

Oct 24, 2024

Three Take-Aways

- 1) A very particular pedigree of “risk off” as rising UST yields and term premium trigger broad-based liquidation from risk re-pricing.
- 2) Insofar that term premium is rising with Trump 2.0 prospects, asset valuations may be more differentiated post-elections.
- 3) In the IMF’s WEO, China’s stimulus while mentioned, has not moved the needle for 2025 growth.

MACRO THEME: Mounting Growth Risks

“Named must be your fear before banish it you can” - Master Yoda,

- It appears that concern about **sharper rise in term premium** (as the curve steepens and yields rebound) could be **invoking liquidation from risk re-pricing**. Perhaps that’s a bit of a leap to suggest “**term tremors**”, so to speak. So, let’s decompose the sell-off.

- First, fair to say that **markets were in a state of “risk off”**, with **Wall St selling off by 0.9%-1.6%**, and the **USD going higher**.

- But this is **not the haven-seeking “risk off”**, which tends divert flows into, and hence to bid up, haven assets such as USTs (resulting in lower yields), Gold, and JPY. Glaringly, each of these haven assets took a licking, in what appears to be a **more broad-based liquidation**. *Gold has slid ~1.5%* (from testing \$2760 to below \$2720). Meanwhile, *JPY has stumbled (>1%) from 151 to sub-153*.

- **Second**, *USTs have sold off further, extending the sharp and sustained ascendancy in yields*. This **sell-off in both equities and bonds** is obviously **not merely rotation, but risk re-pricing**.

- **Crucially**, the evidence suggests that it is **rising yields that are driving**, rather than being passively driven by, **liquidation**.

- And **specifically**, from **rising term premium**, which could materially offset the anticipated reduction in yields from Fed rate cuts. **Especially** as **rich asset valuations**, which entail balance sheet risks, are **more adversely impacted*** by (term premium imputed in) longer-end yields.

- For perspective, while the UST curve bear flattened overnight (2Y yields rising a shade more than 10Y), the bigger picture is that the **curve has steepened by more than 50bp since end-June**.

- The **idea of durably larger term premium resonates with our views[^]**, published a few weeks back. Nonetheless, **while markets may be justifiably rattled by rising yields and term premium**, it is notable that **US election bets may be obscuring the view and attendant risk assessment**.

- Point being, a good deal of the bear steepening may be attributed to rising odds of a Trump Republican sweep. **Yet, US equity markets could very well rally on Trump 2.0 despite higher yields and term premium**, thereby **probably reversing out some of the current losses**.

[^] <https://www.mizuhogroup.com/binaries/content/assets/pdf/singapore/macro/ad->

In contrast, **for** (mostly foreign) **asset classes compromised by both term premium and a Trump term**, then perhaps “**term tremors**” may endure.

Yields (2Y: +4.7bps; 10Y: +3.8bps; 30Y: +2.3bps)

- Yields have continued to rise, with 2Y up 4.7bp to 4.08% an 10Y up 3.8bp to 4.27%.

The bear flattener though does not distract from a broader bear steepening that has been underway as markets grapple with a less dovish Fed and a Trump victory replete with a Republican wave.

Equities (Nasdaq: -1.6%; S&P: -0.9%; Dow: -1.0%)

- Wall St struggled under the weight of rising yields, with Nasdaq leading losses (-1.6%) despite late-hours surge in Tesla on profit out-run.

FX (DXY: +0.3%)

- USD retained pole position, back by ascendant UST yields and broad-based dominance. JPY (-1.2%) as well as higher yielders such as AUD (-0.7%) and ZAR (-1.4%) left smarting as less dovish Fed hurt the former and “term tremors” the latter.

The China Puzzle Within the IMF WEO**

- For anyone paying attention, the **IMF’s October edition of WEO** (World Economic Outlook) made for **grim reading**.

- Right off the bat, allusions to **heightened uncertainty from military and trade conflicts** was justifiably flagged as **obvious and overriding threats**. In addition, a **tenuous of global policy pivot**, entailing *monetary (tight-to-looser)*, *fiscal (loose-to-tighter)* and *structural policy* shifts, was also recognized.

- Kudos to the title of the report “**Policy Pivot, Rising Threats**” for so succinctly summing up the assessment. But interestingly there is a “China Puzzle” embedded in the IMF report. That is, **China’s stimulus merely flagged as an upside risk** (to growth) but **with no actual upward revision to 2025 GDP growth** (from 4.5% earlier).

- In fact, China’s 2024 growth was revised down 0.2%-pt to 4.8% although we deem this a belated downward adjustment. In sharp contrast, US GDP for 2025 (2024) was revised up 0.3%-pt (0.2%-pt) to 2.2% (2.8%).

- To be fair, this **could merely mean that the IMF is reserving judgment** (certainly quantifying it) on the stimulus **until details are available**. Fair, but at risk of being tardy. **But if the hold back** on upward revision to 2025 **entails trade conflict risks**, then the upward revision to US growth **must suggest rather resilient US exceptionalism**.

Although, it **may square with sharp downward revision to 2025 EZ growth** (-0.3%-pt to 1.2%) **led by German GDP downgrade** (-0.5%-pt to 0.8%).

**The IMF releases two full-fledged editions of its flagship World Economic Outlook (in April and October), outlining macro forecasts and risks, with two updates between (in January and July) to supplement.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(SG) CPI/Core YoY (Sep)	2.0%/2.8%	1.9%/2.7%	2.2%/2.7%
(KR) Consumer Confidence (Oct)	101.7	--	100.0
(TW) Industrial Production YoY (Sep)	11.2%	11.4%	13.4%
(US) Existing Home Sales (Sep)	3.84m	3.88m	3.86m
(EZ) Consumer Confidence (Oct P)	-12.5	-12.5	-12.9
Today			
(KR) GDP YoY (3Q A)	1.5%	2.0%	2.3%
(MY) CPI YoY (Sep)		1.9%	1.9%
(TW) Unemployment Rate (Sep)		3.4%	3.4%
(JP) Machine Tool orders Yoy (Sep F)			-6.5%
(US) Initial Jobless Claims		242k	241k
(US) Chicago Fed Nat. Activity Index (Sep)		0.50	0.12
(US) New Homes Sales (Sep)		720k	716k
(US) Kansas City Fed Mfg Activity (Oct)		-7.0	-8.00

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	152.76	152.77	+1.11%	151.00 - 153.40
EURUSD	1.0782	1.0780	▼0.16%	1.0720 - 1.0880
GBPUSD	1.2921	1.2913	▼0.49%	1.2900 - 1.3050
AUDUSD	0.6634	0.6635	▼0.72%	0.6600 - 0.6700
DXY	104.4	--	+0.34%	104.0 - 105.0
USDCNY	7.1302	--	+0.09%	7.1000 - 7.1500
USDCNH	7.1358	7.1348	+0.00%	7.1100 - 7.1600
USDHKD	7.7688	7.7693	▼0.04%	7.7600 - 7.7800
USDSGD	1.3230	1.3231	+0.51%	1.3120 - 1.3300
USDKRW	1381	1382	+0.00%	1370 - 1395
USDTHB	32.09	--	+0.07%	31.85 - 32.40
USDINR	84.08	--	+0.01%	84.00 - 84.20
USDIDR	15620	--	+0.39%	15450 - 15700
USDMYR	4.351	4.353	+0.54%	4.340 - 4.380
USDPHP	57.86	--	+0.00%	57.60 - 58.30
USDTHB	33.50	33.78	+0.00%	33.40 - 34.00
USDVND	25410	25407	+0.02%	25250 - 25600

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.080	4.247	4.7	3.8
JGB (JP)	0.445	0.972	0.1	0.4
Bunds (GE)	2.096	2.303	-7.2	-1.4
Gilts (UK)	4.090	4.199	2.2	3.4
AGB (AU)	3.994	4.466	1.8	3.5
SGS (SG)	2.743	2.899	-1.4	-1.9
CGB (CN)	1.515	2.151	0.3	2.1
KGB (KR)	3.173	2.946	2.3	4.7
SDL (IN)	6.820	6.699	-0.9	0.1

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	164.69	164.68	+0.93%
GBP/JPY	197.388	197.265	+0.62%
JPY/SGD (100yen)	0.8662	0.8661	▼0.57%
JPY/HKD (100yen)	5.0859	5.0858	▼1.13%
CNH/JPY	21.409	21.425	+0.96%
CNH/HKD	1.0898	1.0896	▼0.11%
EUR/GBP	0.83441	0.83482	+0.33%
AUD/NZD	1.1047	1.1048	▼0.09%
EUR/CNH	7.6942	7.6913	▼0.16%
GBP/CNH	9.2203	9.2132	▼0.48%

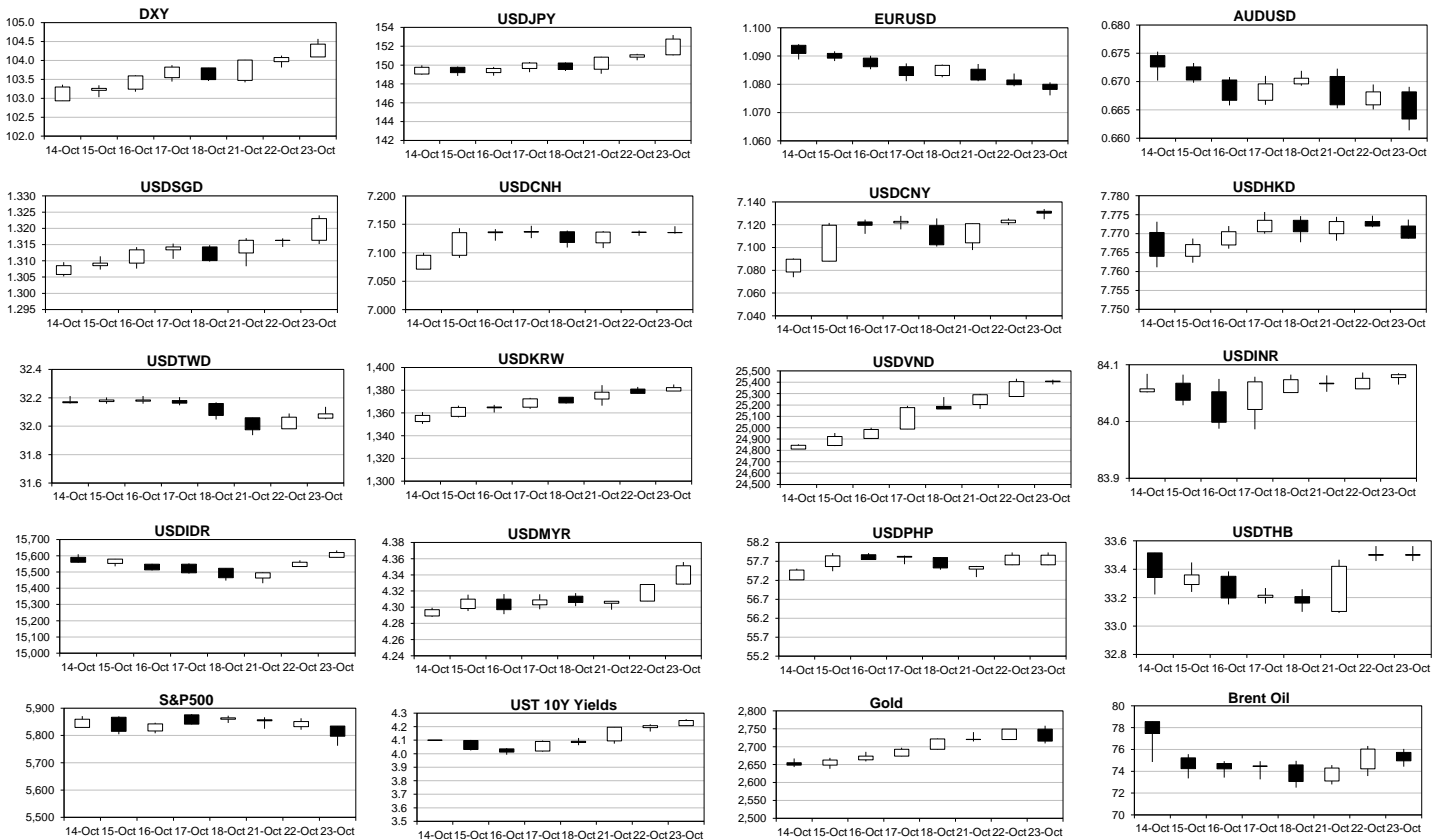
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5797.42	-53.78	▼0.92%
Nasdaq (US)	18276.65	-296.48	▼1.60%
DJIA (US)	42514.95	-409.94	▼0.96%
N225 (JP)	38104.86	-307.10	▼0.80%
STOXX50 (EU)	4922.55	-16.76	▼0.34%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4514.21	-25.48	▼0.56%
STI (SG)	3600.78	13.37	+0.37%
SHCOMP (CN)	3302.803	16.94	+0.52%
SZCOMP (CN)	1956.561	2.92	+0.15%
HSI (HK)	20760.15	261.20	+1.27%
SENSEX (IN)	80081.98	-138.74	▼0.17%
JSE (ID)	7787.565	-1.42	▼0.02%
KLSE (MY)	1641.53	-1.01	▼0.06%
PSE (PH)	7367.66	-45.50	▼0.61%
SET (TH)	1470.32	0.00	+0.00%
VNINDEX (VN)	1270.9	0.00	+0.08%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,376.54	-61.26	▼0.65%
IRON ORE (CN)	103.19	-2.56	▼0.47%
GOLD	2,715.55	-33.46	▼1.22%
SILVER	33.70	0.03	+1.34%
OIL (BRENT)	74.96	-1.08	▼1.42%
OIL (WTI)	70.77	-1.32	▼1.83%
NATURAL GAS	2.34	-1.16	▼3.33%

CHARTS



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