

Oct 11, 2024

Three Take-Aways

- 1) Mixed US data with hot(ter) CPI and softer jobs sideline risk as clarity is sought.
- 2) Some trepidation about China's MoF missing the high bar for fiscal stimulus tomorrow.
- 3) Risks of an Israeli retaliation against Iran keeping Oil buoyed despite a firm USD.

MACRO THEME: Suspended (Stimulus) Bets?

- Markets appear to have suspended aggressive bets on stimulus amid inflation-jobs data obfuscations in the US and as fiscal details are awaited in China.

- But this is a temporary pause for breath (as further data and details are sought), not a debilitating paralysis for markets.

- In the US, a conflicting juxtaposition of hotter than expected core CPI and softer jobs has given pause for Fed calculus, and attendant rates trajectory. Despite UST curve bull steepening, Fed Fund Futures pricing is barely changed* amid apparent data tensions and an unfazed Fed (more below).

- Arguably, there is greater clarity on what it (the Fed's policy response) is not, than what it is. It is not "one and done" cut. Nor is it a case of "50 is the new 25" aggressive cut cycle.

- Instead, the Fed may be inclined for a more regular (and regulated) cuts as noisy/bumpy data dampen, but don't deter, further rate cuts. As for China, the MoF's scheduled briefing on fiscal stimulus details tomorrow (12th Oct), suspend more aggressive stimulus bets for now. After the scathing "NDRC disappointment" and attendant pullback in Chinese equities**, the expectations bar, while still high, may be slightly lowered. So, suspended stimulus bets may be revived yet. Although perhaps more discriminating in nature (dependent on the details) and likely dampened in its speculative exuberance.

* Fairly high confidence albeit falling slightly short of 25bp cut each for Nov and Dec.

** CSI 300/Shanghai Composite/Shenzhen Composite are down 6.1%/5.4%/9.0% from peaks earlier this week. Hang Seng is off by -8% from Monday's highs.

Yields: Bull Steepener (2Y: -6.5bps; 10Y: -1.1bps; 30Y: +1.7bps)

- Apparently the somewhat hotter than expected US CPI print was less of an issue than was the jump in jobless claims.

- The drag on UST yields from softer jobs data overwhelmed hotter inflation's upward bias to yields; albeit exaggerated by (bearish UST) positioning. Hence the bull steepening, sending 2Y yields down >6bp to 3.96% while the 10Y merely edged down 1bp to 4.06% This steepening has further to run regardless of whether the Fed or the US elections fuel it; and likely both.

Equities: Breather (Nasdaq: -0.1%; S&P: -0.2%; Dow: -0.1%)

- The fractional dip in US equities arguably don't convey gloom, but merely express a preference for the sideline as clarity was sought.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(PH) Exports/Imports YoY (Aug)		-7.1%/0.3%	0.1%/7.2%
(JP) PPI YoY (Sep)	2.8%	2.3%	2.5%
(US) CPI/Core YoY (Sep)		2.3%/3.2%	2.5%/3.2%
(US) Initial Jobless Claims		230k	225k

Today

(MY) Industrial Production YoY (Aug)	5.5%	5.3%
(IN) Industrial Production YoY (Aug)	1.0%	4.8%
BoK Base Rate	3.25%	3.50%
(US) PPI/Ex food and energy YoY	1.6%/2.6%	1.6%/2.6%
(US) Uni. Of Mich. Sentiment (Oct P)	71.0	70.1
(US) Uni of Mich 1yr Inflation Exp. (Oct P)	2.7%	2.7%
(US) Uni of Mich 5-10 yr Inflation Exp. (Oct P)	3.0%	3.1%

- Although, unlike in the bond markets, hotter CPI and softer jobs both resonated with dented risk appetite. The former on fears of constraints of Fed cuts and the latter on economic slack showing up in earnings. Clarity on the Fed/rates outlook and anticipation of earnings.

FX: Don't the USD (DXY: +0.1%)

- Admittedly, USD did not rise noticeably, instead just maintaining traction. But this is remarkable given softer UST yields. A softer EUR, GBP and CAD speak of relative policy advantage to the USD. Whereas geopolitical risks support Gold, CHF and JPY (latter also gaining on the BoJ's conditional hawkish remarks). Whilst the USD is not in assault mode, geopolitical risks amid relative Fed restraint warns against challenging the Greenback. Especially for AXJ given limited CNY boost expected from MoF (as PBoC will likely have to lean in more with stimulus/liquidity)

Fed Unfazed

- Fed speak post-CPI conveyed a dovish bias that is somewhat calibrated but predominantly unfazed. Part of this is owed to the fact that the Fed justifiably unfussed by inflation data bumpiness as broader disinflation is clear to see^*. What's more, details of diminished price pressures from dwellings are encouraging for the sustaining the disinflationary trend.

- The upshot is that there is nothing in the data that knocks the Fed off-course from further, albeit calibrated, (for now) easing into 2025.

- And the suspicion is that all else equal, the Fed may be more averse to further jobs deterioration than it is to inconveniently sticky inflation.

^ Fed's Barkin saying that " (inflation) definitely headed in the right direction." alongside Fed Goolsbee's assessment that "the overall trend" for inflation... is clearly moving down"

Geopolitics Fuelling Oil

- Oil's upswing is almost certainly not eager anticipation of "big guns" details of Chinese fiscal stimulus. Instead, it reflects a degree of apprehension about Israeli response to Iran's missile strikes. The fear is two-fold. First, it is Israeli temptation to strike at Iranian oil production (despite global calls not to). Second, is an extreme tail risk of Iranian outburst to disrupt the Straits of Hormuz. OPEC ought to be able to buffer the first. But not without a 5-10% upside in crude prices, at least initially. The second threatens far more disruptive and destructive outcomes in the Middle East. \$100+ Oil outburst (until the Straits is secured) is the risk in that unlikely scenario. And it appears that oil markets are, not unreasonably, partially pricing in the first risk.

China: Bulls Directed, Not Destroyed

- The MoF details under scrutiny merely reflects how critical fiscal leg is in the machine to get the economy off the ground. While loftier hopes of RMB10trln will likely be dashed, moderated expectations of RMB2-3trln in stimulus may be delivered. What's more, this may be backed by even more emphatic PBoC liquidity. In all, this may set conditions to direct, not destroy, bulls (on a gentler and perhaps more selective rally). Hence, a sustained, even if bumpy, climb in Chinese equities (another 10-20%) is not just a by-product of liquidity, but desired financial market outcome for industry/economic/geo-political resilience.

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	148.57	148.68	▼0.50%	147.00 - 151.00
EURUSD	1.0934	1.0934	▼0.05%	1.0850 - 1.1050
GBPUSD	1.3059	1.3061	▼0.09%	1.2900 - 1.3200
AUDUSD	0.6739	0.6740	+0.31%	0.6680 - 0.6790
DXY	103.0	--	+0.06%	102.0 - 103.2
USDCNY	7.0765	--	▼0.06%	6.9800 - 7.0500
USDCNH	7.0849	7.0834	▼0.11%	7.0600 - 7.1300
USDHKD	7.7700	7.7696	▼0.01%	7.7600 - 7.7800
USDSGD	1.3056	1.3059	▼0.11%	1.3000 - 1.3140
USDKRW	1350	1355	+0.00%	1340 - 1365
USDTWD	32.20	--	+0.00%	31.80 - 32.40
USDINR	83.98	--	+0.02%	83.80 - 84.20
USDIDR	15665	--	+0.29%	15500 - 15800
USDMYR	4.293	4.290	+0.26%	4.260 - 4.310
USDPHP	57.36	--	+0.58%	56.60 - 57.30
USDTHB	33.59	33.44	+0.49%	33.20 - 33.80
USDVND	24845	24841	+0.04%	24750 - 24925

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.959	4.063	-6.5	-1.1
JGB (JP)	0.404	0.951	0.7	2.3
Bunds (GE)	2.230	2.256	-2.7	0.0
Gilts (UK)	4.184	4.210	-0.2	3.0
AGB (AU)	3.841	4.225	4.4	3.3
SGS (SG)	2.791	2.884	0.7	0.2
CGB (CN)	1.448	2.148	-1.3	-2.8
KGB (KR)	3.116	2.982	1.7	-6.5
SDL (IN)	6.777	6.618	-0.2	0.7

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	162.46	162.57	▼0.52%
GBP/JPY	194.02	194.177	▼0.59%
JPY/SGD (100yen)	0.8787	0.8783	+0.37%
JPY/HKD (100yen)	5.2298	5.2259	+0.43%
CNH/JPY	21.019	21.011	▼0.34%
CNH/HKD	1.0981	1.0979	+0.00%
EUR/GBP	0.83744	0.83718	+0.07%
AUD/NZD	1.1062	1.1059	▼0.16%
EUR/CNH	7.7483	7.745	▼0.15%
GBP/CNH	9.2499	9.2513	▼0.24%

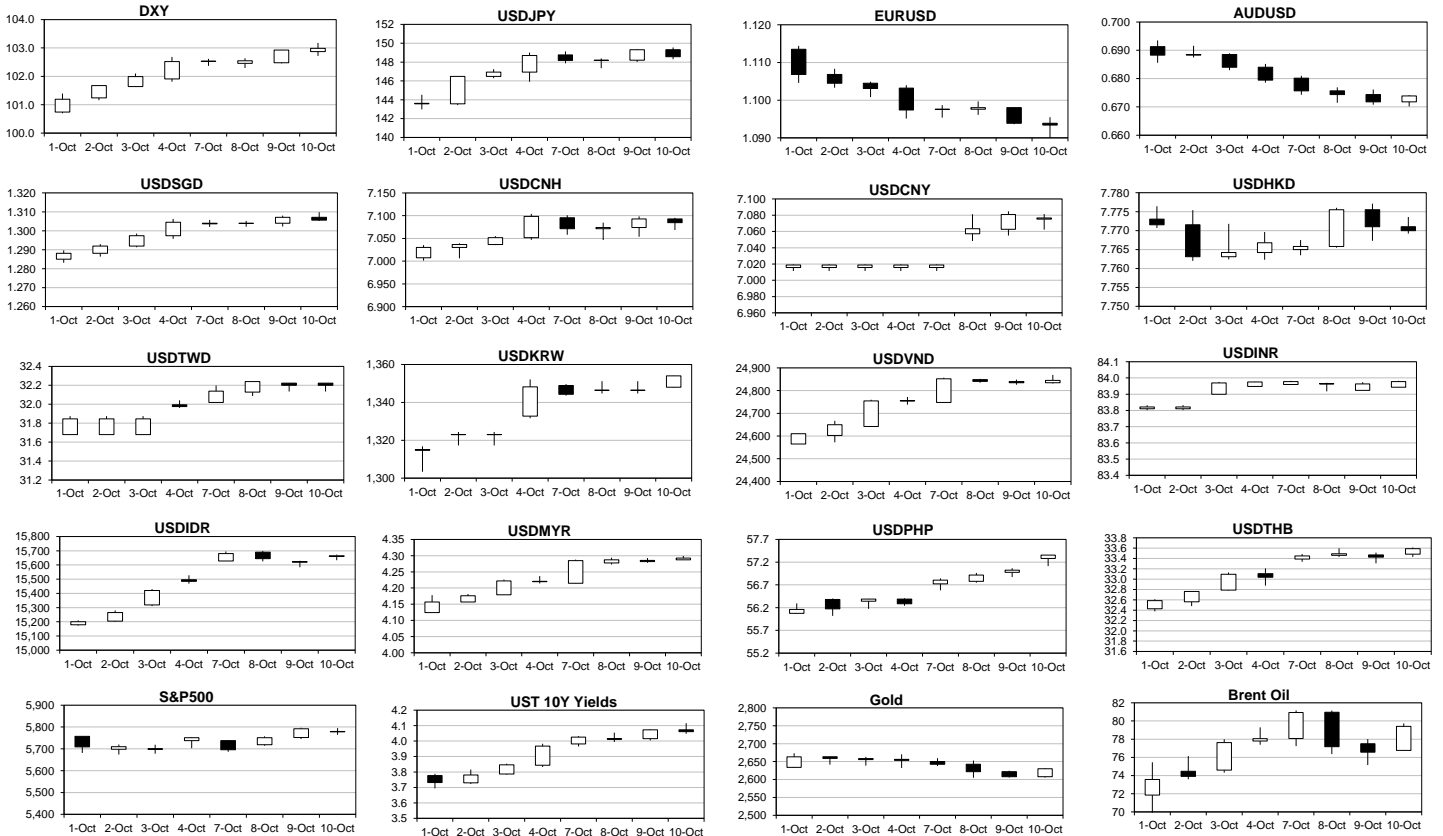
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5780.05	-11.99	▼0.21%
Nasdaq (US)	18282.05	-9.57	▼0.05%
DJIA (US)	42454.12	-57.88	▼0.14%
N225 (JP)	39380.89	102.93	+0.26%
STOXX50 (EU)	4970.34	-12.23	▼0.25%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4501.37	-6.07	▼0.13%
STI (SG)	3585.29	-10.37	▼0.29%
SHCOMP (CN)	3301.926	43.07	+1.32%
SZCOMP (CN)	1910.271	-7.04	▼0.37%
HSI (HK)	21251.98	614.74	+2.98%
SENSEX (IN)	81611.41	144.31	+0.18%
JSE (ID)	7480.08	-21.20	▼0.28%
KLSE (MY)	1640.94	6.03	+0.37%
PSE (PH)	7411.47	-13.05	▼0.18%
SET (TH)	1468.52	11.55	+0.79%
VNINDEX (VN)	1286.36	0.00	+0.35%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,582.86	53.03	+0.56%
IRON ORE (CN)	105.26	-3.86	▼0.36%
GOLD	2,629.74	21.97	+0.84%
SILVER	31.16	0.01	+0.56%
OIL (BRENT)	79.40	2.82	+3.68%
OIL (WTI)	75.85	2.61	+3.56%
NATURAL GAS	2.68	0.66	+2.16%

CHARTS



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