

Sep 12, 2024

Three Take-Aways

- 1) US Presidential Debate saw higher odds for Kamala Harris to win the elections and consequent unwinding Trump trades.
- 2) US CPI showing rising core inflation momentum sent UST yields higher and aided USD traction.
- 3) India inflation print may show abating di-inflation though it remains a silver lining for an out of consensus rate cut in Q4.

MACRO THEME: What's the Debate?

- The **outcome for the US Presidential debate** between Donald Trump and Kamala Harris was an **increase in odds** for the latter to win alongside an explicit endorsement from Taylor Swift for Kamala Harris. In the aftermath, we saw a weaker USD and lower crypto prices perhaps a signal of unwinding Trump 2.0 threats.

- Subsequently, the US CPI report for August showing a rise in core inflation momentum on a MoM basis to 0.3% from 0.2% in July backstopped the USD and led to a sell-off in US treasuries.

- Nonetheless, with headline inflation in line with expectations at 2.5% YoY a sharp decline from the 3.2% in July, the **Fed remains well on course for easing next week**. That said, the debate around a 50bps cut for the **first cut is a tough one to nudge** with odds of 50bps cut declining just 4%-points from 33% to 29%.

- Critically, this is **not** dismissive of potential stickiness in inflation down the road amid a pickup in supercore services inflation, rather it is a reflection of the current focus on labour markets as well as the currently elevated rates which allows for large front loaded cuts.

- The acceleration in growth of average weekly earnings may also have reduced fears of a labour market led consumer meltdown and supported risk sentiments.

Yields (2Y: +4.7bps; 10Y: +1.1bps; 30Y: +0.3bps)

- UST yields rose in a bear flattening move with the 10-2Y portion almost flat.

Equities (Nasdaq: +2.2%; S&P: +1.1%; Dow: +0.3%)

- Alongside CEO Jensen Huang's speech at Goldman Sach's technology conference, Nvidia's outsized jump (+8.1%) saw the Nasdaq lead gains as US equities continued to recover.

FX (DXY: +0.1%)

- Amid higher UST yields, the Greenback held ground against most G10 peers. Aided by a bounce back in oil prices on fears of hurricane induced supply disruptions, AUD and CAD eked out mild gains with the former trading in the upper half of mid-66 cents. The USD/JPY closed near mid-142 reversing Asian session declines from hyper sensitive markets which reacted to BoJ Board Member Junko Nakagawa's comments that rate hike remains on course if economic outlook is realised.

DATA/EVENTS

Yesterday/Overnight	Actual	Exp.	Prior
(KR) Unemployment rate SA (Aug)	2.4%	2.6%	2.5%
(US) CPI/Ex Food,Energy YoY (Aug)	2.5%/3.2%	2.5%/3.2%	2.9%/3.2%
(US) Real Avg Weekly Earnings YoY(Aug)		0.9%	0.4%

Today

(JP) PPI YoY (Aug)	2.8%	3.0%
(IN) CPI YoY (Aug)	3.4%	3.5%
(IN) Industrial Production (Jul)	4.6%	4.2%
(TH) Consumer Confidence Eco. (Aug)	--	51.3
(US) PPI Final Demand YoY (Aug)	1.7%	2.2%
(US) PPI Ex food and Energy YoY (Aug)	2.4%	2.4%
(US) Initial Jobless Claims	227k	227k
ECB Deposit Facility Rate	3.50%	3.75%

- Ahead of ECB policy meeting today, EUR remains weighed down to hover just above 1.10. Elsewhere, USD/SGD rose towards mid-1.30.

China: Retirement Age Hike?

- Reactions to reports of a legislative bill to **raise retirement age appears to range from inciting discontent to hopes of economic boost**. Discontent over raising retirement age is almost universal across many countries, though given that the authorities have previously pledged that the increase will be in a **voluntary and flexible manner**, any impact on business and employees is unlikely to be immediate or significant at this point.

- The move is also partially aimed at addressing longer term pension plan sustainability concerns rather than solving current growth woes.

- Specifically, given the current growth slowdown, it is the lack of labour demand that remains the relevant concern rather than a shrinking labour supply. Nonetheless, this legislative bill is merely a **reflection of the need to address the structural demographic headwinds weighing on China's potential growth**. Even so, the bill at this juncture is like a first step (if any) given the fiscal-political stability tradeoff and complexities around pension benefits across rural, urban as well as white and blue collar workers.

India's Inflation Silver Lining

- India's massive dis-inflation wave, which dragged July CPI down to 3.5%, is likely to abate, if not stall. But remains a silver-lining.

- Especially as stalled dis-inflation is not inflation risk re-ignited.

- Instead, it is merely drivers of emphatic dis-inflation exhausted.

- This is not only to be entirely expected, but arguably healthy for the economy, to ensure a virtuous cycle of demand-supportive price adjustments. In fact any uptick in consumer price pressures, so long as it is within 20-50bp is not only acceptable, but **arguably remains consistent with scope for reduction in the RBI's policy rate**.

- Point being, with highly restrictive real rates, a backdrop of encouraging dis-inflation, constructive reduction in global energy prices and emerging downside risks to global demand, calibrated cuts are welcome.

- Hence, we are taking a **non-consensus view for the first cut in October** as encouraging dis-inflation meets a less abrasive Fed stance. Nonetheless, this dis-inflation may be overstated.

- For one, dis-inflation has merely met the RBI's 4% (+/-2%) target more symmetrically and by no measure sustained an undershoot. What's more upside inflation volatility is a threat not as yet put to bed. Finally, rupee pressures could linger into an uncertain Q4.

- This would advise a calibrated approach to rate cuts. And perhaps a guarded cut in October.

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast	
USDJPY	142.36	142.65	▼0.06%	140.00	- 144.00
EURUSD	1.1012	1.1011	▼0.07%	1.0960	- 1.1050
GBPUSD	1.3043	1.3039	▼0.28%	1.3000	- 1.3150
AUDUSD	0.6674	0.6675	+0.33%	0.6600	- 0.6710
DXY	101.7	--	+0.05%	100.6	- 102.0
USDCNY	7.1194	--	▼0.02%	7.0900	- 7.1500
USDCNH	7.1293	7.1268	▼0.09%	7.0900	- 7.1500
USDHKD	7.7986	7.7976	+0.01%	7.7910	- 7.8060
USDSGD	1.3041	1.3046	▼0.04%	1.2960	- 1.3120
USDKRW	1340	1339	+0.00%	1335	- 1350
USDTHW	32.12	--	▼0.20%	32.00	- 32.30
USDINR	83.98	--	+0.00%	83.80	- 84.10
USDIDR	15400	--	▼0.32%	15350	- 15550
USDMYR	4.330	4.333	▼0.29%	4.312	- 4.370
USDPHP	55.97	--	▼0.75%	55.90	- 56.70
USDTHB	33.65	33.80	▼0.30%	33.40	- 34.00
USDVND	24590	24591	▼0.29%	24550	- 24750

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.643	3.654	4.7	1.0
JGB (JP)	0.379	0.848	-1.3	-4.4
Bunds (GE)	2.146	2.110	-2.8	-1.9
Gilts (UK)	3.787	3.760	-6.9	-5.8
AGB (AU)	3.608	3.849	-4.3	-5.9
SGS (SG)	2.308	2.485	-10.6	-7.3
CGB (CN)	1.356	2.106	-3.7	-0.9
KGB (KR)	2.970	2.909	0.2	4.7
SDL (IN)	6.827	6.725	1.1	-1.3

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	156.78	157.07	▼0.12%
GBP/JPY	185.68	185.995	▼0.35%
JPY/SGD (100yen)	0.916	0.9144	+0.01%
JPY/HKD (100yen)	5.478	5.4655	+0.08%
CNH/JPY	19.975	20.033	▼0.11%
CNH/HKD	1.0954	1.0956	+0.04%
EUR/GBP	0.84433	0.8445	+0.22%
AUD/NZD	1.0876	1.0885	+0.53%
EUR/CNH	7.8502	7.8484	▼0.16%
GBP/CNH	9.2991	9.2927	▼0.37%

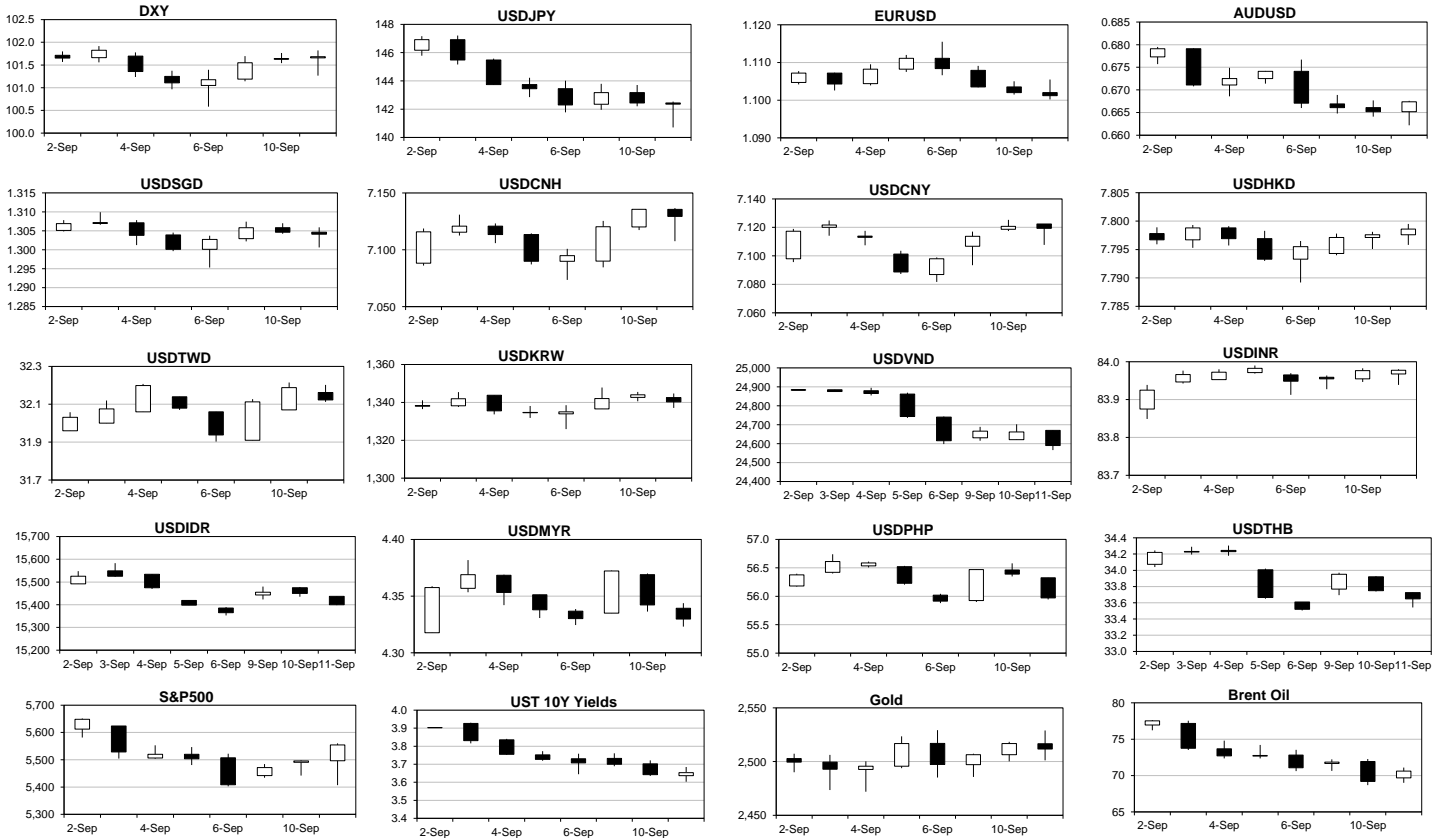
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5554.13	58.61	+1.07%
Nasdaq (US)	17395.53	369.65	+2.17%
DJIA (US)	40861.71	124.75	+0.31%
N225 (JP)	35619.77	-539.39	▼1.49%
STOXX50 (EU)	4763.58	16.38	+0.35%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4474.25	-9.51	▼0.21%
STI (SG)	3531.17	18.50	+0.53%
SHCOMP (CN)	2721.795	-22.40	▼0.82%
SZCOMP (CN)	1499.527	-0.72	▼0.05%
HSI (HK)	17108.71	-125.38	▼0.73%
SENSEX (IN)	81523.16	-398.13	▼0.49%
JSE (ID)	7760.955	-0.43	▼0.01%
KLSE (MY)	1639.8	-20.55	▼1.24%
PSE (PH)	6944.88	-39.75	▼0.57%
SET (TH)	1415.41	-12.62	▼0.88%
VNINDEX (VN)	1253.27	0.00	▼0.16%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	8,964.78	65.97	+0.74%
IRON ORE (CN)	92.48	-0.05	+1.51%
GOLD	2,511.76	-4.97	▼0.20%
SILVER	28.68	0.04	+1.70%
OIL (BRENT)	70.61	1.42	+2.05%
OIL (WTI)	67.31	1.56	+2.37%
NATURAL GAS	2.27	0.28	+0.97%

CHARTS



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