

Sep 18, 2024

Three Take-Aways

- 1) Bets of a 50bps pared back on higher-than-expected retail sales and stronger industrial production, but odds remain higher than a coin toss.
- 2) We think a 25bps cut by Fed may be the optimal transition that provides relief about rates amid dis-inflation without tipping over into panic about a recession.
- 3) Focus of the "Dot Plot" likely to shift to 2025, which should convey a measured and controlled easing towards soft-landing.

MACRO THEME: Still More Than A Coin Toss

- Based on Fed Fund Futures, bets of a 50bps cut by the Fed pared back to 66% (from 70% a day earlier) after retail sales recorded a marginal expansion on a month-ago basis, defying expectations of a contraction, as well as higher-than-expected industrial production. While odds are tilted towards a bigger size cut tonight, two-way volatility could be expected following FOMC regardless of size of cut, as while odds are tilted towards a bigger size cut tonight, a 25bps cut could raise fears of Fed being behind the curve, while a 50bps cut may raise recession fears. Dot Plot would be closed watched in particular.

- Meanwhile, Brent crude climbed above \$71/bbl (+1.3%) amid geopolitical flares and uncertainty over short-term supply shocks. Iran-backed Hezbollah accused Israel of orchestrating an attack in Lebanon, increasing fears of an all-out war. Meanwhile, uncertainty over the impact of outages in the Gulf of Mexico amid mixed US inventory reports also aided Brent oil's climb.

Yields (2Y: +5.4bps; 10Y: +2.8bps; 30Y: +3.0bps)

- UST yields climbed across the curve, in a flattening move.

Equities (Nasdaq: +0.2%; S&P: +0.0%; Dow: -0.0%)

- Equities were marginally changed.

FX (DXY: +0.1%)

- USD strengthened on higher UST yields, and was stronger against most G10 currencies.

- JPY led losses, with USD/JPY climbing above 142 levels. AUD mostly traded around mid-67 cents, while EUR was buoyant above 1.11 levels. Elsewhere, USD/SGD retained traction below 1.30 handle.

China: On Holiday

- China remained on holiday. Amid an encouraging first trading session for Midea (the largest public offering of shares in Asia this year), Hang Seng Index closed +1.4% higher while Nasdaq dragon index climbed 1.8%.

FOMC: Easing Into the Cut Cycle

- The September pivot will be unequivocal but not panicked. Which squares with alignment of measured (25bp) rate cut, a controlled dovish shift in the "Dot Plot" and a distinctly (but not dramatically) more dovish rhetoric that is open, not committed, to larger rate cuts.

DATA/EVENTS

Yesterday/OVERNIGHT	Actual	Exp.	Prior
(SG) Non-Oil Domestic Exports YoY (Aug)	10.7%	15.0%	15.7%
(ID) Exports/Imports (Aug)	7.1%/9.5%	4.0%/9.3%	6.6%/11.1%
(IN) Exports/Imports (Aug)	-9.3%/3.3%	--	-1.5%/7.5%
(IN) Wholesale prices YoY (Aug)	1.3%	1.8%	2.0%
(US) Retail Sales Advance MoM (Aug)	0.1%	-0.2%	1.1%
(US) Retail Sales Ex Auto MoM (Aug)	0.1%	0.2%	0.4%
(US) Industrial Production MoM (Aug)	0.8%	0.2%	-0.9%
(JP) Tertiary Industry Index MoM (Jul)	1.4%	0.9%	-1.2%
(GE) Zew Survey Current/Expectations (St)	-84.5/17.0	-80.0/17.0	-77.3/19.2
Today			
(ID) BI Rate		6.25%	6.25%
(EZ) CPI/Core YoY (Aug F)		2.2%/2.8%	2.2%/2.8%
(JP) Trade Balance (Aug)	¥695.3b	¥1432.4b	¥628.7n
(JP) Core Machine Orders MoM (Jul)	-0.1%	0.5%	2.1%
(US) Building Permits (Aug)		1410k	1396k
(US) Housing Starts (Aug)		1310k	1238k
FOMC Decision(Lower/Upper Bound)		5.00%/5.25%	5.25%/5.50%

Rates: Not Front-loading Just Yet

- The cut is a forgone conclusion. The debate is whether it is a "25" or "50" (bp). **We expect the Fed to ease into its cut cycle with a 25bp cut to start in September.** While the call is a close one, it predates (and hence isn't premised on) slightly hotter sequential core inflation in August CPI). Nor is it our fundamental resistance to deeper, front-loaded cuts. In fact, our view is for far more aggressive easing than the Fed suggests (200-250bp) by mid-2025.

- Rather, it is a reflection of a more managed transition from messaging "higher for longer" based on "last mile" dis-inflation resistance to an unqualified admission of "too high for too long" that unequivocally braces for harder-than-desired dent in jobs and demand. In other words, the question around Fed cuts in upcoming meetings, which had earlier changed from "if" to "when", has now evolved to "how". Specifically, "how much" and "how fast".

- The reason we lean in favour of starting with a "regular" 25bp (rather than upsized 50bp) cut as the **optimal transition that provides relief about rates amid dis-inflation without tipping over into panic about a recession.** Scope for 50bp cuts will need to be backed by softer inflation and jobs/demand/sentiments.

"Dot Plot": Faster, Not Frantic, Cuts

- **The focus of the "Dot Plot" is likely to shift to 2025** as restoring the cuts for 2024 to (2 or 3 from June's dial back to just one) may be fully anticipated. Whereas the question really is how much the Fed steps up rate cuts for 2025. We bear in mind that with just 8 meetings in a year, a pace which suggests a cut at every meeting (or more) risks being construed as recession fear.

- So 2025 may be remixed to reflect no more than 6-7 cuts. The message will be one of scope for more cuts as inflation cools, leaving real rates still sufficiently (albeit marked less) restrictive.

Rhetoric: Distinctly, Not Dramatically, More Dovish

- In tilting to a more dovish shift, the Fed is likely to be careful not to abandon data-dependence and on-going inflation anchor. So **"pivot" will be conveyed as a measured shift not an uncontrolled lurch.** Accordingly, the cut will be framed as a calibration to reflect shifting inflation-jobs balance of risks rather than pulling all stops on protecting jobs. Upshot being, **given the uncertainty that accompanies long and variable lags of policy transmission the Fed is still stuck with policy tensions entailed in ensuring last mile dis-inflation and averting lagging but hard-to-brake deterioration in jobs.**

- Pushing Back, But Not Convincing Markets: This is likely to push back somewhat on more aggressive market pricing for cuts. And **so a reflexive, short-lived bounce in UST yields and USD may be in the works. But conviction around the Fed keeping to more measured easing may continue to be challenged. So bond bears and USD bulls* may not get too far.**

* On the other hand, US elections, Geo-politics and less pronounced relative policy effects (as other Major central banks pile on with cuts) may support the USD preventing significant USD slide.

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	142.41	142.01	+1.27%	139.00 - 145.00
EURUSD	1.1114	1.1123	▼0.17%	1.1000 - 1.1200
GBPUSD	1.3161	1.3167	▼0.42%	1.3000 - 1.3300
AUDUSD	0.6756	0.6762	+0.06%	0.6670 - 0.6820
DXY	100.9	--	+0.13%	100.4 - 101.8
USDCNY	7.0972	--	+0.00%	7.0800 - 7.1500
USDCNH	7.1110	7.1085	+0.20%	7.0800 - 7.1500
USDHKD	7.7944	7.7935	+0.02%	7.7800 - 7.8100
USDSGD	1.2970	1.2959	+0.13%	1.2860 - 1.3080
USDKRW	1334	1324	+0.00%	1310 - 1345
USDTWD	31.90	--	+0.00%	31.70 - 32.10
USDINR	83.76	--	▼0.15%	83.50 - 83.90
USDIDR	15335	--	▼0.42%	15250 - 15450
USDMYR	4.259	4.260	▼0.98%	4.230 - 4.310
USDPHP	55.70	--	▼0.32%	55.30 - 56.20
USDTHB	33.29	33.40	+0.18%	33.10 - 33.60
USDVND	24635	24618	+0.37%	24500 - 24750

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.606	3.647	5.4	2.8
JGB (JP)	0.381	0.821	-0.5	-1.9
Bunds (GE)	2.223	2.142	4.3	2.1
Gilts (UK)	3.820	3.767	3.4	0.9
AGB (AU)	3.553	3.832	2.1	2.0
SGS (SG)	2.255	2.397	-1.3	-1.8
CGB (CN)	1.358	2.068	0.0	0.0
KGB (KR)	2.948	2.876	3.0	5.4
SDL (IN)	6.781	6.691	0.0	-0.5

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	158.27	157.95	+1.11%
GBP/JPY	187.423	186.978	+0.85%
JPY/SGD (100yen)	0.9107	0.9126	▼1.13%
JPY/HKD (100yen)	5.4737	5.4882	▼1.25%
CNH/JPY	19.98	20.009	+0.78%
CNH/HKD	1.0981	1.0981	+0.00%
EUR/GBP	0.84443	0.84476	+0.25%
AUD/NZD	1.0923	1.0919	+0.33%
EUR/CNH	7.9031	7.9068	+0.01%
GBP/CNH	9.3582	9.3598	▼0.23%

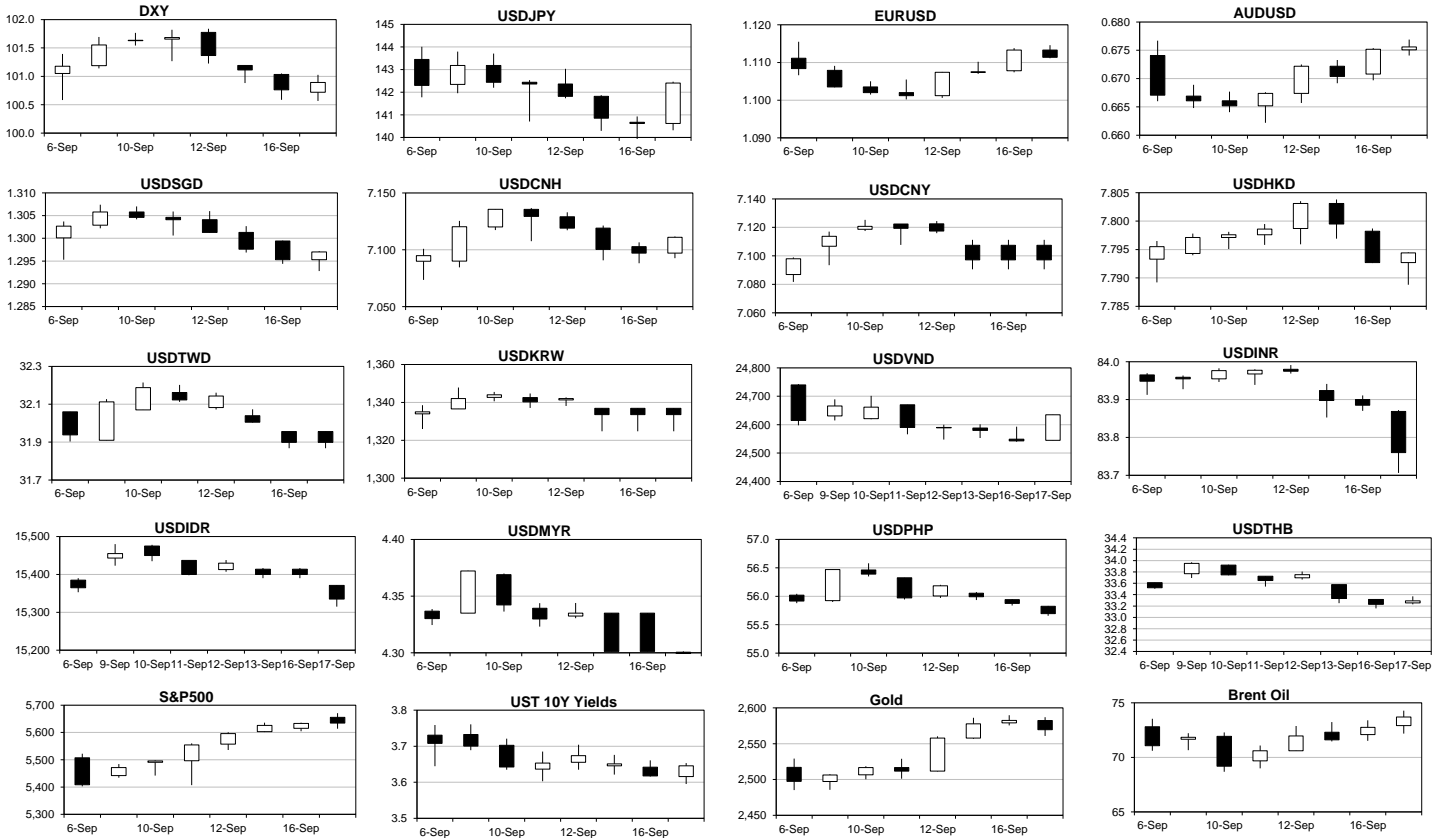
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5634.58	1.49	+0.03%
Nasdaq (US)	17628.06	35.93	+0.20%
DJIA (US)	41606.18	-15.90	▼0.04%
N225 (JP)	36203.22	-378.54	▼1.03%
STOXX50 (EU)	4860.78	33.15	+0.69%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4541	15.05	+0.33%
STI (SG)	3593.42	22.99	+0.64%
SHCOMP (CN)	2704.09	0.00	+0.00%
SZCOMP (CN)	1476.262	0.00	+0.00%
HSI (HK)	17660.02	237.90	+1.37%
SENSEX (IN)	83079.66	90.88	+0.11%
JSE (ID)	7831.779	19.65	+0.25%
KLSE (MY)	1664.28	12.13	+0.73%
PSE (PH)	7175.36	71.16	+1.00%
SET (TH)	1436.6	1.07	+0.07%
VNINDEX (VN)	1258.95	0.02	+1.59%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,237.63	-27.19	▼0.29%
IRON ORE (CN)	92.18	1.08	+0.45%
GOLD	2,569.50	-12.95	▼0.50%
SILVER	30.70	-0.05	▼2.06%
OIL (BRENT)	73.70	0.95	+1.31%
OIL (WTI)	71.19	1.10	+1.57%
NATURAL GAS	2.32	-0.03	▼0.10%

CHARTS



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