

Sep 23, 2024

## Three Take-Aways

- 1) UST yield curve steepened as markets reduce odds of deep rate cuts amid mixed Fed speak.
- 2) Fed Governor Waller displayed easing bias with 25bp cut being considered if data comes in fine.
- 3) RBA to stand pat tomorrow as inflation made little progress while labour markets remain tight.

## MACRO THEME: Mixed?

- Last Friday, markets ended the week looking somewhat directionless amid mixed messaging after the Fed's 50bps cut.

- Fed Governor Christopher Waller appeared to back a soft landing narrative as he said favourable inflation data and not worries about labour markets convinced him to support the 50bps rate cut. Yet, given that he was a **little more concerned that inflation running softer than he thought**, this in turn **implies concerns about underlying demand** as softer inflation from supply side factors would have been considered relief. On the future policy path, he stated that **if data comes in fine...** can imagine 25bps in the next two meetings. The **easing bias is clear that if current conditions are also considered fine, cuts appear on the cards.**

- In contrast, sole dissenter Fed Governor Michelle Bowman stated solid growth in consumer spending could drive price gains and favoured a smaller cut to ensure progress in bringing inflation down.

- Philadelphia Fed President Harker was more balanced highlighting both risks of stalling inflation and softening labour markets.

**Yields (2Y: +1.0bps; 10Y: +2.7bps; 30Y: +3.4bps)**

- The expected UST yield curve bull steepening continued with the initial sharp climb in front end yields dented by dovishness from Fed Governor Waller.

**Equities (Nasdaq: -0.4%; S&P: -0.2%; Dow:+0.1%)**

- US equities were mixed, cautious in extending record highs.

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

- USD held ground, trading sideways against most G10 peers.

- JPY was a notable exception, weakening against the Greenback as BoJ Governor Ueda helmed a dovish press conference, highlighting the need for time to examine impact of earlier hikes and diminishing upside inflation risks. USD/JPY headed above mid-143.

- GBP led gains latching on the BoE's rate hold for now.

- EUR hovered around mid-1.11 as ECB President Lagarde sounded cautious on policy path and highlighted an era of more-volatile inflation and less clarity on policy transmission.

- In EM-Asia, the USD/SGD moved sideways above 1.29 last Friday while the IDR led gains on strong foreign inflows into bonds.

## China: Action and Transmission

- While the recent CNH boost may alleviate trade-off from policy actions, this is different from ensuring policy efficacy to boost growth.

- Reports of lowering mortgage rates to spur consumption via higher disposable incomes may still fall short as wealth effects continue to dominate amid falling house prices. In short, the decline in falling asset values is likely to outweigh the increase in incomes from both quantitative and qualitative (confidence) aspects and policy efficacy diminished.

## RBA: Not in the Easing Race

- We expect **the RBA to stand pat at their monetary policy meeting tomorrow as inflation remains too far away from their target and a positive output gap diminishes the case for easing** at this juncture.

- On first glance, headline inflation print of 3.5% for July appears not too far from their target range of 2-3%. However, it is worth a reminder that the decline to 3.5% from 3.8% was largely on the back of electricity rebates which saw electricity inflation drop from +7.5% to -5.1% YoY rather than cooling demand. A back of the envelope calculation using the component's CPI weight of 2.4% would imply 0.3%-point decline to CPI inflation, in essence the entirety of July dis-inflation. As such, the RBA is unlikely to point to progress on tackling inflation.

- On the growth front, the Q2 GDP release affirmed our expectations of growth being below trend as household consumption growth continue to weaken with government spending holding up. To be clear, it is not that the RBA is unconcerned about the softening household expenditure especially with the low household savings ratio hinting at extremely stretched households.

- It is the fact that the RBA continues to focus on the labour market which RBA Assistant Governor Sarah Hunter recently characterise as still tight relative to full employment. This focus remains in line with the RBA's mandate to "keep inflation in the economy to 2–3 per cent and employment at the maximum level that is consistent with maintaining low and stable inflation".

- Consequently, it is not that the case that the RBA cannot follow the Fed to ease given that both central banks have yet to reach their target, it is that various metrics such as vacancies to unemployment are still elevated and hours worked remain stable and unemployment rate has not reached alarmed bells. Employment gains also remain healthy with five consecutive months of gains since May 2024 averaging +41k of jobs each month. On balance, various labour market and inflation dynamics will need to play out in the coming months before the RBA can join in the global monetary policy easing.

- Even then, there remains a tail risk that should global growth be sustained by the tide of easing, the RBA's subsequent need for easing on growth concerns may be diminish though inflation may also end up bumper above their target range.

## DATA/EVENTS

Yesterday/Overnight	Actual	Exp.	Prior
(CH) 1Yr/5-Yr Loan Prime Rate	3.35%/3.85%	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%	0.25%
<b>Today</b>			
(MY) CPI YoY (Aug)		2.0%	2.0%
(SG) CPI/Core YoY (Aug)		2.1%/2.6%	2.4%/2.5%
(TW) Unemployment Rate (Aug)		3.30%	3.30%
(US) Chicago Fed Activity Index (Aug)		-0.20	-0.34

## FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	143.85	144.02	+0.86%	142.00 - 145.00
EURUSD	1.1162	1.1161	+0.00%	1.1000 - 1.1200
GBPUSD	1.3321	1.3314	+0.28%	1.3000 - 1.3390
AUDUSD	0.6807	0.6810	▼0.10%	0.6670 - 0.6820
DXY	100.7	--	+0.11%	100.2 - 101.1
USDCNY	7.0470	--	▼0.22%	7.0400 - 7.1500
USDCNH	7.0421	7.0439	▼0.42%	7.0400 - 7.1500
USDHKD	7.7903	7.7908	▼0.06%	7.7800 - 7.8100
USDSGD	1.2905	1.2908	▼0.09%	1.2860 - 1.3080
USDKRW	1334	1332	+0.00%	1315 - 1345
USDTWD	31.98	--	+0.12%	31.70 - 32.10
USDINR	83.58	--	▼0.14%	83.50 - 83.90
USDIDR	15150	--	▼0.58%	15100 - 15400
USDMYR	4.204	4.207	▼0.07%	4.200 - 4.270
USDPHP	55.68	--	+0.15%	55.20 - 56.20
USDTHB	33.06	32.93	▼0.11%	33.00 - 33.60
USDVND	24602	24606	+0.07%	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)	3.593	3.742	1.0	2.7
JGB (JP)	0.375	0.839	-0.4	-0.2
Bunds (GE)	2.227	2.206	0.8	1.0
Gilts (UK)	3.920	3.902	0.2	1.1
AGB (AU)	3.625	3.918	-2.4	-1.0
SGS (SG)	2.309	2.467	0.8	2.5
CGB (CN)	1.386	2.034	0.3	-0.6
KGB (KR)	3.011	2.859	3.4	1.0
SDL (IN)	6.762	6.675	-0.2	-0.4

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	160.59	160.73	+0.87%
GBP/JPY	191.685	191.734	+1.17%
JPY/SGD (100yen)	0.8968	0.8963	▼0.97%
JPY/HKD (100yen)	5.4128	5.4097	▼0.96%
CNH/JPY	20.418	20.436	+1.08%
CNH/HKD	1.1057	1.1055	+0.19%
EUR/GBP	0.83794	0.83828	▼0.27%
AUD/NZD	1.0914	1.092	▼0.08%
EUR/CNH	7.8612	7.8613	▼0.41%
GBP/CNH	9.381	9.3779	▼0.13%

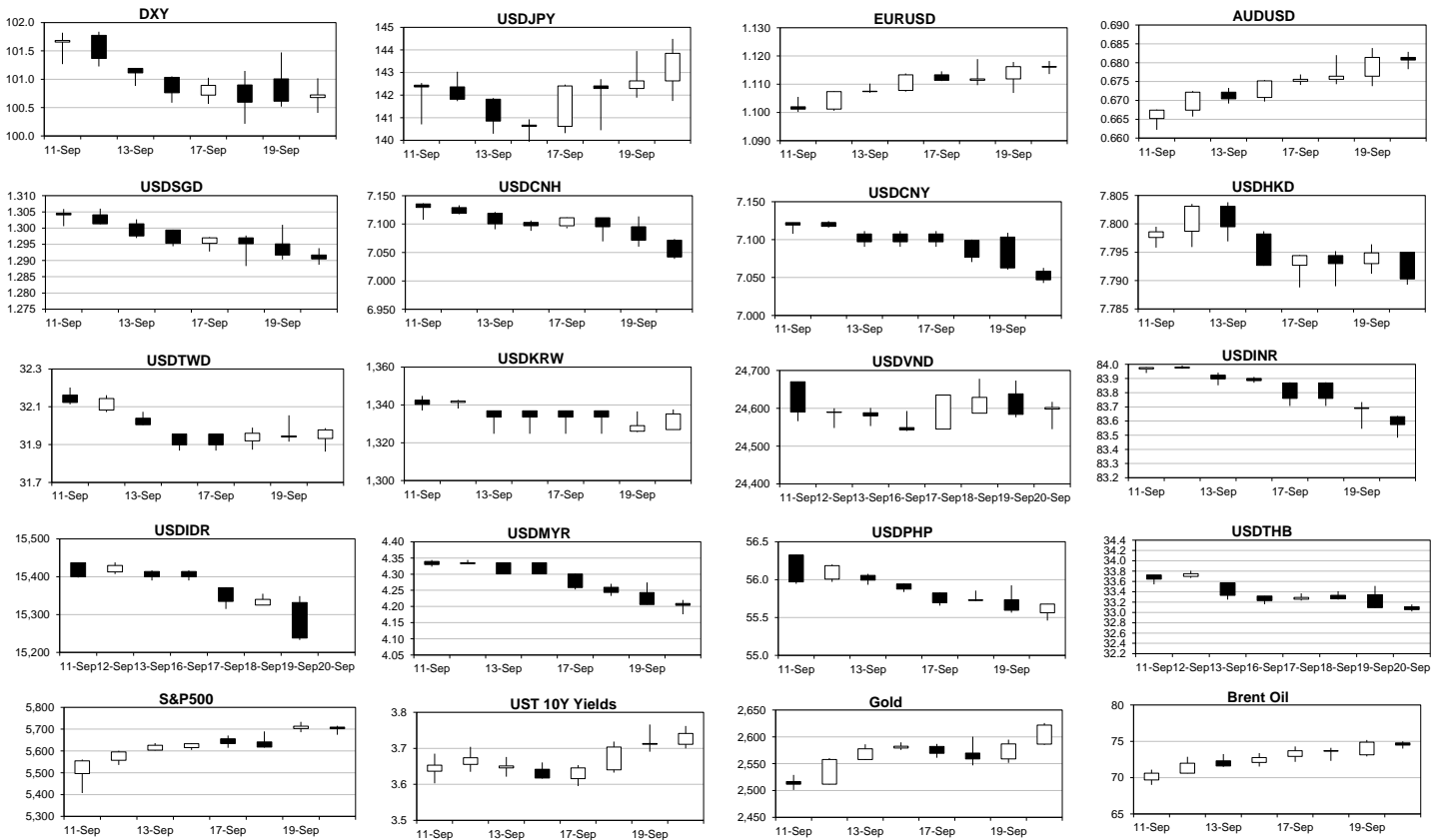
\*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5702.55	-11.09	▼0.19%
Nasdaq (US)	17948.32	-65.66	▼0.36%
DJIA (US)	42063.36	38.17	+0.09%
N225 (JP)	37723.91	568.58	+1.53%
STOXX50 (EU)	4871.54	-71.84	▼1.45%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4501.08	-55.51	▼1.22%
STI (SG)	3624.76	-8.42	▼0.23%
SHCOMP (CN)	2736.814	0.79	+0.03%
SZCOMP (CN)	1494.662	-2.34	▼0.16%
HSI (HK)	18258.57	245.41	+1.36%
SENSEX (IN)	84544.31	1359.51	+1.63%
JSE (ID)	7743.004	-162.39	▼2.05%
KLSE (MY)	1668.82	3.17	+0.19%
PSE (PH)	7252.32	50.16	+0.70%
SET (TH)	1451.69	-3.15	▼0.22%
VNINDEX (VN)	1272.04	0.00	+0.06%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,346.45	-41.77	▼0.44%
IRON ORE (CN)	91.97	-0.61	▼0.33%
GOLD	2,621.88	35.14	+1.36%
SILVER	31.18	0.09	+3.66%
OIL (BRENT)	74.49	-0.39	▼0.52%
OIL (WTI)	71.92	-0.03	▼0.04%
NATURAL GAS	2.43	0.39	+1.27%

## CHARTS



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