

Sep 24, 2024

Three Take-Aways

- 1) UST yields oscillated amid mixed FedSpeak.
- 2) Cautious hopes on news of further stimulus from Chinese authorities to boost the economy
- 3) BSP's recent RRR cut and remarks look to be setting the stage for a 50bps cut at October meeting.

MACRO THEME: Oscillations

- UST yields oscillated with FedSpeak. **UST yields initially rose as Fed Bostic and Kashkari alluded to some cautiousness on repeating a jumbo cut.** Fed Bostic remarked that because policy is still restrictive, officials can slow or pause the pace of rate cuts if inflation stalls. Meanwhile, Fed Kashkari expects smaller steps going forward unless data changes materially.

- **UST yields subsequently declined on Fed Goolsbee's dovish comments.** Goolsbee threw caution on the labour market, noting that a deterioration in labour markets will be much quicker than the relief central banks can deliver through rate cuts. Consequently, **the Fed could not afford to be behind the curve if they want a soft landing scenario.**

Yields (2Y: -0.4bps; 10Y: +0.9bps; 30Y: +0.7bps)

- The UST yield curve steepened; while across the Atlantic, Bunds yields plummeted (2Y: -7.9bps; 10Y: -5.0bps; 30Y: -2.7bps) after PMI prints pointed to weakness in the manufacturing sector and a slower expansion in the service sector activity.

Equities (Nasdaq: +0.1%; S&P: +0.3%; Dow: +0.2%)

- US equities closed marginally higher.

FX (DXY: +0.1%)

- The USD traded mixed against the G10 currencies. Antipodeans (NZD, AUD) outperformed ahead of RBA's decision today, while EUR briefly dipped below 1.11 handle on lower yields.

- Elsewhere, USD/JPY traded around 144 levels while USD/SGD was buoyed above 1.29 handle.

China: Cautious Stimulus Hopes

- Stimulus hopes appear to be steeped in cautiousness, with Chinese equities closing only marginally higher (CSI300: +0.4%).

- Yesterday, **the PBoC cut its 14-day reverse repo rate by 10bp**, as a follow-up to July's 10bp cut to the 7-day reverse repo rate. Despite a recent 50bp rate cut in the US, the PBoC has been keeping its 7-day reverse repo rate unchanged, and Chinese banks refrained from lowering their loan prime rates (LPRs) last Friday. We believe that an upcoming adjustment to existing home mortgage rates and squeezed bank interest margins are the primary reasons behind this rate freeze.

- Prior to the 14-day reverse repo cut, authorities also announced that PBoC Governor Pan Gongsheng will hold a press conference today on financial support for economic development.

- Chinese regulators are reportedly considering another adjustment to existing home mortgage rates to align them with the rates for new home mortgages, implying a potential rate cut of up to 80bps. If fully implemented, this rate cut could reduce bank interest income by approximately RMB300b per year, equivalent to 13% of China's bank profits in 2023. This, combined with compressed bank interest margins, suggests that banks need time and further deposit rate cuts to buffer the expected decline in interest income and manage related risks. Notably, net interest margins for commercial banks in China averaged 1.54% at the end of 2Q24, notably below the 1.8% level required to maintain profitability. In this sense, it is unlikely that we will see another rate cut to China's 5Y LPR by the end of this year.

BSP: Decidedly Dovish

- **The BSP has decidedly turned dovish.** BSP cut the reserve requirement ratio last Friday, and BSP had earlier in May said that they will not cut RRR as long as they are still hawkish. In addition, the RRR cut came a day after Finance Minister Recto, who is on BSP board, remarked that he would support a 50bps cut. Such signalling of upcoming policy moves is not foreign to BSP. This was seen in October last year, where BSP alluded to the possibility of an off-cycle hike on inflationary pressures, before walking the talk with a hike the week after; as well as easing expectations for an August cut as early as since May this year. Even before the RRR cut, BSP Governor Remolona had hinted at such cuts two days earlier, commenting that the timing was being discussed.

- In view of the developments, we raised **our forecast to a 50bps cut in October followed by a further 25bps cut in December.** We had previously pencilled in a 25bps cut at the October meeting to allow some room for another 25bps cut at the December meeting should Q3 continue to show deterioration in household consumption. This was premised on BSP Governor Remolona remarking at August meeting that 50bps of cuts in Q4 was reserved for a scenario where something "really bad" happens.

- **To be clear, BSP does have room and reason to cut.** After all, it has hiked rates by 425bps -- the largest cumulative hikes among regional peers; and policy rates at 6.25% remains much higher than 2016-2019 average nominal policy of 3.64%. In real terms, current real policy rate is 2.9%, against 2016-2019 average of ~0.7%.

- With rates at these levels, cracks in domestic consumption have been evident. Household consumption have contracted for two consecutive quarters on a QoQ basis, amid contracting domestic trade volumes, pointing to stretched wallets. Even as overall growth could still hold up on increased electronics exports and continued recovery in tourism, **BSP is likely to want to alleviate pressure off the domestic economy.** Meanwhile, inflation ought to remain within the target range as administrative measures (e.g. reduction in rice tariffs) are likely to remain in place as long as upside risks of food inflation remain.

- **BSP's dovishness and the likelihood of a fast and furious rate cut cycle would weigh on PHP's performance**, especially as we expect other high-yield EM Asia currencies (e.g. IDR, INR) to ease policy at a slower pace.

DATA/EVENTS

Yesterday/Overnight	Actual	Exp.	Prior
(MY) CPI YoY (Aug)	1.9%	2.0%	2.0%
(SG) CPI/Core YoY (Aug)	2.2%/2.7%	2.1%/2.6%	2.4%/2.5%
(TW) Unemployment Rate (Aug)	3.4%	3.3%	3.3%
(US) Chicago Fed Activity Index (Aug)	0.12	-0.20	-0.42
(EZ) HCOB EZ Mfg/Services PMI (Sep P)	44.8/50.5	45.7/52.3	45.8/52.9
(US) S&P US Mfg/Services PMI (Sep P)	47.0/55.4	48.6/55.2	47.9/55.7

Today

(AU) RBA Cash Rate Target	4.35%	4.35%
(KR) PPI YoY (Aug)	--	2.6%
(TW) Export Orders YoY (Aug)	7.3%	4.8%
(US) Conf. Board Consumer Confidence (Sep)	102.8	103.3
(US) Richmond Fed Mfg Index (Sep)	--	-19.0
(GE) IFO Business Climate/Expt (Sep)	--	86.6/86.8

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	143.61	143.66	▼0.17%	142.00 - 145.00
EURUSD	1.1111	1.1111	▼0.46%	1.1000 - 1.1180
GBPUSD	1.3347	1.3349	+0.20%	1.3250 - 1.3400
AUDUSD	0.6838	0.6834	+0.46%	0.6770 - 0.6900
DXY	100.9	--	+0.13%	100.2 - 101.4
USDCNY	7.0521	--	+0.07%	7.0200 - 7.0800
USDCNH	7.0604	7.0596	+0.26%	7.0200 - 7.0900
USDHKD	7.7862	7.7866	▼0.05%	7.7800 - 7.7950
USDSGD	1.2905	1.2910	+0.00%	1.2860 - 1.3000
USDKRW	1334	1335	+0.00%	1320 - 1345
USDTWD	32.05	--	+0.22%	31.85 - 32.20
USDINR	83.56	--	▼0.02%	83.20 - 83.70
USDIDR	15200	--	+0.33%	15050 - 15300
USDMYR	4.203	4.203	▼0.02%	4.160 - 4.240
USDPHP	55.97	--	+0.52%	55.60 - 56.30
USDTHB	33.01	32.95	▼0.14%	32.70 - 33.20
USDVND	24618	24618	+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)	3.589	3.751	-0.4	0.9
JGB (JP)	0.375	0.839	0.0	0.0
Bunds (GE)	2.146	2.155	-8.1	-5.1
Gilts (UK)	3.912	3.922	-0.8	2.1
AGB (AU)	3.663	3.959	3.8	4.1
SGS (SG)	2.346	2.536	3.7	6.9
CGB (CN)	1.395	2.034	0.9	0.0
KGB (KR)	3.055	2.932	0.7	-0.4
SDL (IN)	6.768	6.674	0.3	0.0

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	159.57	159.62	▼0.64%
GBP/JPY	191.687	191.758	+0.00%
JPY/SGD (100yen)	0.8986	0.8987	+0.20%
JPY/HKD (100yen)	5.4218	5.4203	+0.17%
CNH/JPY	20.321	20.371	▼0.48%
CNH/HKD	1.104	1.1042	▼0.15%
EUR/GBP	0.83245	0.83238	▼0.66%
AUD/NZD	1.0912	1.0905	▼0.02%
EUR/CNH	7.8453	7.8439	▼0.20%
GBP/CNH	9.4255	9.4235	+0.47%

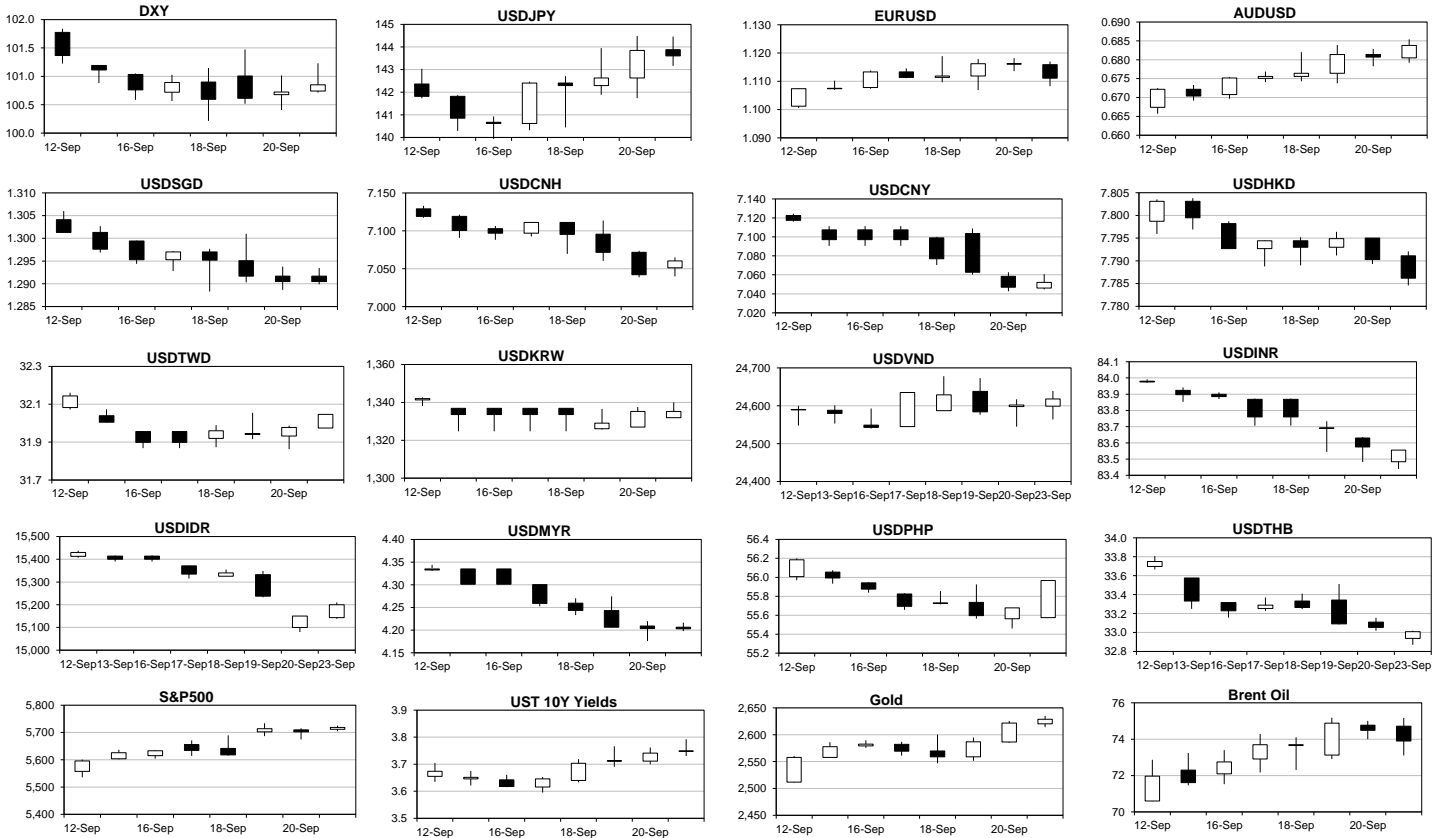
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5718.57	16.02	+0.28%
Nasdaq (US)	17974.27	25.95	+0.14%
DJIA (US)	42124.65	61.29	+0.15%
N225 (JP)	37723.91	0.00	+0.00%
STOXX50 (EU)	4885.57	14.03	+0.29%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4515	13.92	+0.31%
STI (SG)	3638.54	13.78	+0.38%
SHCOMP (CN)	2748.918	12.10	+0.44%
SZCOMP (CN)	1496.824	2.16	+0.14%
HSI (HK)	18247.11	-11.46	▼0.06%
SENSEX (IN)	84928.61	384.30	+0.45%
JSE (ID)	7775.731	32.73	+0.42%
KLSE (MY)	1665.3	-3.52	▼0.21%
PSE (PH)	7417.25	164.93	+2.27%
SET (TH)	1447.9	-3.79	▼0.26%
VNINDEX (VN)	1268.48	0.00	▼0.28%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,413.08	66.63	+0.71%
IRON ORE (CN)	91.38	-0.39	▼0.64%
GOLD	2,628.72	6.84	+0.26%
SILVER	30.69	0.18	+7.35%
OIL (BRENT)	73.90	-0.59	▼0.79%
OIL (WTI)	70.37	-1.55	▼2.16%
NATURAL GAS	2.61	-0.48	▼1.55%

CHARTS



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