts (UK)	3.951	3.885	-4.5	-2.7
AGB (AU)	3.628	3.881	-4.0	-4.5
SGS (SG)	2.431	2.551	-3.8	-5.9
CGB (CN)	1.441	2.134	-1.0	-0.2
KGB (KR)	3.020	3.143	-0.2	-9.7
SDL (IN)	6.855	6.735	-1.7	-0.1

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	157.77	157.97	▼1.01%
GBP/JPY	186.878	187.118	▼1.16%
JPY/SGD (100yen)	0.9153	0.9148	+0.99%
JPY/HKD (100yen)	5.4781	5.4713	+0.84%
CNH/JPY	20.056	20.073	▼0.89%
CNH/HKD	1.0983	1.0983	▼0.12%
EUR/GBP	0.84418	0.84424	+0.14%
AUD/NZD	1.0802	1.081	▼0.27%
EUR/CNH	7.863	7.8732	▼0.19%
GBP/CNH	9.314	9.3258	▼0.33%

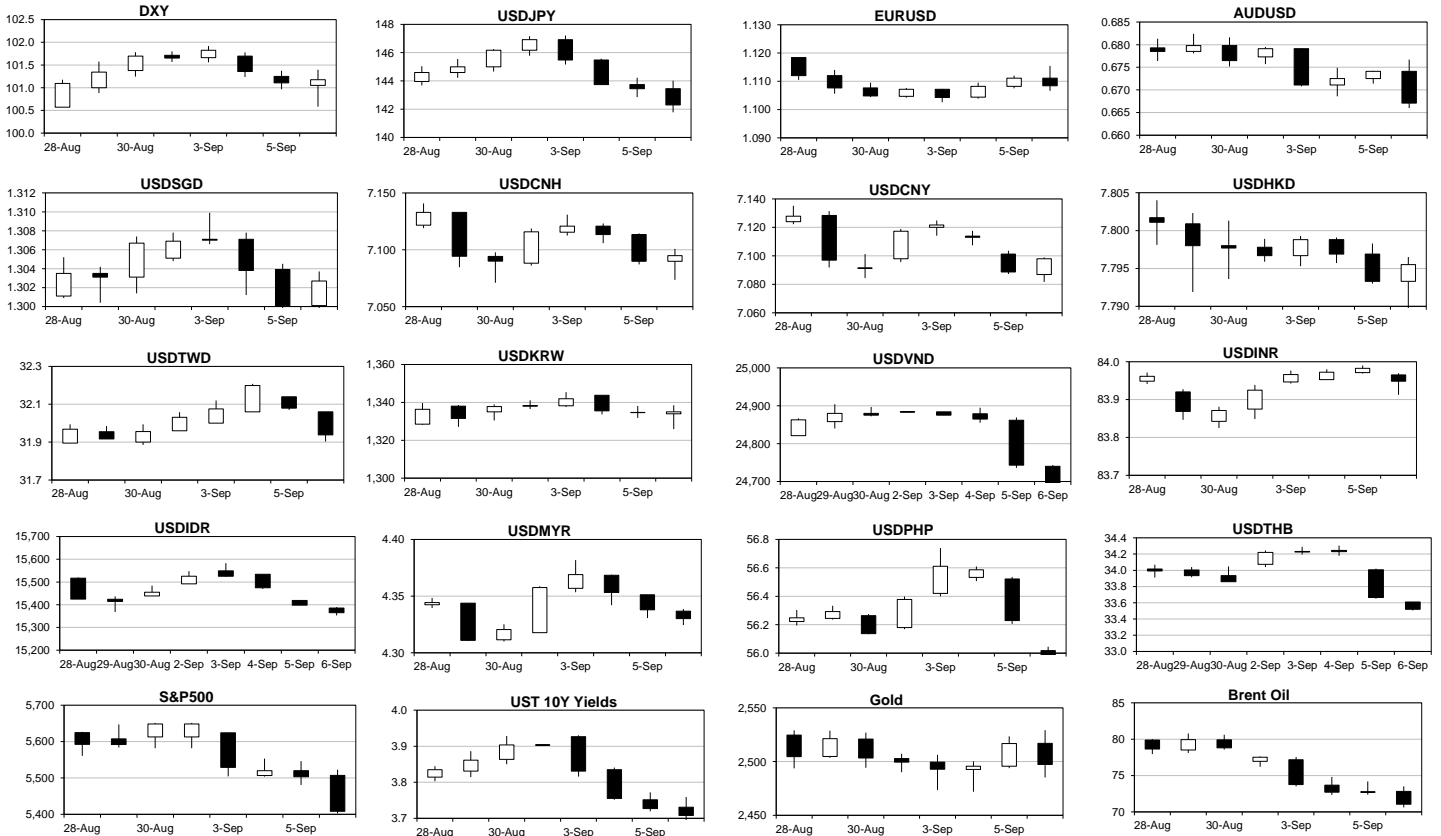
\*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5408.42	-94.99	▼1.73%
Nasdaq (US)	16690.83	-436.83	▼2.55%
DJIA (US)	40345.41	-410.34	▼1.01%
N225 (JP)	36391.47	-265.62	▼0.72%
STOXX50 (EU)	4738.06	-77.09	▼1.60%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4467.47	-36.29	▼0.81%
STI (SG)	3454.47	-4.19	▼0.12%
SHCOMP (CN)	2765.807	-22.51	▼0.81%
SZCOMP (CN)	1505.18	-24.44	▼1.60%
HSI (HK)	17444.3	0.00	+0.00%
SENSEX (IN)	81183.93	-1017.23	▼1.24%
JSE (ID)	7721.846	40.80	+0.53%
KLSE (MY)	1653.12	-11.70	▼0.70%
PSE (PH)	6936.09	28.12	+0.41%
SET (TH)	1427.64	23.36	+1.66%
VNINDEX (VN)	1273.96	0.00	+0.45%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	8,875.52	-103.19	▼1.15%
IRON ORE (CN)	91.77	-6.93	+0.56%
GOLD	2,497.41	-19.35	▼0.77%
SILVER	27.94	0.02	+0.93%
OIL (BRENT)	71.06	-1.63	▼2.24%
OIL (WTI)	67.67	-1.48	▼2.14%
NATURAL GAS	2.28	-0.89	▼3.08%

## CHARTS



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