

Oct 07, 2024

Three Take-Aways

- 1) Strong jobs report quashed expectations of another jumbo cut in Nov; UST yields climbed.**
- 2) Market unlikely to be too fussed over China's incoming data for Sep; focus instead turns to upcoming data on tourism spending, home sales and details of fiscal stimulus.**
- 3) Expect RBI to cut rates on Wed on restrictive real rates, contained inflation, mitigated credit risks and record FX reserves to backstop the INR.**

MACRO THEME: Quashed Expectations

- **Expectations of another jumbo cut at the November meeting were quashed on a strong jobs report.** Robust hiring in September, better than expected hourly earnings growth, coupled with unemployment rate unexpectedly falling to 4.1%, painted a rosy jobs picture. The hot jobs report led a sharp readjustment to rate cut expectations. Based on Fed Funds Futures, odds of a November cut fell from a 35% probability of a 50bps cut on Thursday, to slightly shy of a 100% chance of a 25bps cut.

- Apart from a slower pace of cuts, the hot jobs report likely also presented some risks of inflation reignited, especially as August inflation report showed some signs of stickiness on housing and other services. Fed Goolsbee remarks that there were some signs that inflation could undershoot Fed's 2% target, even as he lauded the strong jobs market, saw markets unmoved in the treasury sell-off.

Yields (2Y: +21.8bps; 10Y: +12.1bps; 30Y: +7.3bps)

- UST yield curve were led higher by the front-end, but retained its upward slope.

Equities (Nasdaq: +1.2%; S&P: +0.9%; Dow: +0.8%)

- US equities were buoyant on US exceptionalism, with financials and consumer discretionary counters leading the gains.

FX (DXY: +0.5%)

- The USD was stronger against G10 currencies on higher UST yields. JPY led losses and USD/JPY moving above mid-148 levels.

- EUR fell below 1.10 handle, while AUD dipped to around 68 cents.

- Elsewhere, USD/SGD moved back above 1.30 handle.

China: Growth Concerns in the rearview?

- China's economic indicators for September are expected to reveal weakening domestic demand and ongoing deflationary pressures. Alongside the ongoing property slump and a deteriorating job market, typhoons affecting Hainan and the Yangtze River Delta are also likely to dampen activity growth for the month. We project China's GDP growth to hit a two-year low of 4.5% for Q3'24.

- However, the market is likely to overlook these concerns in the rearview, as China's recent policy boost has ignited risk-on sentiment. Instead, attention will now turn to tourism spending during the Golden Week, daily new home sales in the coming weeks, and, most critically, the size and specifics of the expected fiscal stimulus package. While there is growing speculation about fiscal support of up to RMB10tn, we remain cautious and foresee a fiscal stimulus of around RMB2tn, funded through special sovereign bonds to aid domestic consumption and local debt, with eased criteria for the use and issuance of special local government bonds.

The Case for a RBI Cut

- **Non-Consensus:** When the RBI meets on 9 Oct, the consensus is for a hold. **Our non-consensus call is for a cut.** This is not an opportunistic exploitation, but a **warranted calibration.**

- **Not a Fed Catalyst:** First things first. **Despite the timing of our call for this cut** (right after an outsized 50bp Fed cut in Sep) it is **not premised on policy flexibility granted by a Fed pivot.**

- **Although it Helps:** Admittedly, the **Fed kicking off an emphatic rate cut cycle helps.** Most importantly by **mitigating currency- and macro-stability risks** that may otherwise be prompted (if Fed had held steady).

- **With Record Reserve to Boot:** Especially as **record high FX reserves (>\$600bn) fundamentally bolster the rupee** in relative terms, **alleviating unnecessary policy dilemma.**

- **Very Restrictive:** Above all, the wider point is that the RBI can, and should, ease policy as **real policy rate is highly restrictive** whilst **inflation is well-contained.** In fact, **in real, core inflation terms policy settings are at about the most restrictive it has been in a decade.**

- **Corresponding to Sharper Rate Cuts:** So much so that the last time (real) rates were this restrictive, the RBI had already embarked on an aggressive rate cutting cycle.

- **At Least Some Adjustment:** This time, the rate **cutting cycle need not be as aggressive.** Especially **if the RBI gradually starts calibrating lower.** And some calibration at this point is **amply justified.**

- **Especially as Headwinds Appearing:** **More so, as global headwinds to growth may conspire with some slowdown in domestic demand conditions.**

- **Sharply Lower Credit Growth:** Finally, a **sharp slowdown in personal loans** means that the **RBI need not overcompensate with higher rates.** Instead, **lowering rates could help buoy lagging industrial credit growth and incentivise capex.**

- The upshot is that with **inflation well-anchored, real rates exceptionally restrictive, rupee backstopped by record reserves** and **credit/financial stability risks mitigated, a more timely (-25bp) calibration lower in rates is compelling.**

DATA/EVENTS

| Yesterday/Over the Weekend | Actual | Exp. | Prior |
|---------------------------------------|------------|---------|------------|
| (SG) Retail Sales/Ex Auto YoY (Aug) | 0.6%/-1.5% | 0.2%/- | 1.0%/-2.3% |
| (PH) CPI YoY (Sep) | 1.9% | 2.5% | 3.3% |
| (US) Change in Nonfarm Payrolls (Sep) | 254k | 150k | 159k |
| (US) Unemployment Rate (Sep) | 4.1% | 4.2% | 4.2% |
| (US) Avg Hourly Earnings MoM (Sep) | 0.4% | 0.3% | 0.5% |
| (VN) Trade Balance (Sep) | \$2291m | \$2350m | \$4530m |
| (VN) Industrial Production YoY (Sep) | 10.8% | -- | 9.5% |
| (VN) Retail Sales YoY (Sep) | 7.6% | -- | 7.9% |
| (VN) CPI YoY (Sep) | 2.6% | 2.7% | 3.5% |
| (VN) GDP YoY (3Q) | 7.4% | 6.0% | 6.9% |

Today

| | | |
|---------------------------------------|-----------|-----------|
| (TH) CPI/Core YoY (Sep) | 0.8%/0.7% | 0.4%/0.4% |
| (EZ) Retail Sales MoM (Aug) | 0.2% | 0.1% |
| (EZ) Sentix Investor Confidence (Oct) | -14.0 | -15.4 |
| (JP) Coincident Index (Aug P) | 113.6 | 117.2 |
| (JP) Leading Index CI (Aug P) | 107.0 | 109.3 |

FX OUTLOOK

| FX | Close (NY) | Open* | Daily %Δ | Forecast |
|--------|------------|--------|----------|-----------------|
| USDJPY | 148.70 | 148.84 | +1.20% | 147.50 - 151.00 |
| EURUSD | 1.0974 | 1.0971 | ▼0.52% | 1.0850 - 1.1050 |
| GBPUSD | 1.3122 | 1.3124 | ▼0.02% | 1.2900 - 1.3200 |
| AUDUSD | 0.6795 | 0.6799 | ▼0.66% | 0.6700 - 0.6850 |
| DXY | 102.5 | -- | +0.52% | 102.0 - 103.2 |
| USDCNY | 7.0187 | -- | +0.00% | 6.9800 - 7.0500 |
| USDCNH | 7.0984 | 7.0995 | +0.67% | 7.0600 - 7.1300 |
| USDHKD | 7.7668 | 7.7665 | +0.03% | 7.7600 - 7.7800 |
| USDSGD | 1.3045 | 1.3048 | +0.55% | 1.2950 - 1.3140 |
| USDKRW | 1344 | 1350 | +0.00% | 1340 - 1365 |
| USDTHW | 31.98 | -- | +0.41% | 31.80 - 32.40 |
| USDINR | 83.98 | -- | +0.01% | 83.80 - 84.20 |
| USDIDR | 15485 | -- | +0.42% | 15400 - 15700 |
| USDMYR | 4.220 | 4.215 | ▼0.05% | 4.200 - 4.290 |
| USDPHP | 56.29 | -- | ▼0.19% | 56.10 - 57.00 |
| USDTHB | 33.04 | 33.33 | ▼0.18% | 33.20 - 33.80 |
| USDVND | 24756 | 24767 | +0.00% | 24700 - 24900 |

*Open is as at 8am HKT/SGT.

MARKET MOVES

| Bond Yields | 2Y Close | 10Y Close | 2Y Δ (bps) | 10Y Δ (bps) |
|-------------|----------|-----------|------------|-------------|
| UST (US) | 3.924 | 3.968 | 21.8 | 12.1 |
| JGB (JP) | 0.364 | 0.877 | 0.4 | 5.5 |
| Bunds (GE) | 2.200 | 2.209 | 12.2 | 6.6 |
| Gilts (UK) | 4.134 | 4.129 | 16.8 | 11.4 |
| AGB (AU) | 3.666 | 4.074 | 6.0 | 6.4 |
| SGS (SG) | 2.570 | 2.742 | 6.0 | 6.0 |
| CGB (CN) | 1.432 | 2.168 | 0.0 | 0.0 |
| KGB (KR) | 3.046 | 2.846 | 7.3 | 21.8 |
| SDL (IN) | 6.835 | 6.682 | 0.9 | 0.4 |

| Cross FX | Close (NY) | Open* | Daily %Δ |
|------------------|------------|---------|----------|
| EUR/JPY | 163.26 | 163.29 | +0.72% |
| GBP/JPY | 195.124 | 195.331 | +1.18% |
| JPY/SGD (100yen) | 0.8772 | 0.8767 | ▼0.66% |
| JPY/HKD (100yen) | 5.2242 | 5.2182 | ▼1.13% |
| CNH/JPY | 21.204 | 21.206 | +1.37% |
| CNH/HKD | 1.1065 | 1.1066 | +0.00% |
| EUR/GBP | 0.83618 | 0.83595 | ▼0.51% |
| AUD/NZD | 1.1032 | 1.1037 | +0.20% |
| EUR/CNH | 7.7874 | 7.7889 | +0.09% |
| GBP/CNH | 9.3198 | 9.3174 | +0.70% |

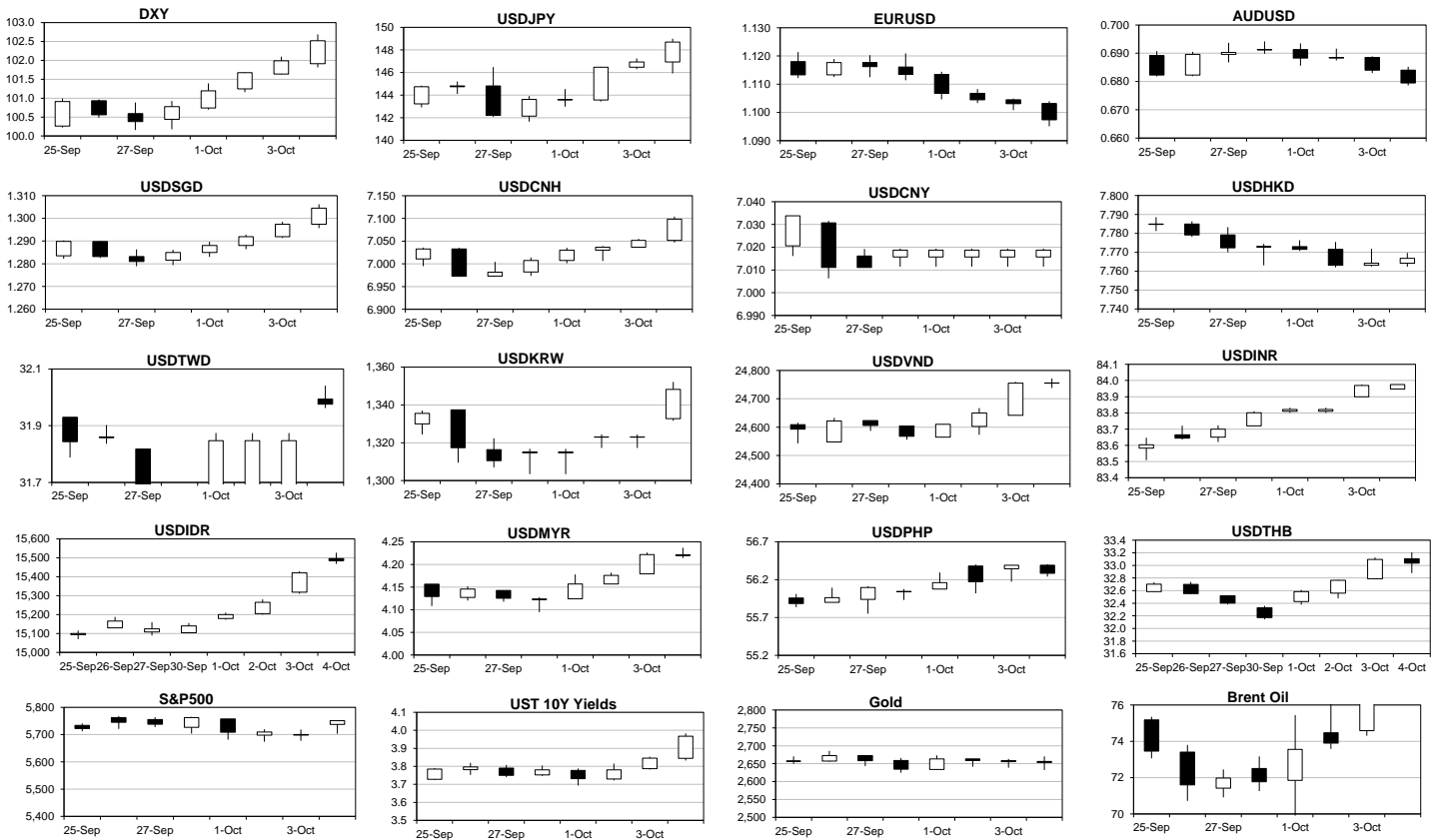
*Open is as at 8am HKT/SGT.

| G3 Equities | Close | Net Chg | Daily %Δ |
|--------------|----------|---------|----------|
| S&P500 (US) | 5751.07 | 51.13 | +0.90% |
| Nasdaq (US) | 18137.85 | 219.38 | +1.22% |
| DJIA (US) | 42352.75 | 341.16 | +0.81% |
| N225 (JP) | 38635.62 | 83.56 | +0.22% |
| STOXX50 (EU) | 4954.94 | 33.61 | +0.68% |

| Asia Equities | Close | Net Chg | Daily %Δ |
|---------------|----------|---------|----------|
| ASX (AU) | 4527.24 | 4.07 | +0.09% |
| STI (SG) | 3589.13 | 11.70 | +0.33% |
| SHCOMP (CN) | 3336.497 | 0.00 | +0.00% |
| SZCOMP (CN) | 1927.476 | 0.00 | +0.00% |
| HSI (HK) | 22736.87 | 623.36 | +2.82% |
| SENSEX (IN) | 81688.45 | -808.65 | ▼0.98% |
| JSE (ID) | 7496.091 | -47.74 | ▼0.63% |
| KLSE (MY) | 1629.97 | -11.58 | ▼0.71% |
| PSE (PH) | 7467.92 | 79.00 | +1.07% |
| SET (TH) | 1444.25 | 1.52 | +0.11% |
| VNINDEX (VN) | 1270.6 | -0.01 | ▼0.59% |

| Commodity | Close | Net Chg | Daily %Δ |
|---------------|----------|---------|----------|
| COPPER (LME) | 9,796.41 | 78.49 | +0.81% |
| IRON ORE (CN) | 108.69 | 15.19 | ▼0.39% |
| GOLD | 2,653.60 | -2.29 | ▼0.09% |
| SILVER | 32.20 | -0.12 | ▼3.91% |
| OIL (BRENT) | 78.05 | 0.43 | +0.55% |
| OIL (WTI) | 74.38 | 0.67 | +0.91% |
| NATURAL GAS | 2.85 | 0.18 | +0.57% |

CHARTS



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