

Oct 08, 2024

## Three Take-Aways

- 1) Front end yields continued to climb as market reduce odds of a 25bp cut in November .
- 2) Brent crude prices surge on continued fears of wider conflict implicating oil facilities.
- 3) VND's moderate performance reflect FX reserves realities despite macro-outperformance.

## MACRO THEME: Rethinking Positions

- UST yields continued to climb as markets re-assess their near term view of the Fed's rate cut path. Odds of 25bp cut in November has fallen from 95% yesterday morning to 85% today.

- While the likes of Fed's Kashkari had re-iterated their earlier support for a 50bps cut, his notes of the **risk being shifted from inflation to unemployment is now being read together with last Friday's NFP outperformance to imply a reduced impetuous for cuts.** This morning, St Louis Fed President Musalem said that further moves should be gradual and the costs of easing too much too soon is greater than the costs of easing too little too late.

- Despite the sharp rise in UST yields, the Greenback's mixed performance among G10 is telling of the interlinkages between geopolitics and oil prices. Against the USD, haven demand buoyed the likes of the CHF while the NOK was boosted by the continued surge in oil prices with Brent Crude rising 4% to above US\$81/barrel.

- The spike in oil prices came alongside reports that Israel intercepted rockets fired by Hezbollah while Israel jets continued attacks in Southern Lebanon. To be clear, the **focus remains largely on the potential that conflict could escalate into attack on Iranian oil production facilities.**

**Yields (2Y: +7.3bps; 10Y: +5.8bps; 30Y: +5.5bps)**

- UST yield curve bear flattened with the 10-2Y spread at around 3 bp.

**Equities (Nasdaq: -1.2%; S&P: -1.0%; Dow: -0.9%)**

- Risk sentiments were dented as US equities fell across the board

**FX (DXY: +0.0%)**

- JPY recovered slightly as USD/JPY slipped towards 148 as FM Kato warned of the negative impact of sudden JPY moves while a regional report from the BoJ affirmed the retention of rate hikes possibility even if it is not in the near term. That said, a backdrop of elevated oil prices and UST yields is hardly conducive for JPY bulls.

- EUR traded sideways in the upper half of mid-1.09. While a rate cut by the ECB appears to loom, ECB's Holzmann warned that the inflation fight is not over as core inflation is still high.

- Despite higher oil prices, AUD slipped towards mid-67 cents alongside a weaker NZD as the RBNZ looks set for a 50bps cut tomorrow.

## DATA/EVENTS

Yesterday/Over the Weekend	Actual	Exp.	Prior
(TH) CPI/Core YoY (Sep)	0.6%/0.8%	0.8%/0.7%	0.4%/0.4%
(EZ) Retail Sales MoM (Aug)	0.2%	0.2%	0.1%
(EZ) Sentix Investor Confidence (Oct)	-13.8	-14.0	-15.4
(JP) Coincident Index (Aug P)	113.5	113.6	117.2
(JP) Leading Index CI (Aug P)	106.70	106.9	109.3
<b>Today</b>			
(JP) Labour/Real Earnings YoY (Aug)	3.0%/-0.6%	2.0%/-0.5%	3.4%/0.3%
(JP) BoP Current Account Bal. (Aug)	¥3803b	¥2955b	¥3193b
(JP) Eco Watchers Current (Sep)		49.2	49.0
RBA Minutes of Sept Policy Meeting			
(KR) BoP Current Account Bal. (Aug)	\$6595m	--	\$8966m
(PH) Unemployment Rate (Aug)		--	4.7%
(TW) Exports/Imports YoY (Sep)		10.9%/12.4%	16.8%/11.8%

## China: Recharged?

- China returns from Golden Week today amid reports that home sales jumped during the holidays with showroom hours extended as transactions in first tier cities rose. Details of fiscal stimulus by the NDRC at 10am (SGT) will be keenly awaiting with focus on the boost to public spending on infrastructure.

- Admittedly, given that broad based consumption injection may still be avoided even though the stimulus package could still be large on aggregate, this may give pause to CNH rally and overdone exuberance.

- However, equity market rallies may still have legs left given clearer liquidity boost from the PBoC's announced measures.

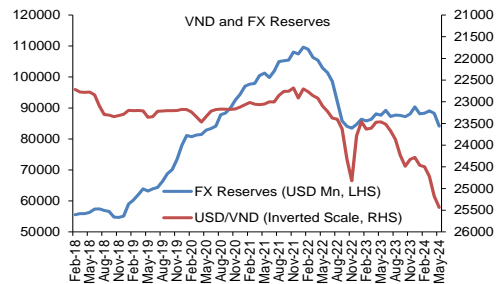
## VND: Asymmetries Abound

- At first glance, the weekend's economic data appear buoyant with Q3 GDP growth heading higher to 7.4% YoY despite headwinds from Typhoon Yagi and subdued headline inflation printing lower at 2.6%. The latter though remains largely driven by large fall in petrol prices which help to offset food inflation spike due to the Typhoon. In turn, core inflation stayed sticky at 2.5%. Admittedly, it appears that such macro-fundamentals ought to have bolstered the VND, though a closer look at FX reserves reflects a more cautious reality.

- First, VND's muted appreciation against the Greenback not only underscores its distinct characteristics of being a rather stable currency, barring sharp episode of vulnerabilities.

- **Recent update of FX reserves data indicate a sharp drop of 4.6% MoM in May 2024 to US\$84bn from US\$88bn** and this was likely needed to defend against VND depreciation pressures as the USD/VND was hitting the upper bound of the SBV's +/- 5% trading band.

- Notably, **FX reserves declined despite persistent current account surplus in Vietnam.** Consequently, **FX import cover ratio stood at 2.5 months of imports**, a sight which is not too comforting for the authorities given that 3 months of imports ratio remains the general international benchmark. In turn, this emphasizes the need for FX accumulation (USD buying) in episodes of USD weakness to build up buffers for the VND, thereby accounting for more subdued VND appreciation.



Source: Bloomberg; Mizuho

## FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	148.18	148.13	▼0.35%	147.50 - 151.00
EURUSD	1.0976	1.0974	+0.02%	1.0850 - 1.1050
GBPUSD	1.3083	1.3084	▼0.30%	1.2900 - 1.3200
AUDUSD	0.6757	0.6756	▼0.56%	0.6700 - 0.6800
DXY	102.5	--	+0.02%	102.0 - 103.2
USDCNY	7.0187	--	+0.00%	6.9800 - 7.0500
USDCNH	7.0712	7.0675	▼0.38%	7.0600 - 7.1300
USDHKD	7.7658	7.7664	▼0.01%	7.7600 - 7.7800
USDSGD	1.3040	1.3040	▼0.04%	1.2950 - 1.3140
USDKRW	1346	1344	+0.00%	1340 - 1365
USDTHW	32.14	--	+0.51%	31.80 - 32.40
USDINR	83.98	--	+0.00%	83.80 - 84.20
USDIDR	15680	--	+1.26%	15500 - 15800
USDMYR	4.285	4.278	+1.54%	4.240 - 4.290
USDPHP	56.81	--	+0.92%	56.40 - 57.00
USDTHB	33.45	33.48	+1.24%	33.20 - 33.80
USDVND	24852	24848	+0.39%	24750 - 24920

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

## MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.996	4.027	7.2	5.9
JGB (JP)	0.409	0.927	4.5	5.0
Bunds (GE)	2.242	2.254	4.2	4.5
Gilts (UK)	4.220	4.208	8.6	7.9
AGB (AU)	3.666	4.074	0.0	0.0
SGS (SG)	2.768	2.894	19.8	15.2
CGB (CN)	1.432	2.168	0.0	0.0
KGB (KR)	3.129	2.986	5.5	7.2
SDL (IN)	6.852	6.678	-1.0	4.5

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	162.63	162.55	▼0.39%
GBP/JPY	193.868	193.807	▼0.64%
JPY/SGD (100yen)	0.8801	0.8803	+0.33%
JPY/HKD (100yen)	5.2406	5.2431	+0.31%
CNH/JPY	21.093	21.105	▼0.52%
CNH/HKD	1.1064	1.1065	▼0.01%
EUR/GBP	0.83887	0.83873	+0.32%
AUD/NZD	1.1033	1.1025	+0.01%
EUR/CNH	7.7594	7.7559	▼0.36%
GBP/CNH	9.252	9.2471	▼0.73%

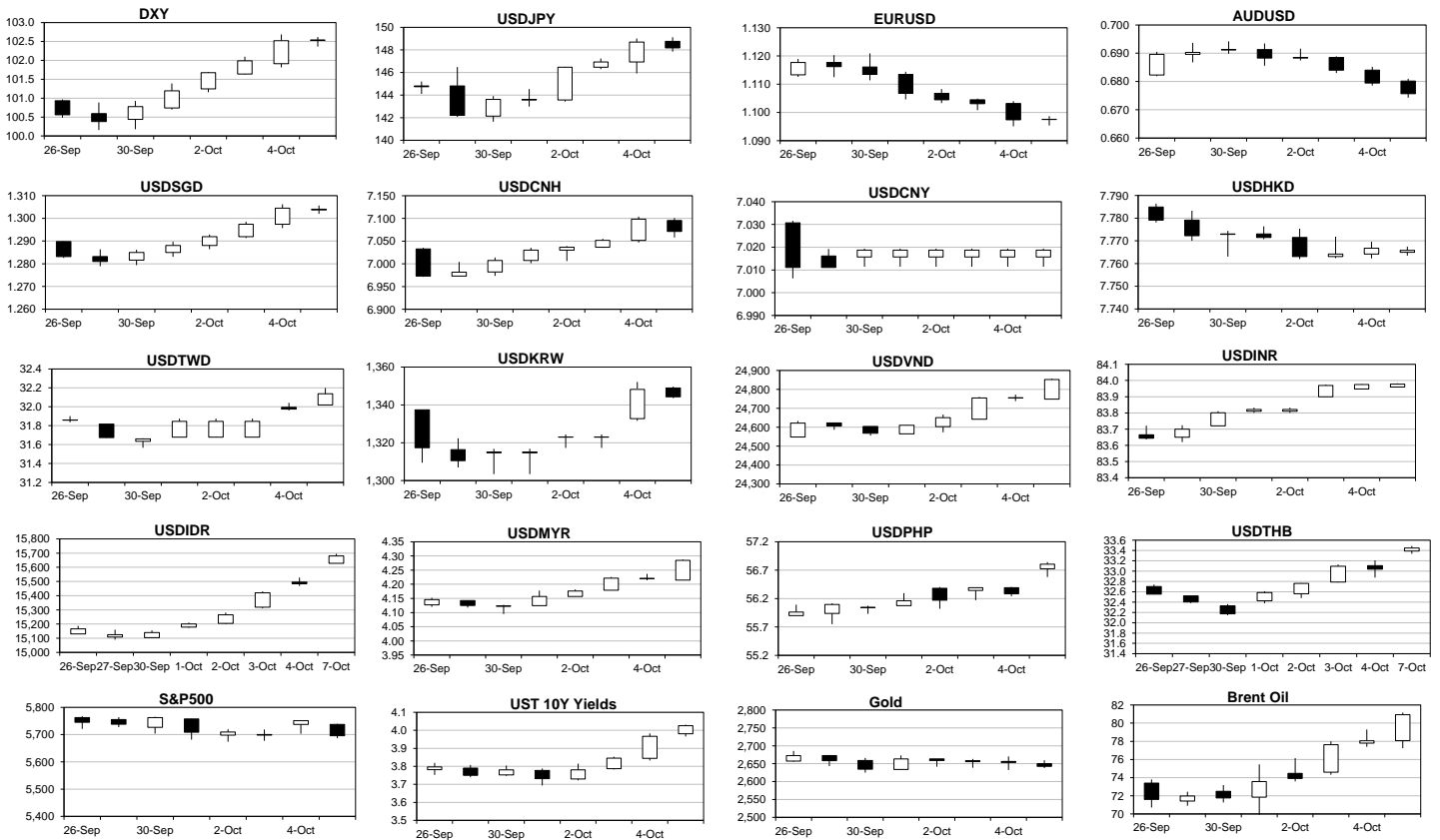
\*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5695.94	-55.13	▼0.96%
Nasdaq (US)	17923.9	-213.95	▼1.18%
DJIA (US)	41954.24	-398.51	▼0.94%
N225 (JP)	39332.74	697.12	+1.80%
STOXX50 (EU)	4969.71	14.77	+0.30%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4536.43	9.19	+0.20%
STI (SG)	3599.19	10.06	+0.28%
SHCOMP (CN)	3336.497	0.00	+0.00%
SZCOMP (CN)	1927.476	0.00	+0.00%
HSI (HK)	23099.78	362.91	+1.60%
SENSEX (IN)	81050	-638.45	▼0.78%
JSE (ID)	7504.135	8.04	+0.11%
KLSE (MY)	1635.29	5.32	+0.33%
PSE (PH)	7554.68	86.76	+1.16%
SET (TH)	1452.2	7.95	+0.55%
VNINDEX (VN)	1269.93	0.00	▼0.05%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,777.73	-18.68	▼0.19%
IRON ORE (CN)	110.55	16.72	+1.71%
GOLD	2,642.59	-11.01	▼0.41%
SILVER	31.69	-0.11	▼3.78%
OIL (BRENT)	80.93	2.88	+3.69%
OIL (WTI)	77.14	2.76	+3.71%
NATURAL GAS	2.75	-0.51	▼1.60%

## CHARTS



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