

Sep 16, 2024

## Three Take-Aways

1) Improving consumer sentiments and lower inflation expectations from Uni. of Michigan Survey raised odds for large Fed rate cut alongside Bill Dudley's support.

2) USD weakened alongside lower UST yields though dismal China data continue to weigh on the AUD.

3) In Taiwan, CBC is set for a prolong rate hold on Thursday as inflation show little progress while property prices incite macroprudential concerns.

## MACRO THEME: Raising the Heat

- Markets continue to raise the odds for a 50bps cut at the upcoming FOMC meeting this week with Fed funds futures pricing in a 64% chance of a 50bps cut up from just 36% last Thursday alongside influential Ex New York Fed President Bill Dudley stating that there is a strong case for a 50bps cut.

- Amid the University of Michigan survey showing lower near term inflation expectations and improved consumer sentiments, it is perhaps not surprising that soft landing hopes were once again raised. Markets undertook a risk on tone as US equities and USTs rallied last Friday.

### Yields (2Y: -5.7bps; 10Y: -2.3bps; 30Y: -0.9bps)

- Accordingly, UST yield curve bull steepened as front end yields led the decline given policy sensitivity.

### Equities (Nasdaq: +0.7%; S&P: +0.5%; Dow: +0.7%)

- US equities staged broad based rally with all S&P 500 sub-sectors higher across the board.

### FX (DXY: -0.2%)

- USD weakened alongside lower UST yields with the JPY leading gains as USD/JPY slipped below 141.

- On the other end, the Antipodeans lost ground with the AUD edging lower to 67 cents and rallies appear to have lost steam, weighed down by dismal China data.

- In the middle of the G10 pack, the EUR is hovering just below 1.11. This was despite ECB President Lagarde attaching a rather higher bar of major setback to the economy for a October rate cut. Nonetheless, this statement while lowering the chances of an October cut from 55% (last Thursday) to 46% (at this juncture) also increased the odds of December cut. This mere shift in timing was of little comfort to EUR bulls.

- In EM-Asia, the USD/SGD traded sideways below 1.30. While regional peers may attempt to gain more ground against the USD to start the week, China's growth concerns and attendant CNH drag may restrain gains.

## DATA/EVENTS

| Yesterday/Overnight                     | Actual    | Exp.      | Prior     |
|---|-----------|-----------|-----------|
| (US) UoM Sentiment (Sep P)              | 69.0      | 68.4      | 67.9      |
| (US) UoM Expectations (Sep P)           | 73.0      | 71.3      | 72.1      |
| (US) UoM 1Y/5-10Y Inflation (Sep P)     | 2.7%/3.1% | 2.8%/3.0% | 2.8%/3.0% |
| (EZ) Industrial Production SA MoM (Jul) | -0.3%     | -0.3%     | -0.1%     |
| (JP) Industrial Production MoM (Jul F)  | 3.1%      | -         | 2.8%      |
| (CH) Industrial Production YoY (Aug)    | 4.5%      | 4.7%      | 5.1%      |
| (CH) FAI YTD YoY (Aug)                  | 3.4%      | 3.5%      | 3.6%      |
| (CH) Property Invest .YTD YoY (Aug)     | -10.2%    | -10.0%    | -10.2%    |
| (CH) Retail Sales YoY (Aug)             | 2.1%      | 2.5%      | 2.7%      |
| <b>Today</b>                            |           |           |           |
| (IN) Wholesale Price YoY (Aug)          |           | 1.8%      | 2.0%      |
| (PH) Overseas Remittances YoY (Jul)     |           | --        | 2.5%      |
| (US) Empire Manufacturing (Sep)         |           | -4.0      | -4.7      |
| (EZ) Trade Balance SA (Jul)             |           | --        | 17.5b     |

## China: Falling Short

- Both retail sales and industrial production in China fell short of expectations while already built in continued economic slippages.

- The dismal economic activity data came after another round of dire credit growth showing that aggregate financing increase less in August on a year ago basis while new loans extended was below expectations.

- Consequently, the PBoC issued a statement that they are preparing to launch additional measures and further lower financing costs for businesses and household and keep liquidity ample.

- In turn, China faces a significant risk that they will fall short of their 5% GDP growth target.

## CBC: Extended Rate Hold

- In Taiwan, the CBC will likely prolong their rate hold on 19 September and our base case is for them to signal a neutral stance avoiding dovish biases of regional counterpart. In fact, some hawkish communications for an extended rate hold is also very much likely.

- Specifically, there has been little progress on the inflation front since their previous meeting in June with headline inflation edging higher.

- Admittedly, while typhoon Gaemi caused significant increase in vegetable and fruit prices that drove the higher food inflation, core inflation sticking at 1.8% YoY over the past three months reflect the difficulty in guiding underlying inflation lower.

- From a different angle, this is also reflected by stubborn services inflation averaging 2.5% over the past year while inflation on non-durable consumer goods as well as durable consumer goods rose. Dis-inflation mainly stemmed from semi-durable consumer goods.

- Furthermore, escalating property prices remain a key concern of the CBC which saw them raise reserve requirement ratios in June and continuing to keep a close watch on adverse spillovers of speculative real estate investment on first home purchases.

- As such, the CBC is unlikely to lower rates and conflict their efforts to achieve these macroprudential objectives especially when there is little case to be made for easing rate amid robust economic growth.

- GDP growth remained strong in Q2 at 5.1% YoY (H1: 5.8%YoY) with exports growth at 7.7% YoY in Q2 buoyant on AI related semiconductor shipments.

- While the extended rate hold by the CBC is a positive for the TWD amid the impending Fed rate cuts, direct supply chain implications from geo-political tensions between US-China are accentuated by looming US elections is still a key impediment to a smooth recovery.

## FX OUTLOOK

| FX     | Close (NY) | Open*  | Daily %Δ | Forecast        |
|--------|------------|--------|----------|-----------------|
| USDJPY | 140.85     | 140.81 | ▼0.68%   | 139.50 - 143.50 |
| EURUSD | 1.1075     | 1.1088 | +0.01%   | 1.1000 - 1.1150 |
| GBPUSD | 1.3124     | 1.3136 | +0.00%   | 1.3000 - 1.3200 |
| AUDUSD | 0.6704     | 0.6714 | ▼0.27%   | 0.6660 - 0.6770 |
| DXY    | 101.1      | --     | ▼0.25%   | 100.6 - 102.0   |
| USDCNY | 7.0972     | --     | ▼0.28%   | 7.0900 - 7.1500 |
| USDCNH | 7.1004     | 7.1001 | ▼0.26%   | 7.0900 - 7.1500 |
| USDHKD | 7.7995     | 7.7981 | ▼0.05%   | 7.7910 - 7.8060 |
| USDSGD | 1.2976     | 1.2975 | ▼0.28%   | 1.2950 - 1.3080 |
| USDKRW | 1334       | 1330   | +0.00%   | 1325 - 1350     |
| USDTHB | 32.01      | --     | ▼0.43%   | 31.90 - 32.30   |
| USDINR | 83.90      | --     | ▼0.09%   | 83.90 - 84.10   |
| USDIDR | 15400      | --     | ▼0.19%   | 15250 - 15500   |
| USDMYR | 4.301      | --     | ▼0.78%   | 4.295 - 4.320   |
| USDPHP | 55.99      | --     | ▼0.34%   | 55.70 - 56.40   |
| USDTHB | 33.33      | 33.23  | ▼1.24%   | 33.10 - 33.70   |
| USDVND | 24580      | 24581  | ▼0.04%   | 24500 - 24700   |

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

## MARKET MOVES

| Bond Yields | 2Y Close | 10Y Close | 2Y Δ (bps) | 10Y Δ (bps) |
|-------------|----------|-----------|------------|-------------|
| UST (US)    | 3.583    | 3.653     | -5.8       | -2.2        |
| JGB (JP)    | 0.386    | 0.840     | 0.0        | -2.0        |
| Bunds (GE)  | 2.206    | 2.147     | -1.4       | -0.2        |
| Gilts (UK)  | 3.797    | 3.767     | -1.8       | -1.3        |
| AGB (AU)    | 3.562    | 3.817     | -5.2       | -3.5        |
| SGS (SG)    | 2.269    | 2.431     | -7.3       | -6.4        |
| CGB (CN)    | 1.358    | 2.068     | 1.0        | -2.5        |
| KGB (KR)    | 2.948    | 2.876     | -0.8       | -5.8        |
| SDL (IN)    | 6.790    | 6.694     | 0.5        | 0.0         |

| Cross FX         | Close (NY) | Open*   | Daily %Δ |
|------------------|------------|---------|----------|
| EUR/JPY          | 156        | 156.12  | ▼0.68%   |
| GBP/JPY          | 184.835    | 184.954 | ▼0.70%   |
| JPY/SGD (100yen) | 0.922      | 0.9215  | +0.48%   |
| JPY/HKD (100yen) | 5.5385     | 5.5391  | +0.67%   |
| CNH/JPY          | 19.859     | 19.837  | ▼0.48%   |
| CNH/HKD          | 1.0988     | 1.0988  | +0.22%   |
| EUR/GBP          | 0.84391    | 0.84412 | +0.02%   |
| AUD/NZD          | 1.0888     | 1.0891  | +0.14%   |
| EUR/CNH          | 7.8652     | 7.8733  | ▼0.25%   |
| GBP/CNH          | 9.3199     | 9.3265  | ▼0.25%   |

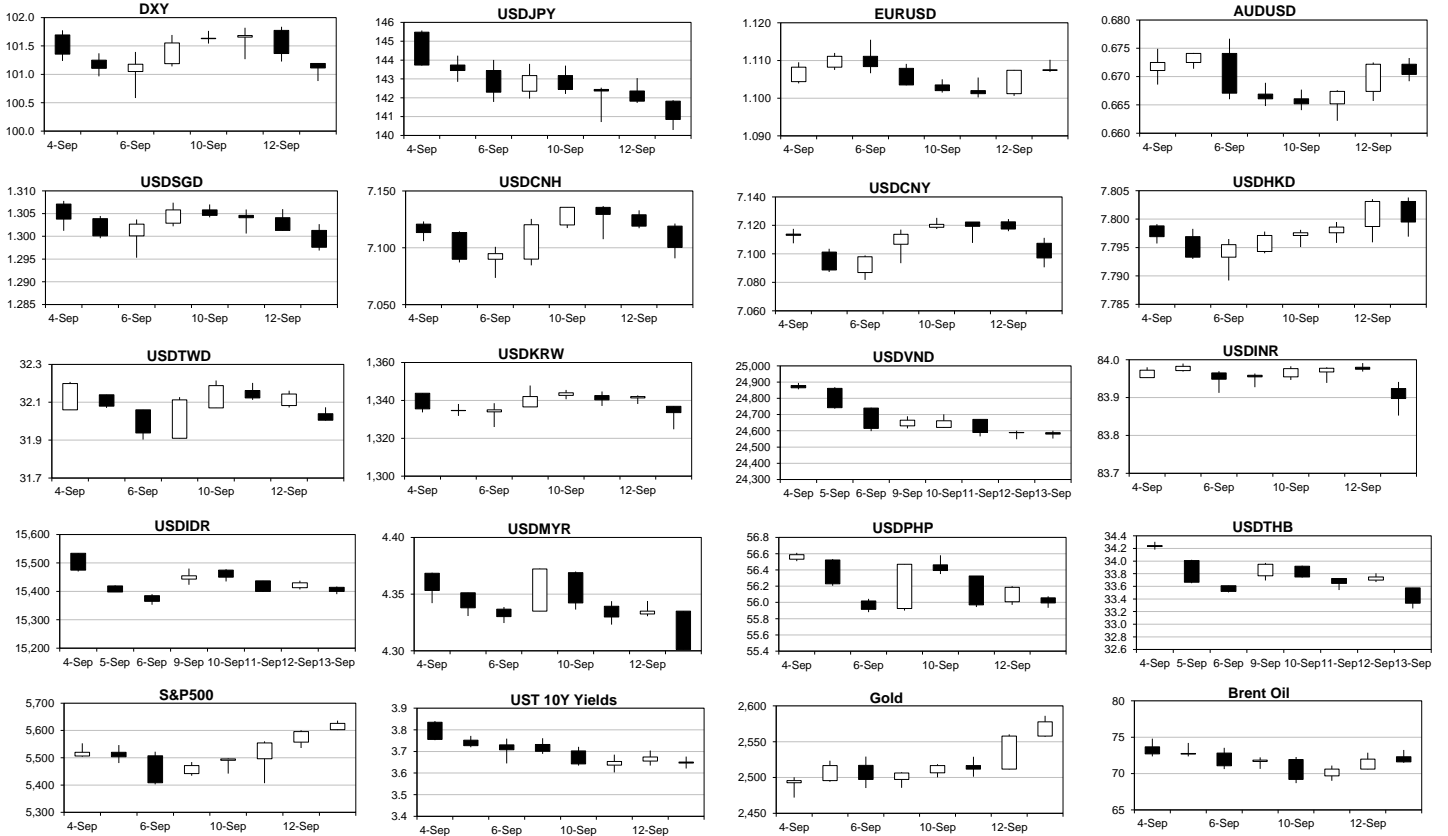
\*Open is as at 8am HKT/SGT.

| G3 Equities  | Close    | Net Chg | Daily %Δ |
|--------------|----------|---------|----------|
| S&P500 (US)  | 5626.02  | 30.26   | +0.54%   |
| Nasdaq (US)  | 17683.98 | 114.30  | +0.65%   |
| DJIA (US)    | 41393.78 | 297.01  | +0.72%   |
| N225 (JP)    | 36581.76 | -251.51 | ▼0.68%   |
| STOXX50 (EU) | 4843.99  | 29.91   | +0.62%   |

| Asia Equities | Close    | Net Chg | Daily %Δ |
|---------------|----------|---------|----------|
| ASX (AU)      | 4522.48  | 21.21   | +0.47%   |
| STI (SG)      | 3562.65  | 6.12    | +0.17%   |
| SHCOMP (CN)   | 2704.09  | -13.03  | ▼0.48%   |
| SZCOMP (CN)   | 1476.262 | -16.06  | ▼1.08%   |
| HSI (HK)      | 17369.09 | 128.70  | +0.75%   |
| SENSEX (IN)   | 82890.94 | -71.77  | ▼0.09%   |
| JSE (ID)      | 7812.131 | 13.98   | +0.18%   |
| KLSE (MY)     | 1652.15  | 13.84   | +0.84%   |
| PSE (PH)      | 7022.85  | -1.82   | ▼0.03%   |
| SET (TH)      | 1424.39  | 2.81    | +0.20%   |
| VNINDEX (VN)  | 1251.71  | 0.00    | ▼0.37%   |

| Commodity     | Close    | Net Chg | Daily %Δ |
|---------------|----------|---------|----------|
| COPPER (LME)  | 9,189.17 | 93.48   | +1.03%   |
| IRON ORE (CN) | 92.58    | 0.81    | ▼1.22%   |
| GOLD          | 2,577.70 | 19.80   | +0.77%   |
| SILVER        | 30.72    | -0.05   | ▼2.21%   |
| OIL (BRENT)   | 71.61    | -0.36   | ▼0.50%   |
| OIL (WTI)     | 68.65    | -0.32   | ▼0.46%   |
| NATURAL GAS   | 2.31     | 0.84    | +2.81%   |

## CHARTS



## RESEARCH TEAM

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

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