

Sep 25, 2024

## Three Take-Aways

- 1) Markets deem PBoC stimulus a "bazooka", unleashing emphatic risk-on.
- 2) CNH surge to 16 month high, AUD outperform on CNH proxy.
- 3) BoJ confronted by global policy divergence.

### MACRO THEME: Bazookas & Pea-shooters

- The markets were clearly "risk on" as euphoria about the PBoC "bazooka" resonated through European and US hours. This feeds into, and off" out-sized stimulus elsewhere, underpinning the optimism in the markets. But an announcement bazooka runs the risk of a peashooter in terms of execution and/or outcomes.

- The former is a clear risk in the details of accompanying equity markets boosting measures and property funding uptake. And the latter must grapple with a chronic consumer/home-buyer/business confidence deficit that constrains stimulus multipliers.

- And the PBoC bazooka has inadvertently handed BoJ the challenge of a communication pea-shooter; in its (now more challenging) attempts to temper and nuance tightening expectations.

**Yields (2Y: -4.9bps; 10Y: -2.1bps; 30Y: -0.7bps)**

- The UST yield curve continued to steepen with front end yields falling on worsening consumer confidence.

**Equities (Nasdaq: +0.6%; S&P: +0.3%; Dow:+0.2%)**

- US equities rose across the board as Nasdaq led gains.

**FX (DXY: -0.4%)**

- In the FX complex, PBoC-inspired "risk on" and the Fed speak not materially getting in the way of markets betting on further outsized Fed cuts resulted in broad-based USD softening.

- In other words, the "feel good" USD weakness (alongside lower yields and buoyant equities) feeding into bullish CNH emboldened by PBoC stimulus. And while the CNH rally featured prominently for (counter-intuitively from a rate differential perspective) surging post-PBoC, it was not unmatched. In fact, higher-beta China play currencies such as the AUD rallied far more (up almost 1% to test 0.69). This should boost wider AXJ and hard commodity FX. Sustaining momentum will be dependent on China-PBoC optimism following through and not fizzling if further announcements/bullish details don't come through by end of the month.

### China: CNH Bulls Wielding PBoC Bazooka?

- The PBoC unleashed policy euphoria as markets deemed the "big guns" unleashed<sup>^</sup> with the rash of aggressive (by PBoC standards) stimulus. Chinese equities have surged, with the ETFs, known to be the preferred conduit for policy buying, getting a solid leg-up.

- And the CNH has pulled off a remarkable surge (considering typically lower-beta CNH tendencies) to probe sub-7 levels, which is a 16-month high for CNH.

But the CNH bulls wielding the PBoC's bazooka is a delicate, if not precarious, dynamic. For it is premised on not one, but two "Goldilocks" policy proposition. Goldilocks Policy 1: The PBoC's policy stimulus is adequately successful so that growth recovery supplants deflation risks and offsets rate cut drag on CNH.

Goldilocks Policy 2: The PBoC can pull off "Goldilocks Policy 1" whilst cutting less than the Fed and unencumbered by US slowdown (requiring larger Fed cuts).

What's more, CNH bulls not only require Goldilocks, but must necessarily avoid grizzly US elections/geo-politics bears. And in any case, the jury may still be out on whether what looks like a bazooka fires like one. Particularly given pre-disposition of compromised growth (consumption and investment) multipliers, which may diminish the lift from the intended stimulus.

<sup>^</sup>This not only included a "double-barelled" coincident repo (-20bp to 1.50%) and RRR (-50bp) cuts, but also unprecedented forward guidance on more pipeline cuts as required. What's more, measures to prop up the property market and boost equities were also announced in tandem. The resultant liquidity boost is expected to be potentially massive, and significantly larger than past stimulus.

### BoJ: Collateral Damage & Policy Calculus

- Through no fault of its own, the BoJ found itself victim of collateral damage from the PBoC's aggressive dovish fire. To be sure, the BoJ struck all the right notes, with unequivocally dovish caveats\*.

- The proof of the pudding was in the desired JPY-Nikkei outcomes consisting; controlled softening of JPY (from mid-143 to test sub-145) in the Asia session; alongside a corresponding leg-up in the Nikkei.

- The upshot is that Governor Ueda unambiguously provided assurance of suspended tightening (a view we expressed earlier\*\*)

- Notably, by downgrading inflation to a receding risk and introducing the flip-side risk of regressing back into deflation. Simply put, the BoJ is mindful of a policy miscalculation resulting in an inadvertent over-tightening. But the PBoC's aggressive dovish assault inadvertently and unexpectedly more than reversed JPY pullback (USD/JPY to 143).

- Admittedly, the "damage" this time is not significant. Net JPY gains were fractional, (USD/JPY mid-143 to 143), and Nikkei will likely remain buoyed given wider "risk on". But trouble is, does not distract from the fact that prominent policy divergence (with an emphatic global easing cycle) sets BoJ up for unwelcome and potentially adverse JPY-Nikkei dynamics, which ultimately threaten to re-introduce deflation risks. Point being, the fragile, uneven and patchy recovery in Japan, partly flattered by JPY weakness, cannot afford the double whammy if adverse income and balance sheet shocks rippling from sharp upside JPY volatility and attendant Nikkei pressures (given negative JPY-Nikkei correlations). This collateral damage from global policy divergence, although limited in yesterday's PBoC episode, is nevertheless a potentially explosive policy can that is merely kicked down the road. Which means that nothing is off the table for BoJ policy calculus. From suspended tightening, to perhaps even reverting to easing (under certain circumstances).

\* Selected excerpts of Governor Ueda's comments. "Upside risks to inflation have eased." | "(BoJ) has time to consider policy options." "Must avoid returning to deflation." | "Important for FX to move in a stable manner, reflecting economic fundamentals."

### FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	143.23	142.98	▼0.26%	142.00 - 145.00
EURUSD	1.1180	1.1191	+0.62%	1.1000 - 1.1300
GBPUSD	1.3413	1.3426	+0.49%	1.3250 - 1.3500
AUDUSD	0.6892	0.6905	+0.79%	0.6770 - 0.6950
DXY	100.5	--	▼0.38%	100.0 - 101.4
USDCNY	7.0318	--	▼0.29%	6.9800 - 7.0800
USDCNH	7.0110	7.0013	▼0.70%	6.9800 - 7.0900
USDHKD	7.7846	7.7832	▼0.02%	7.7800 - 7.7950
USDSGD	1.2835	1.2825	▼0.54%	1.2800 - 1.3000
USDKRW	1326	1330	+0.00%	1320 - 1345
USDTWD	31.97	--	▼0.23%	31.85 - 32.20
USDINR	83.67	--	+0.14%	83.20 - 83.70
USDIDR	15185	--	▼0.10%	15050 - 15300
USDMYR	4.158	4.156	▼1.08%	4.120 - 4.200
USDPHP	56.26	--	+0.52%	55.50 - 56.30
USDTHB	32.86	32.60	▼0.45%	32.50 - 33.20
USDVND	24605	24606	▼0.05%	24500 - 24750

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

### DATA/EVENTS

Yesterday/Overnight	Actual	Exp.	Prior
(AU) RBA Cash Rate Target	4.35%	4.35%	4.35%
(KR) PPI YoY (Aug)	1.6%	--	2.6%
(TW) Export Orders YoY (Aug)	9.1%	8.2%	4.8%
(US) Conf. Board Consumer Confi.(Sep)	98.7	104.0	103.3
(US) Richmond Fed Mfg Index (Sep)	-21.0	-12.0	-19.0
(GE) IFO Business Climate/Expt (Sep)	85.4/86.3	86.0/86.4	86.6/86.8
(CH) 7 Day Reverse Repo	1.5%	--	1.7%
<b>Today</b>			
(JP) PPI Services YoY (Aug)	2.7%	2.6%	2.7%
(US) New Home Sales (Aug)		700k	736k
(AU) CPI YoY (Aug)	2.7%	2.7%	3.5%
(TH) Custom Exports/Imports YoY (Sep)		6.0%/6.5%	15.2%/13.1%
(TW) Industrial Production YoY (Aug)		9.4%	12.3%

## MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.540	3.730	-4.9	-2.1
JGB (JP)	0.343	0.809	-3.2	-3.0
Bunds (GE)	2.093	2.146	-5.3	-0.9
Gilts (UK)	3.915	3.940	0.3	1.8
AGB (AU)	3.552	3.889	-11.1	-7.0
SGS (SG)	2.375	2.578	3.0	4.2
CGB (CN)	1.416	2.057	2.0	2.3
KGB (KR)	3.051	2.872	-0.7	-4.9
SDL (IN)	6.760	6.685	0.3	-3.2

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	160.12	160	+0.34%
GBP/JPY	192.111	191.958	+0.22%
JPY/SGD (100yen)	0.896	0.897	▼0.29%
JPY/HKD (100yen)	5.4349	5.4437	+0.24%
CNH/JPY	20.393	20.333	+0.35%
CNH/HKD	1.1069	1.1069	+0.26%
EUR/GBP	0.8335	0.83353	+0.13%
AUD/NZD	1.0871	1.0871	▼0.38%
EUR/CNH	7.8387	7.8352	▼0.08%
GBP/CNH	9.4035	9.3999	▼0.23%

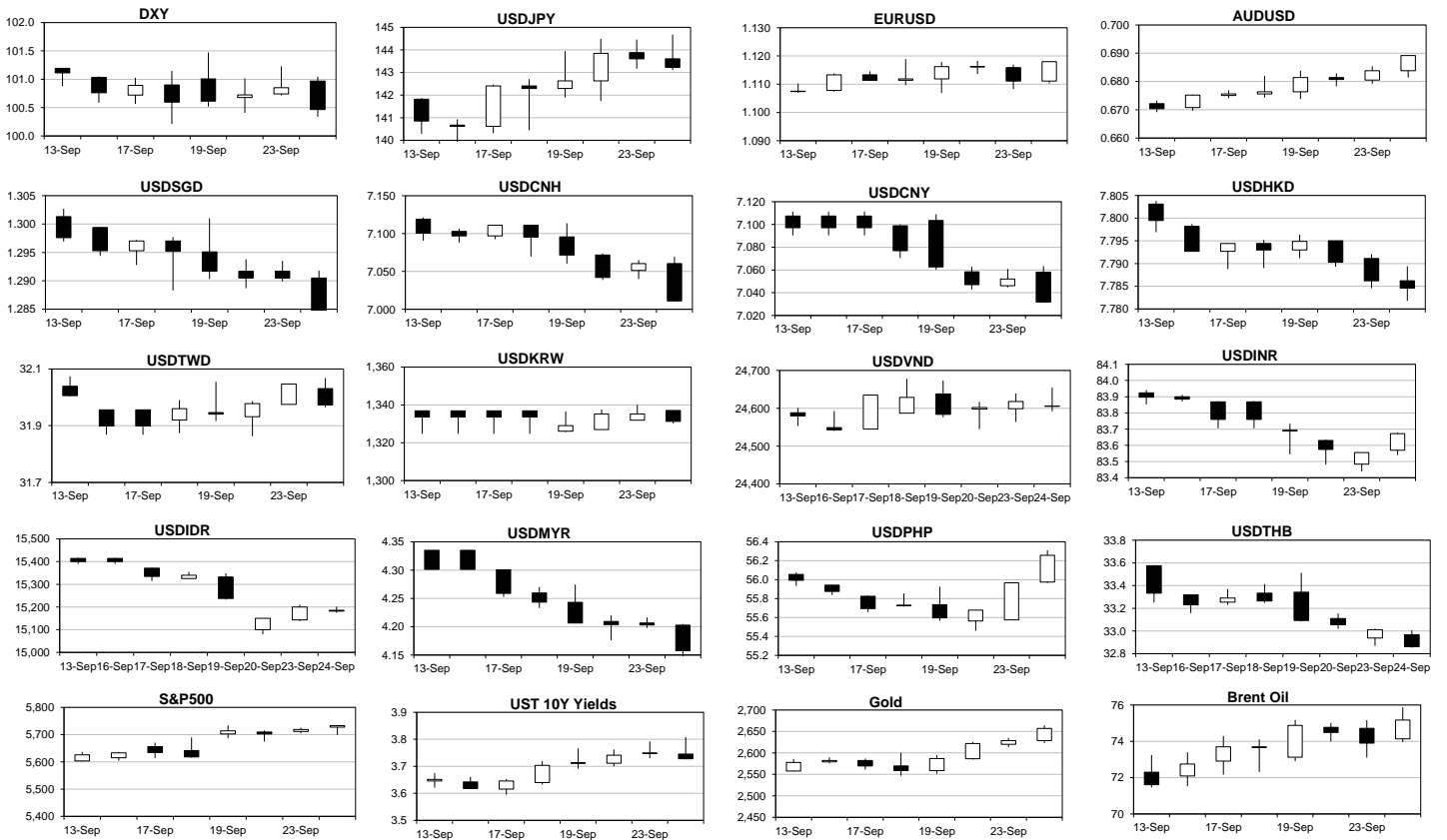
\*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5732.93	14.36	+0.25%
Nasdaq (US)	18074.52	100.25	+0.56%
DJIA (US)	42208.22	83.57	+0.20%
N225 (JP)	37940.59	216.68	+0.57%
STOXX50 (EU)	4940.72	55.15	+1.13%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4523.37	8.37	+0.19%
STI (SG)	3622.74	-15.80	▼0.43%
SHCOMP (CN)	2863.125	114.21	+4.15%
SZCOMP (CN)	1555.976	59.15	+3.95%
HSI (HK)	19000.56	753.45	+4.13%
SENSEX (IN)	84914.04	-14.57	▼0.02%
JSE (ID)	7778.491	2.76	+0.04%
KLSE (MY)	1670.37	5.07	+0.30%
PSE (PH)	7432.21	14.96	+0.20%
SET (TH)	1462.1	14.20	+0.98%
VNINDEX (VN)	1276.99	0.01	+0.67%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,665.31	252.23	+2.68%
IRON ORE (CN)	92.60	0.42	+1.34%
GOLD	2,657.10	28.38	+1.08%
SILVER	32.10	-0.06	▼2.37%
OIL (BRENT)	75.17	1.27	+1.72%
OIL (WTI)	71.56	1.19	+1.69%
NATURAL GAS	2.55	1.40	+4.57%

## CHARTS



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