

Sep 20, 2024

Three Take-Aways

- 1) Risk on emerges as soft-landing allure edges out.
- 2) CNH rallies express relief but lingering risks may rein in.
- 3) BoJ to sit on hands. But inadvertent JPY volatility a risk.

MACRO THEME: The Soft-landing Seduction

- The seduction of a Fed proactively engineering a soft-landing has overtaken misgivings about the hawkish temperance to an upsized 50bp cut by the Fed. The general mood of “risk on” is widely acknowledged as a gently softer USD adds to the allure of risk assets. But there continues to be some circumspection beneath.

- This doesn't necessarily negate “risk on”, but it does nuance the expression; both in amplitude as well as allocation. The wider caveat though is that seduction of a soft-landing is not the same as guaranteeing that one is secured. So risk appetite could remain subject to tests into Q4.

Yields (2Y: -3.7bps; 10Y: +1.0bps; 30Y: +3.1bps)

- For one, bond markets are likely to engage in a more cold-eyed assessment on prospects for, and pace of, cuts. This has resulted in long-end yields being relatively buoyed (although the front-end is softer), introducing bearish elements to the curve steepening.

- Our take on further and more pronounced steepening remains intact. Whereas the directional cues on the long-end is subject to greater volatility; both policy and politics.

Equities (Nasdaq: +2.5%; S&P: +1.7%; Dow:+1.3%)

- And so now equity markets have made a resounding come-back. The rotation back into tech, discretionary, and out of staples, reflect the Fed's larger cuts on the cards conceded. But the soft-landing conditionality is critical to sustain this optimism.

FX (DXY: +0.0%)

- The greenback meanwhile has slipped, but only in a measured manner (with DXY still supported above 100). To some extent, this reflects tensions between strategic USD backstop from Powell's restraint on future cuts and tactical USD pressures from Fed-G4 rate spread catch-down reflex.

- Point being, the coincident G4 central bank signals have expressed more restraint on easing; thereby underpinning the narrative for USD slippage on relative rate dynamics. Earlier last week, the ECB showed far more restraint in its guidance on how much it may cut, underpinning EUR above mid-1.11.

- The BoE, in standing pat, has played it cool with strategic omission of details in its guidance for gradual easing, lent itself to Sterling traction to test 1.33. rucially, the BoJ set to stick to the script on scope for more hikes and a higher neutral/terminal rate from here may pressure USD/JPY. And that is despite the BoJ's desire to avert sharp JPY appreciation. To be sure, the BoJ will likely underscore gradualism and pre-condition of (JPY) stability for rate hikes.

DATA/EVENTS

Yesterday/Overnight	Actual	Exp.	Prior
(AU) Unemp. Rate/Emp. Chg (Aug)		4.2%/25.0k	4.2%/58.2k
(MY) Exports/Imports YoY (Aug)		11.5%/20.6%	12.3%/25.4%
(PH) BoP Overall (Aug)		--	\$62m
(IN) Wholesale prices YoY (Aug)		1.8%	2.0%
(TW) CBC Benchmark Interest Rate		2.00%	2.00%
(US) Initial Jobless Claims		--	230k
(US) Leading Index (Aug)		-0.3%	-0.6%
(US) Philadelphia Fed Biz Outlook (Sep)		2.9	-7.0
(US) Current Account Balance (2Q)		-\$262.0b	-\$237.6b
(EZ) ECB Current Account SA (Jul)		--	50.5b
Today			
(CH) 1Yr/5-Yr Loan Prime Rate		3.35%/3.85%	3.35%/3.85%
(JP) CPI/ Ex Fresh Food & Energy YoY		3.0%/2.0%	2.8%/1.9%
BoJ Target Rate		0.25%	0.25%

- But between intended communication and market perception is a potentially large gap that may set the JPY up for inadvertent volatility. Meanwhile AXJ may have scope to be buoyed given “risk on” boosting flows support, a firmer CNH backstop amid US soft-landing cheer. Although further gains may be on a short leash given the qualifications and lingering risks.

China: CNH Boost Not Policy Panacea

- More pronounced CNH boost in the aftermath of the Fed's upsized 50bp rate cuts is not unexpected. Afterall, this highlights a pathway for significantly diminished pressures on the CNH from Fed-PBoC rate differentials. Moreover, it also significantly alleviates the PBoC's policy dilemma associated with sharp trade-offs between deflation-type dynamics from a confidence deficit on one hand and CNH stability risks on the other (which can also have adverse, destabilising effects on confidence).

- Nonetheless, the relief from the Fed is not a panacea for the PBoC that must still contend with the balance between stimulus (easing) and avoiding a further build-up of financial risks (requiring restraint). What's more, even if the Fed's easing path manages a soft-landing that avert external demand shocks detrimental to China's production power houses, Geo-political risks to Chinese production are not resolved.

- If anything, in a world not distracted by recession risks, geopolitical antagonism may pile on. So “blue skies” rallies for CNH, and in particular, sustained out-performance may be compromised. And it is telling that the post-FOMC performance in the CNH is more middle-of-the-pack than Asia-leading.

Commodity FX Flattered

- The accolade for which (APAC-leading FX performance) goes to the Antipodeans (AUD, NZD) and other commodity currencies (MYR and IDR). Admittedly, US soft-landing hopes and CNH boost play well into commodity currency support. Especially with accompanying, out-sized Fed rate cuts that boost the relative allure from the rates angle as well.

- But the narrative is more in line with opportunistically flattered Commodity FX support, and not sustained bullish conviction.

BoJ: Not Rocking the Boat

- Despite the BoJ's recent assertions about maintaining a tightening bias and scope for rates to move higher to terminal rates, we expect the BoJ to sit in its hands. Point being, scope and despite for further tightening are a matter of a patient, multi-year plan not an urgent project. In particular not under turbulent market conditions that entail heightened JPY volatility, which can prove to be enormously disruptive to policy and destructive to virtuous growth dynamics.

- With JPY materially stronger (despite softening from sub-141 levels to sub-143), the BoJ will not unnecessarily rock the boat and risk self-harm from even sharper appreciation. As we have asserted, for the same pace of swings JPY appreciation is more harmful due to its capacity for adverse income (exporter earnings) balance sheet (Nikkei's collapse from negative JPY correlation) shocks. So, the path of least harm for the BoJ now is to stay steady.

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast	
USDJPY	142.63	142.90	+0.24%	140.00	- 145.00
EURUSD	1.1162	1.1159	+0.39%	1.1000	- 1.1200
GBPUSD	1.3284	1.3280	+0.53%	1.3000	- 1.3300
AUDUSD	0.6814	0.6809	+0.74%	0.6670	- 0.6820
DXY	100.6	--	+0.02%	100.2	- 101.1
USDCNY	7.0627	--	▼0.20%	7.0600	- 7.1500
USDCNH	7.0716	7.0722	▼0.34%	7.0600	- 7.1500
USDHKD	7.7949	7.7942	+0.02%	7.7800	- 7.8100
USDSGD	1.2917	1.2925	▼0.27%	1.2860	- 1.3080
USDKRW	1329	1329	+0.00%	1315	- 1345
USDTWD	31.94	--	▼0.06%	31.70	- 32.10
USDINR	83.69	--	▼0.09%	83.50	- 83.90
USDIDR	15238	--	▼0.66%	15200	- 15450
USDMYR	4.207	4.209	▼0.87%	4.200	- 4.310
USDPHP	55.60	--	▼0.24%	55.20	- 56.20
USDTHB	33.09	33.14	▼0.52%	33.00	- 33.60
USDVND	24584	24581	▼0.18%	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)	3.583	3.715	-3.7	1.0
JGB (JP)	0.379	0.841	0.5	1.8
Bunds (GE)	2.218	2.196	-4.4	0.7
Gilts (UK)	3.917	3.890	1.6	4.5
AGB (AU)	3.649	3.928	7.0	6.5
SGS (SG)	2.305	2.442	2.5	2.2
CGB (CN)	1.382	2.040	1.5	0.5
KGB (KR)	2.992	2.886	3.1	-3.7
SDL (IN)	6.757	6.682	1.7	0.5

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	159.2	159.46	+0.63%
GBP/JPY	189.463	189.758	+0.77%
JPY/SGD (100yen)	0.9056	0.9045	▼0.52%
JPY/HKD (100yen)	5.465	5.4543	▼0.22%
CNH/JPY	20.199	20.234	+1.20%
CNH/HKD	1.1036	1.1035	+0.24%
EUR/GBP	0.84025	0.84032	▼0.14%
AUD/NZD	1.0923	1.0919	+0.27%
EUR/CNH	7.8932	7.8919	+0.05%
GBP/CNH	9.393	9.3915	+0.19%

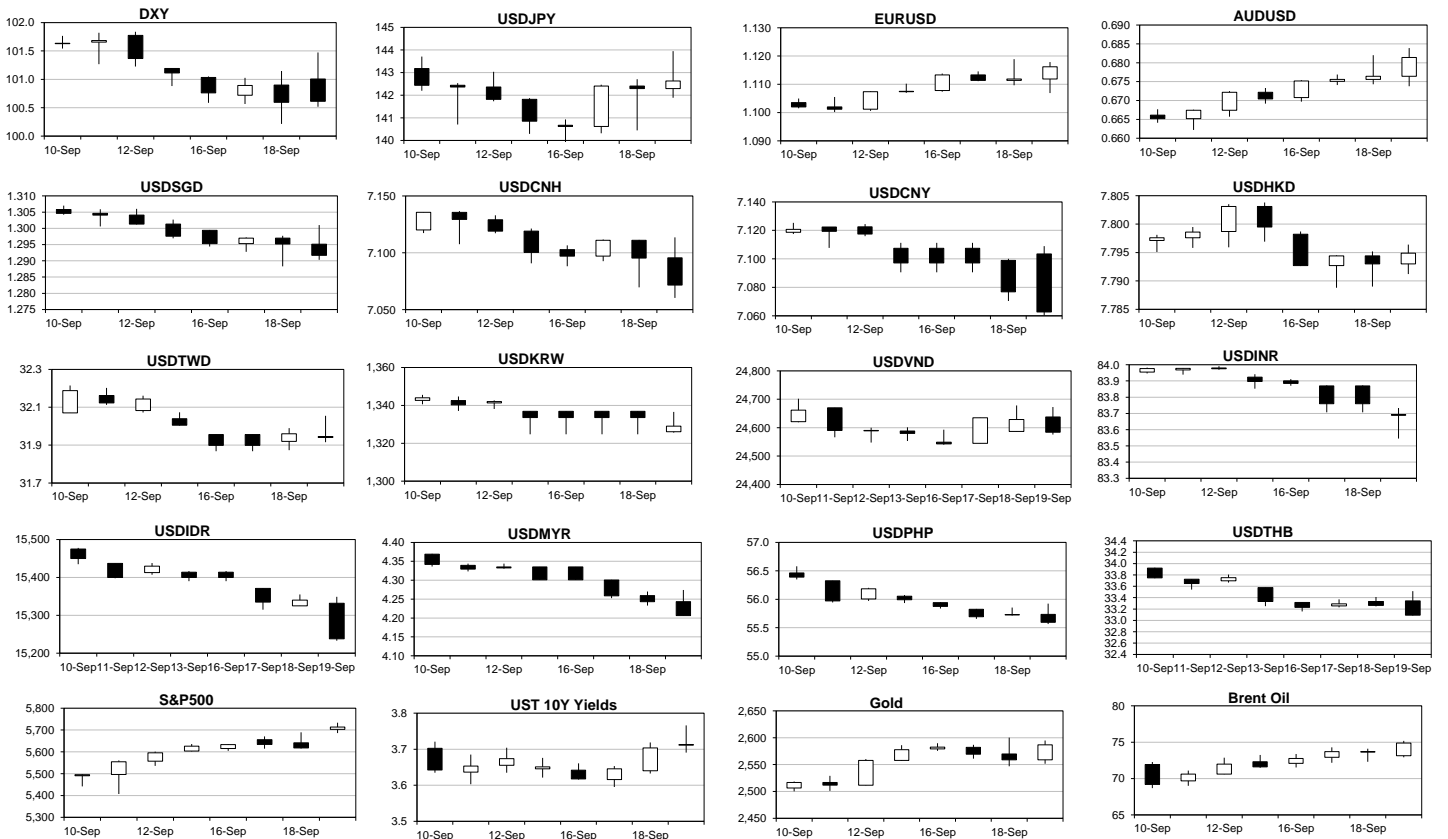
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5713.64	95.38	+1.70%
Nasdaq (US)	18013.98	440.68	+2.51%
DJIA (US)	42025.19	522.09	+1.26%
N225 (JP)	37155.33	775.16	+2.13%
STOXX50 (EU)	4943.38	108.08	+2.24%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4556.59	44.99	+1.00%
STI (SG)	3633.18	40.76	+1.13%
SHCOMP (CN)	2736.022	18.74	+0.69%
SZCOMP (CN)	1497.002	23.27	+1.58%
HSI (HK)	18013.16	353.14	+2.00%
SENSEX (IN)	83184.8	236.57	+0.29%
JSE (ID)	7905.39	76.26	+0.97%
KLSE (MY)	1665.65	5.06	+0.30%
PSE (PH)	7202.16	46.26	+0.65%
SET (TH)	1454.84	19.07	+1.33%
VNINDEX (VN)	1271.27	0.01	+0.50%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,388.22	122.16	+1.32%
IRON ORE (CN)	92.27	-1.45	+0.81%
GOLD	2,586.74	27.83	+1.09%
SILVER	30.79	0.06	+2.80%
OIL (BRENT)	74.88	1.23	+1.67%
OIL (WTI)	71.95	1.04	+1.47%
NATURAL GAS	2.35	0.71	+2.35%

CHARTS



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