

Oct 18, 2024

Three Take-Aways

1) Blockbuster US retail sales lifts UST yields led by the long-end, USD on a firmer footing.

2) ECB cuts 25bp, but “not pre-committing” to another 25bp in Dec. Japan CPI eases, but core a little sticky.

3) China’s Housing stimulus measures disappoint, weighing on equities and dampening CNH.

MACRO THEME: Dollar Buyer Beware!

- The **caveat emptor enjoys wide application** for anyone mulling markets. In the case of the US, it was a case of “**Buyer! Beware!**”.

- Specifically, US consumers in rude health printing solid 0.7% MoM rise in retail sales. Insofar that retail sales underscores recent US economic out-run, one needs to “**beware of buying**” *unequivocally into imminent Fed stimulus-driven “risk on”*.

- Consequently, **UST buyers were burnt by US shoppers** (solid retail sales), as yields were lifted sharply.

In **equities** though, **buyers were selective (beware of what you buy) in the US** (mixed performance) and **outright unimpressed with China** (down >1%).

- In **FX** land, it expresses itself as “**USD buyers .. so beware (the rest)**”. The ECB is a non-committal about buying into the idea of guaranteed cuts; as the ECB expect an inflation bump in coming months before settling at 2% next year.

- After yesterday’s 25bp cut, the third since mid-2024, the ECB said it is “not pre-committing” to another 25bp in December. But chances are markets are not buying it. More EUR downside risks, especially of soft activity is inconveniently stalked by sticky inflation.

Yields (2Y: +3.3bps; 10Y: +7.8bps; 30Y: +9.3bps)

- An emphatic US-led bear steepening in bond markets on the back of US retail sales.

Equities (Nasdaq: +0.04%; S&P: -0.02%; Dow: +0.37%)

- The surge in bond yields denied US equities early gains, with S&P500 and Nasdaq finishing on either side of flat. Dow eked out 0.4% as Energy and Financials showed gains in the details. Wider stimulus-driven “risk on” appears to be subject to the caveat emptor though.

FX (DXY: +0.2%)

- EUR eased below mid-1.08 (to low-1.08) with the ECB cut. Although Lagarde’s “data dependence” refrain helped backstop ahead of 1.08. USD/JPY slipped past the psychological 150 level amid broad-based USD strength.

- To some extent, it appears that BoJ Adachi’s comments on JPY not being a particular source of imported inflation risk might have helped clear the passage.

- Japan’s CPI broadly softening, despite some core stickiness, underpins USD/JPY elevation ~150. Watching verbal suasion.

- CNH on the backfoot after housing disappointment could drag AXJ. More so given a firm USD.

China Stimulus: House-call, Not Homerun

- As was evident from the **selloff in Chinese equities** that featured drops in property-linked, markets were unimpressed, if not disappointed by the property support measures announced.

- To be sure, the **RMB4trln loan quota for “White List” projects, credible efforts/intent to allocate and extend credit life-lines** a to revive activity in the sector.

- And **guidance to expedite payments to suppliers** via escrow accounts is a welcome step to address the **issue of getting critical cash-flow** into the wider eco-system.

- Moreover, the **1million urban village and housing renovation projects** could also revive activity and interest. But the **house-call** by the syndicate of regulatory stakeholders, banking authorities and the PBoC **is too far short of being a Homerun** that decisively lifts the property sector out of gloom.

- For **one**, the **absence of details on the quantum and mechanics of special bond issuances** to move unsold inventory comes across as **too non-committal**. Especially in the context of markets that have suffered a huge crisis of confidence.

- **What’s more**, the **lack of commitments, and timeline to move unsold inventory** was another bugbear. Notably, relying on “market mechanism” can stymie progress on clearing unsold inventory given gaps between willingness to pay by local government and acceptable NAV for developers.

- Finally, the **lack of central government underwriting**, and instead relying on banks to get credit through, means that the measures face **confidence/loss aversion hurdles on the banks’ end**. Point being, **whilst re-capitalizing banks bolsters loss-absorption, it does not absolve aversion to risk-taking by bank executives**. Especially in a climate of crackdown, which China has emerged from.

- And to be very clear, even if local government special bonds for property clear the (high expectations) bar, it will not have the concerted, deep-pocketed assurances of central government backstop.

- The upshot is that the inability to snap the psyche of “buyers’ market” with an inventory glut continues to stand in the way of a virtuous cycle of positive wealth effects, improving local government finances and cash-flows. All of which are critical elements to ensure a soft-landing in the property sector.

DATA/EVENTS

| Overnight | Actual | Exp. | Prior |
|---|--------------|--------------|--------------|
| (SG) Electronics Exports YoY (Sep) | 4.0% | -- | 35.10% |
| (AU) Emp. Change/Unemp. Rate (Sep) | 64.1k | 25k | 47.5k |
| (SG) Non-oil domestic exports YoY (Sep) | 2.7% | 9.1% | 10.7% |
| (JP) Tertiary Industry Index Mom (aug) | -1.1% | -0.3% | 1.4% |
| (EZ) CPI/Core YoY (Sep F) | 1.7%/2.7% | 1.8%/2.7% | 1.8%/2.7% |
| (EZ) Deposit Facility Rate | 3.25% | 3.25% | 3.50% |
| (US) Retail Sales Adv MoM (Sep) | 0.0 | 0.3% | 0.1% |
| (US) Retail Sales Ex Auto and Gas (Sep) | 0.7% | 0.3% | 0.2% |
| (US) Industrial Production MoM (Sep) | 0.0 | -0.1% | 0.8% |
| (US) Initial Jobless Claims | 241k | 260k | 258k |
| Today | | | |
| (CH) GDP YoY (3Q) | | 4.5% | 4.7% |
| (CH) Industrial Production YoY (Sep) | | 4.60% | 4.50% |
| (CH) Retail Sales YoY (Sep) | | 2.5% | 2.1% |
| (MY) Budget Release | | | |
| (JP) CPI/Ex Fresh Food & Energy Yoy (Sep) | | 2.5%/2.0% | 3.0%/2.0% |
| (US) Housing Starts (Sep) | | 1350k | 1356k |

FX OUTLOOK

| FX | Close (NY) | Open* | Daily %Δ | Forecast | |
|--------|------------|--------|----------|----------|----------|
| USDJPY | 150.21 | 150.11 | +0.38% | 149.00 | - 151.00 |
| EURUSD | 1.0831 | 1.0829 | ▼0.29% | 1.0800 | - 1.0900 |
| GBPUSD | 1.3011 | 1.3016 | +0.16% | 1.2800 | - 1.3050 |
| AUDUSD | 0.6696 | 0.6700 | +0.43% | 0.6620 | - 0.6700 |
| DXY | 103.8 | -- | +0.23% | 103.0 | - 104.2 |
| USDCNY | 7.1229 | -- | +0.05% | 7.0800 | - 7.1400 |
| USDCNH | 7.1370 | 7.1374 | +0.00% | 7.1100 | - 7.1600 |
| USDHKD | 7.7735 | 7.7736 | +0.04% | 7.7500 | - 7.7800 |
| USDSGD | 1.3143 | 1.3142 | +0.07% | 1.3080 | - 1.3170 |
| USDKRW | 1371 | 1372 | +0.00% | 1355 | - 1380 |
| USDTHW | 32.16 | -- | ▼0.07% | 32.10 | - 32.40 |
| USDINR | 84.07 | -- | +0.08% | 83.90 | - 84.20 |
| USDIDR | 15495 | -- | ▼0.12% | 15450 | - 15700 |
| USDMYR | 4.309 | 4.314 | +0.28% | 4.285 | - 4.340 |
| USDPHP | 57.83 | -- | +0.14% | 57.40 | - 58.30 |
| USDTHB | 33.22 | 33.20 | +0.06% | 33.10 | - 33.60 |
| USDVND | 25177 | 25186 | +0.77% | 24980 | - 25200 |

*Open is as at 8am HKT/SGT.

MARKET MOVES

| Bond Yields | 2Y Close | 10Y Close | 2Y Δ (bps) | 10Y Δ (bps) |
|-------------|----------|-----------|------------|-------------|
| UST (US) | 3.973 | 4.092 | 3.3 | 7.8 |
| JGB (JP) | 0.426 | 0.959 | 1.1 | 1.1 |
| Bunds (GE) | 2.142 | 2.208 | -2.4 | 2.5 |
| Gilts (UK) | 4.024 | 4.088 | 0.8 | 2.5 |
| AGB (AU) | 3.860 | 4.249 | 5.6 | 4.4 |
| SGS (SG) | 2.643 | 2.734 | 0.7 | 3.3 |
| CGB (CN) | 1.464 | 2.107 | 3.0 | -2.0 |
| KGB (KR) | 3.094 | 3.034 | 9.3 | 3.3 |
| SDL (IN) | 6.782 | 6.642 | 0.0 | 1.1 |

| Cross FX | Close (NY) | Open* | Daily %Δ |
|------------------|------------|---------|----------|
| EUR/JPY | 162.7 | 162.55 | +0.10% |
| GBP/JPY | 195.449 | 195.369 | +0.55% |
| JPY/SGD (100yen) | 0.875 | 0.8755 | ▼0.32% |
| JPY/HKD (100yen) | 5.175 | 5.1788 | ▼0.35% |
| CNH/JPY | 21.093 | 21.071 | +0.27% |
| CNH/HKD | 1.0914 | 1.0912 | ▼0.01% |
| EUR/GBP | 0.83238 | 0.83201 | ▼0.46% |
| AUD/NZD | 1.105 | 1.1056 | +0.40% |
| EUR/CNH | 7.73 | 7.7291 | ▼0.27% |
| GBP/CNH | 9.2861 | 9.2897 | +0.17% |

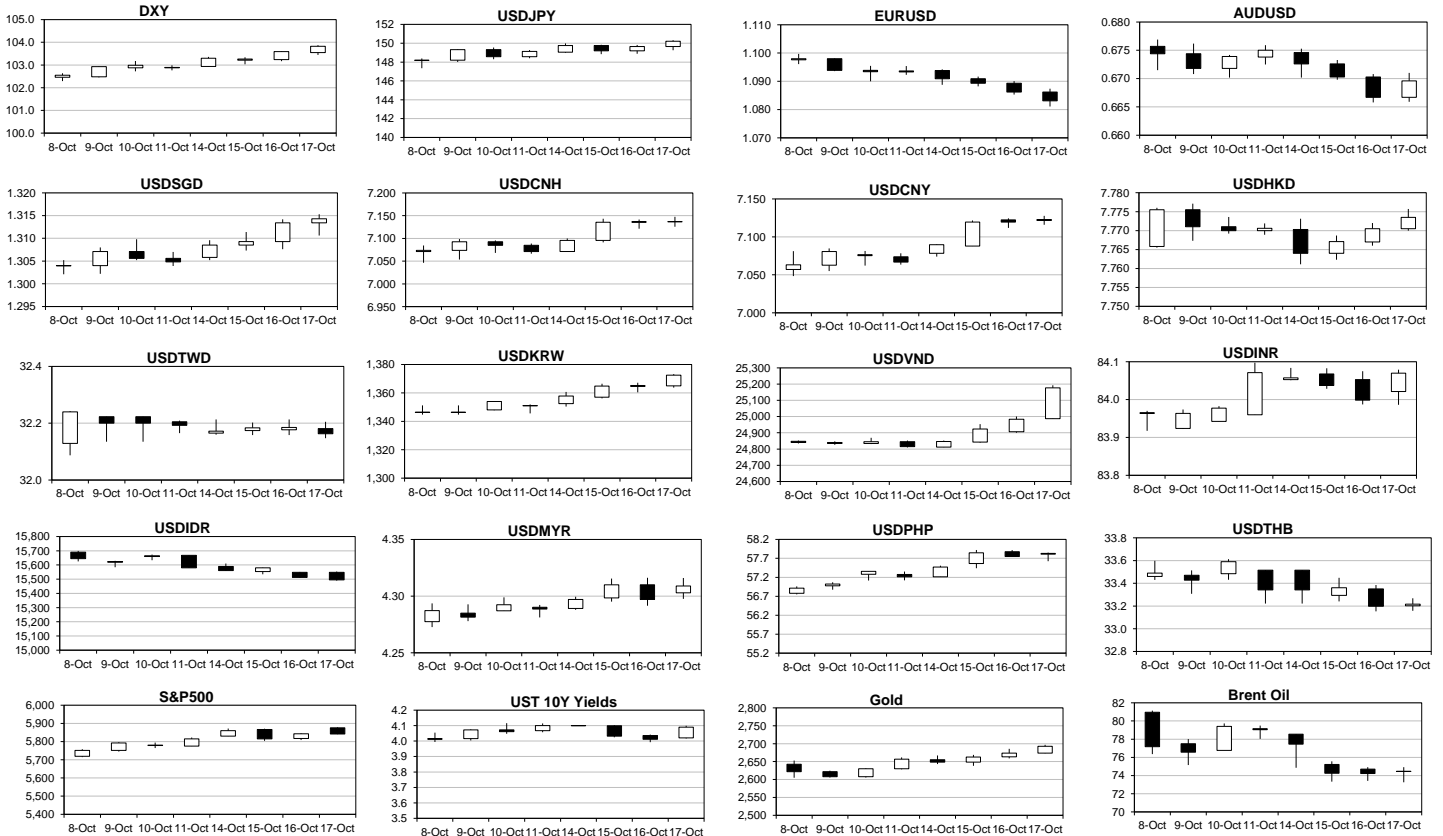
*Open is as at 8am HKT/SGT.

| G3 Equities | Close | Net Chg | Daily %Δ |
|--------------|----------|---------|----------|
| S&P500 (US) | 5841.47 | -1.00 | ▼0.02% |
| Nasdaq (US) | 18373.61 | 6.53 | +0.04% |
| DJIA (US) | 43239.05 | 161.35 | +0.37% |
| N225 (JP) | 38911.19 | -269.11 | ▼0.69% |
| STOXX50 (EU) | 4947.3 | 38.59 | +0.79% |

| Asia Equities | Close | Net Chg | Daily %Δ |
|---------------|----------|---------|----------|
| ASX (AU) | 4581.39 | 29.62 | +0.65% |
| STI (SG) | 3625.25 | 34.63 | +0.96% |
| SHCOMP (CN) | 3169.384 | -33.56 | ▼1.05% |
| SZCOMP (CN) | 1831.885 | -10.27 | ▼0.56% |
| HSI (HK) | 20079.1 | -207.75 | ▼1.02% |
| SENSEX (IN) | 81006.61 | -494.75 | ▼0.61% |
| JSE (ID) | 7735.039 | 86.10 | +1.13% |
| KLSE (MY) | 1641.44 | 8.81 | +0.54% |
| PSE (PH) | 7400.33 | -36.67 | ▼0.49% |
| SET (TH) | 1495.02 | 10.01 | +0.67% |
| VNINDEX (VN) | 1286.52 | 0.01 | +0.55% |

| Commodity | Close | Net Chg | Daily %Δ |
|---------------|----------|---------|----------|
| COPPER (LME) | 9,384.92 | -33.85 | ▼0.36% |
| IRON ORE (CN) | 103.24 | -2.02 | ▼2.37% |
| GOLD | 2,692.71 | 18.88 | +0.71% |
| SILVER | 31.70 | -0.02 | ▼0.84% |
| OIL (BRENT) | 74.45 | 0.23 | +0.31% |
| OIL (WTI) | 70.67 | 0.28 | +0.40% |
| NATURAL GAS | 2.35 | 0.01 | +0.02% |

CHARTS



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