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ASIA MORNING BITES CHINA INDONESIA

Asia Morning Bites

Asian FX soars, equities slump as US labour data disappoints



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Global Macro and Markets

- **Global Markets:** US Treasury yields plunged on Friday after the much softer-than-expected July US labour report. 2Y yields dropped a massive 26.8 basis points, down to 3.88%. 10Y yields also slumped, falling by 18.8 bp and taking them down to 3.79%. The market is now talking more about 50bp cuts, and is well on the way to pricing in a 50bp cut in September, with more than 100bp (115bp) of easing priced into the December Fed funds contract. The FX response has been a little more measured, but that has still taken EURUSD to over 1.09 from just under 1.08 on Friday. The AUD hasn't seen much of a lift and is trading weaker at sub-65 cent levels in early trading today. Cable is a little stronger at 1.2791, but the JPY has carried on its appreciation, and USDJPY is currently trading at just below 146, down from about 149.50 on Friday. Asian FX was all stronger on Friday, and there is likely to be some additional catch-up with the G-10 currencies today. USDCNY is now down at 7.1722. The MYR was the best of the rest, gaining more than 2% to 4.497. But there were also strong gains from the KRW and THB. US equities took little comfort in the plunging yields and the S&P 500 fell 1.84% and the NASDAQ fell 2.43%. Equity futures point to more losses today. It seems recession fears are outgunning the boost from a falling discount rate. Chinese stocks also had a poor day on Friday. The Hang Seng fell 2.08% and the CSI 300 fell 1.02%. That wasn't as bad as the Nikkei 225, which fell almost 6% on Friday.

- **G-7 Macro:** The July labour report was unambiguously weak. Non-farm payrolls rose by only 114K, compared to the 175K expected. And there were 111K of downward revisions to the previous 2 months' data (as we have now come to expect). The unemployment rate rose to 4.3%, triggering the “Sahm rule” in which a recession is indicated when the 3m moving average of the unemployment rate rises 0.5 per cent above the low of the previous 12 months. Average hourly earnings also fell to 3.6% YoY from a downward revised 3.8%. Some are now suggesting the Fed should have cut in July and are now behind the curve. Talk of off-cycle cuts is not completely misplaced, though to be fair, the sum-total of recent data weakness is not that alarming just yet. Jobs are still being created – though not well paid full-time ones. That has been true for some time. For more detail on this and what it means for the US Fed, [please see James Knightley's note](#).
- **China:** China's State Council published a communique over the weekend with plans to boost domestic demand in China. The main focus was on the improvement of quality. In China's “eat, drink, and play” categories, the document indicated the intention to enhance food, beverage, and accommodation categories, as well as the cultural and entertainment and tourism categories. Higher quality products and services could satisfy the growing domestic demand for these categories. There was also a commitment to support the domestic services and elderly care segments, as well as general enhancements of China's services sector, including generally improving the regulation and standards of services and opening the sector up for foreign entrants. On what should soon translate to more direct policies, it also mentioned offering financial support for consumption, including tax deductions for childcare and elderly care, and providing credit support for service sector SMEs. With domestic demand as one of the bigger drags on the economy this year, it is a good sign policies are coming into play to support consumption, though markets may still be hoping for larger scale demand side supportive policies such as consumption vouchers.
- **Indonesia:** 2Q24 GDP is released at 12.00 SGT/HKT today. It will come in close to 5.0%. It always does. The only noteworthy aspect of this release will be if it isn't almost 5%. Markets should largely ignore it.

What to look out for: Regional PMIs, Indonesia 2Q24 GDP

What to look out for:

August 5th

S Korea: July Foreign Reserves

Japan: July Jibun Bank Manufacturing PMI

China: July Caixin China PMI

Indonesia: 2Q GDP

India: July HSBC PMI

Singapore: June retail sales

Taiwan: July foreign reserves

US: July service sector ISM

August 6th

Japan: June labour cash earnings

Philippines: July CPI, Imports, Exports, Trade balance

Australia: RBA cash rate target

Taiwan: July Core CPI, CPI, GDP

US: Trade Balance

August 7th

S Korea: BoP current account balance

Philippines: June unemployment rate

India: July foreign reserves

Japan: June leading index CI

China: July exports, imports, Trade balance, foreign reserves

August 8th

Japan: BoP current account balance, Trade balance BoP basis

Philippines: 2Q GDP

India: RBI repurchase rate, RBI cash reserve ratio

Taiwan; July imports, exports, trade balance

August 9th

Japan: July money stock M2 & M3

China: July CPI, PPI, Money supply (Due 15th August)

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