

Oct 02, 2024

## Three Take-Aways

1) **Iran's retaliation on Israel sparked flight to safety as US equities declined, USTs rallied and USD strengthened.**

2) **US ISM manufacturing signals employment weakness even as job opening inched higher.**

3) **THB's outperformance is of a volatile nature on fortuitous tailwinds on top of recovery in economic fundamentals.**

## MACRO THEME: Seeking Shelter

- Iran's launch of missiles at Israel after Israel sent ground troops into Lebanon, **sparked a flight to safety as USTs rallied and US equities sank and Brent crude prices jumped** above \$74/barrel. The USD's haven allure was again clear, gaining against most peers despite lower UST yields.

- The **geo-political conflict overshadowed the sight of a slightly higher jobs openings for the US labour market.**

- Instead, lower quit rates in the jobs report aligned with lower prices paid in the ISM manufacturing report to support relief on wage price front. Furthermore, **sharp decline in ISM manufacturing employment** added worries for those looking for a soft landing at the upcoming NFP print on Friday. Notably, Atlanta Fed's Bostic has signalled openness to another 50bps cut should job growth slow faster than expected though his baseline outlook is for orderly Fed easing.

- While Iran has communicated that their action has concluded, **the broadening conflict is far from concluding** even if the initial tensions from the missile retaliation may fade given that the attacks were deemed as ineffective.

**Yields (2Y: -3.7bps; 10Y: -4.9bps; 30Y: -4.7bps)**

- USTs rallied and yield curve inverted on haven needs.

**Equities (Nasdaq: -1.5%; S&P: -0.9%; Dow: -0.4%)**

- Nasdaq led losses as US equities declined across the board. The energy sector was an exception, rising on higher oil prices.

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

- USD gained against most G10 peers. USD/JPY managed to stay afloat off 143 on account of marginal JPY haven attraction and lower UST yields. EUR slipped towards mid-1.10.

- AUD sank below 69 cents giving up early gains from buoyant retail sales. Retail sales surprised on the upside growing 0.7% MoM SA in August. Notably the increase in spending was broad based observed in all categories except for household goods. The main driver was attributed to the warmer climate which allowed for stronger spending from dining out at restaurants and cafes alongside opportunistic buying during Fathers' Day sales.

**China: Golden Week?**

- As China enters Golden Week, initial reports of buyers snapping luxury appear to communicate policy effectiveness.

## DATA/EVENTS

Yesterday/Overnight	Actual	Exp.	Prior
(AU) Building Approvals MoM (Aug)	-6.1%	-4.3%	10.4%
(AU) Retail Sales MoM (Aug)	0.7%	0.4%	0.0%
(ID) CPI/Core YoY (Sep)	2.1%/1.8%	2.0%/2.0%	2.1%/2.0%
(KR) Exports/Imports YoY (Sep)	7.5%/2.2%	6.4%/5.0%	11.2%/6.0%
(US) JOLTS Job Openings (Aug)	8040k	7693k	7711k
(US) ISM Mfg/Prices Paid (Sep)	47.2/48.3	47.6/53.8	47.2/54.0
(EZ) CPI Estimate/Core YoY (Sep/P)	1.8%/2.7%	1.8%/2.7%	2.2%/2.8%
(JP) Tankan Large Mfg/Non-Mfg Index(3Q)	12/34	12/32	13/33
(JP) Jobless Rate (Aug)	2.5%	2.6%	2.7%
Today			
(KR) CPI/Core YoY (Sep)	1.6%/2.0%	1.9%/2.0%	2.0%/2.1%
(SG) Purchasing Managers Index (Sep)		--	50.9
(SG) Electronics Sector Index (Sep)		--	51.3
(US) ADP Employment Rate (Sep)		--	99k
(EZ) Unemployment Rate (Aug)		6.4%	6.4%

- Nonetheless, given substantial widening of the pool of eligible buyers, higher demand for prime site developments is not entirely surprising especially if we factor in loosened capital gains tax rules. In turn, it may be also hard to fully assess the impact of recent stimulus from the golden week spending given that many flights and lodging would have been pre-booked.

## THB: Fundamentals and Fortuitous Tailwinds (Part 2)

- Following Part 1 from Mizuho Daily (26 Sep) which provided a **snapshot** from the goods and services angle which affirmed the current account **surplus** in **August** that assisted THB recovery.

- A **historical comparison** provides greater clarity. In 2023, there were 4 months of current account deficit and the annual balance stood at a surplus of \$US7.4bn with US\$6.8bn accumulated in H2 2023. Thus far, from Jan-Aug, US\$4.8bn has been accumulated in current account surplus far outstripping the US\$0.8bn surplus in first 8 months of 2023.

- Nonetheless, **these amounts pale in comparison to the 2019 annual surplus of US\$38bn**, with 2024 estimates (assuming moderate surplus) **likely just a quarter of pre-Covid levels**. In turn, while the recent bullish run in THB is not unwarranted, **some healthy skepticism ought to seep in especially as the USD/THB attempts to test sub-32 levels which encroaches into 2019 territory**, abstracting of Covid induced quirks in 2020 and 2021. Admittedly, the current account surplus and THB mapping is far from being perfectly correlated but with **current account balance recovery still 75% to go**, THB bull rally ought to retain caution.

- Nonetheless, rate differentials are certainly not forgotten with **current nominal rates in Thailand about 75-125 bps higher** than in 2019 depending on the month of comparison. However, the rate allure remains driven by expectations of Fed easing which has seen UST 2Y yields plummet 120ps since mid-June. That said, **current UST yields are still 100-200bps above 2019 levels** depending on the month of comparison. With markets now pricing in 190 bps of cuts by end-2025, THB bulls may have to look elsewhere for further legs to the rally.

- On that note, **aside from fundamentals, one should not discount the fortuitous tailwinds** which has aided THB gains. First, strongly correlated JPY-THB allowed the THB to enjoy positive spillovers.

- Second, THB's role as a **China proxy in terms of tourism and trade also provided second wind** as Chinese authorities unleashed emphatic stimulus. While these measures have indeed given Chinese asset markets a substantial boost, it remains to be seen if actual economic can come through especially for the **likes of the THB which necessitates followup from tourism spending from Chinese visitors**.

- Lastly, we end on a note of caution signalling a period of **volatile consolidation** for the THB as the fiscal path remains a domestic structural worry and the broader external backdrop of an existence of a large expectations gap of Fed dot plot and market pricing.

FX Forecasts	Dec 24	Mar 25	Jun 25	Sep 25	Dec 25
USD/THB	30.9 - 34.6 (33.6)	31.8 - 34.8 (33.4)	32.1 - 34.3 (33.0)	31.4 - 33.6 (32.3)	31.6 - 33.8 (32.5)

## FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	143.57	143.74	▼0.04%	141.50 - 146.50
EURUSD	1.1068	1.1064	▼0.60%	1.1000 - 1.1100
GBPUSD	1.3286	1.3273	▼0.67%	1.3300 - 1.3450
AUDUSD	0.6883	0.6880	▼0.43%	0.6840 - 0.6940
DXY	101.2	--	+0.41%	100.4 - 102.0
USDCNY	7.0187	--	+0.00%	6.9800 - 7.0500
USDCNH	7.0302	7.0314	+0.33%	6.9700 - 7.0700
USDHKD	7.7715	7.7723	▼0.02%	7.7600 - 7.7900
USDSGD	1.2881	1.2883	+0.24%	1.2820 - 1.2930
USDKRW	1323	1326	+0.00%	1310 - 1345
USDTHB	31.85	--	+0.59%	31.40 - 31.90
USDINR	83.82	--	+0.02%	83.65 - 84.00
USDIDR	15200	--	+0.40%	15050 - 15325
USDMYR	4.157	4.157	+0.81%	4.100 - 4.190
USDPHP	56.16	--	+0.21%	55.50 - 56.50
USDTHB	32.59	32.55	+1.28%	32.10 - 32.90
USDVND	24610	24609	+0.17%	24550 - 24660

\*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	3.732	-3.6	-5.0
JGB (JP)	0.382	0.845	-0.1	-0.8
Bunds (GE)	2.015	2.034	-4.9	-8.8
Gilts (UK)	3.950	3.939	-2.8	-6.3
AGB (AU)	3.613	4.007	-3.1	3.5
SGS (SG)	2.454	2.617	3.8	1.4
CGB (CN)	1.432	2.168	0.0	0.0
KGB (KR)	3.029	2.865	-4.8	-3.6
SDL (IN)	6.734	6.655	-0.9	-0.1

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	158.9	159.03	▼0.65%
GBP/JPY	190.734	190.779	▼0.72%
JPY/SGD (100yen)	0.8972	0.8963	+0.29%
JPY/HKD (100yen)	5.4131	5.4074	+0.01%
CNH/JPY	20.457	20.465	+0.02%
CNH/HKD	1.1076	1.1074	+0.01%
EUR/GBP	0.83307	0.83357	+0.07%
AUD/NZD	1.0959	1.095	+0.63%
EUR/CNH	7.7835	7.7811	▼0.27%
GBP/CNH	9.3393	9.3328	▼0.35%

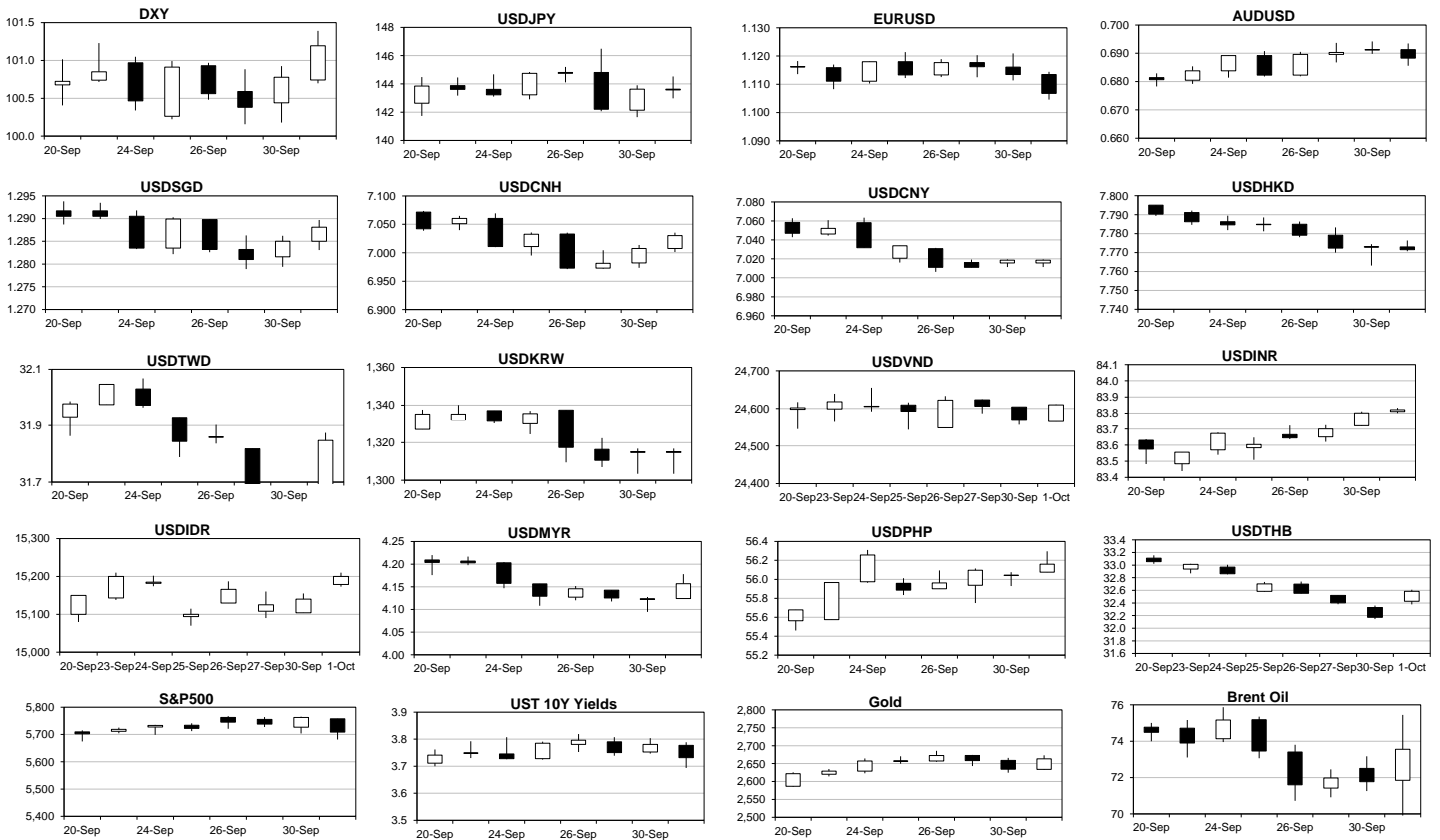
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G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5708.75	-53.73	▼0.93%
Nasdaq (US)	17910.36	-278.81	▼1.53%
DJIA (US)	42156.97	-173.18	▼0.41%
N225 (JP)	38651.97	732.42	+1.93%
STOXX50 (EU)	4954.15	-46.30	▼0.93%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4525.27	14.27	+0.32%
STI (SG)	3580.96	-4.33	▼0.12%
SHCOMP (CN)	3336.497	0.00	+0.00%
SZCOMP (CN)	1927.476	0.00	+0.00%
HSI (HK)	21133.68	0.00	+0.00%
SENSEX (IN)	84266.29	-33.49	▼0.04%
JSE (ID)	7642.133	114.20	+1.52%
KLSE (MY)	1656.39	7.48	+0.45%
PSE (PH)	7380.32	107.67	+1.48%
SET (TH)	1464.66	15.83	+1.09%
VNINDEX (VN)	1292.2	0.00	+0.33%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,840.22	148.21	+1.53%
IRON ORE (CN)	108.24	15.64	+15.36%
GOLD	2,663.23	28.65	+1.09%
SILVER	31.46	-0.03	▼0.92%
OIL (BRENT)	73.56	1.79	+2.49%
OIL (WTI)	69.83	1.66	+2.44%
NATURAL GAS	2.90	0.30	+0.95%

## CHARTS



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