ALLIANCEDBS RESEARCH

DBS

Macro Insights Weekly

Complacent mood for the final stretch of 2024

Group Research

September 2, 2024

Taimur Baig
Chief Economist
taimurbaig@dbs.com

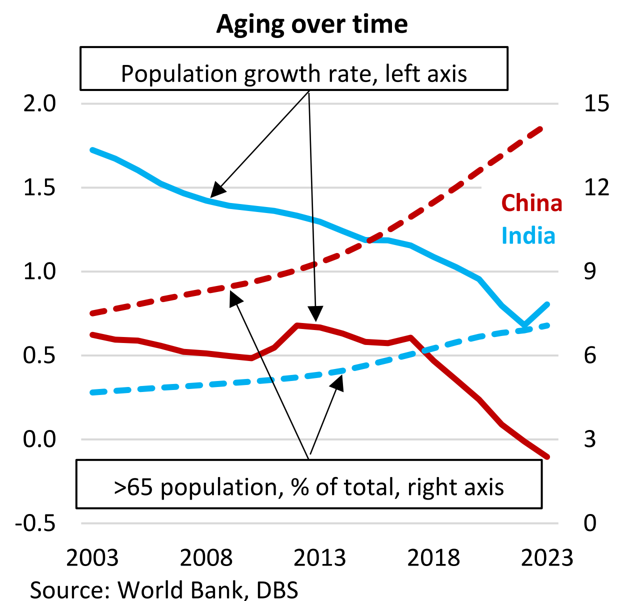
Mo Ji
Chief China/HK Economist
mojim@dbs.com

For Alliance Bank clients, please direct your enquiries to Malaysia Research +603 2604 3915 general@alliancedbs.com

- *After broadly surprising on the upside in the first two-thirds of the year, global markets and economy appear to be set for the final stretch with lingering feel-good sentiments. Key risk: melt-up.*
- *On the economics front, consumption, investment, and trade have held up well so far this year.*
- *Tensions in the Middle-East or China's economic struggles have not hurt global supply or demand.*
- *Markets, after the wobble of late-July, early-August, are back on sound footing.*
- *The complacency about the outlook is evident in market pricing.*
- *Fed may have to reign in melt-up risks by being deliberate and slow in easing policy.*

Chart of the Week: Aging in China and India

It is well known that substantial aging dynamic is evident in China, with population growth turning negative lately and 65+ population making up 14.3% of total. India's data may be less recognised; its population growth rate and 65+ population as a share of total today are where China's were about two decades ago. India's 65+ population has doubled since the early-2000s, crossing 100mn this year. It will be looking at China-type demographic challenges, and hopefully associated opportunities, soon.



Source: World Bank, DBS

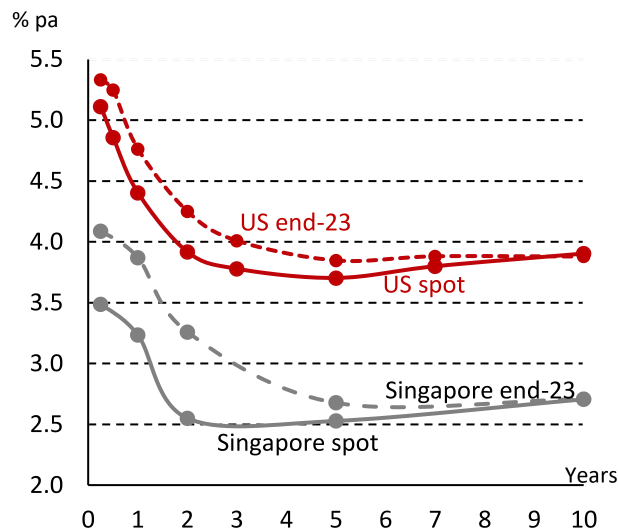
Commentary: Final stretch of 2024

After broadly surprising on the upside in the first two-thirds of the year, global markets and economy appear to be set for the final stretch with lingering feel-good sentiments. Many factors that ought to be keeping risk aversion elevated have failed to do so. Anxieties about sticky inflation have faded, while fears of a hard landing have so far proven to be unfounded. Early-August episode of market volatility seems in the distant past. Tensions in the Middle-East and Ukraine simmer, but their impact on energy prices has been muted. Concerns about China's economic slowdown persists, but pressure on the RMB has abated and systemic risks from the property market are in the backburner.

On the economics front, there is plenty of ground for businesses to feel good. Most have seen cost pressures abate while demand has been resilient. PMIs, particularly services, remain buoyant. In Asia, many, if not all, manufacturers are reporting strong order books. Exports have been robust; regional travel and tourism sector is reporting good data, while overall consumption numbers are healthy. In the US, from PMIs to retail sales, housing to manufacturing, jobless rates to investment, all support an economy on stable footing, with Atlanta Fed GDP Nowcasting for 3Q tracking 2.5% growth.

In financial markets, yield curves have shifted below the end-2023 points, reflecting emerging comfort around the inflation and monetary policy outlook. Equity volatility has declined, and banking system liquidity remains comfortable. Credit spreads have bottomed, but the slight widening that has taken place in the past month still leave them near historically narrow levels.

US and Singapore Treasury yield curves



Source: Bloomberg, DBS

The Fed has all but declared that policy rate cutting will begin from this month onward, which is further source of comfort for global markets. The dollar's mild selloff over the last couple of months has given respite to EM currencies, bringing back flows to their asset markets. These are markers for a constructive backdrop for the last third of the year.

The risk is that a "melt-up" scenario emerges in the coming months, getting in the way of steady rate cuts. This it typified by the ongoing debate of 25 versus 50bps in rate cuts for September and how much more after that before the year is over. Instead, some considerations should be given to our central scenario, which is that after cutting in September, the Fed may choose to hold in November to make sure that the totality of the dataflow supports sustained rate cuts. The last thing the central bank may want to do is to fight a recession that never appears close, and then being cornered into dealing with the aftermath of an everything-rally next year. Disappointing the markets slightly may well be the order of business, in our view.

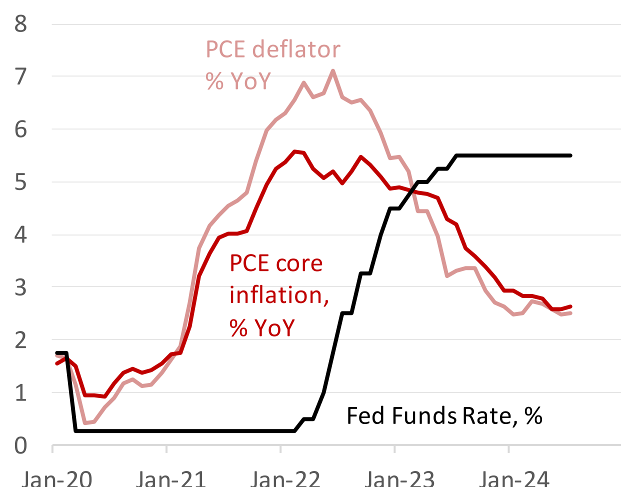
Taimur Baig

FX: US jobs report and BOC rate cut this week

The DXY Index faces resistance around 102.20 after its rebound from its 101.50 support level to 101.70 last week. **This Friday's US monthly jobs report will likely affirm the Fed's desire to prevent a further cooling in the US labour market.** Although consensus sees US nonfarm payrolls rising to 165k in August from 114k in July, they remain below the 200k level. The unemployment rate should stay above 4% despite expectations for a decline to 4.2% from 4.3%.

Speaking after the jobs data, New York Fed President John **Williams and** Fed Governor Christopher **Waller should support the Fed's telegraphed rate cut at the FOMC meeting on September 18**. Williams was one of the two Fed Presidents who voted to reduce the discount lending rate in July, according to last week's Fed discount minutes.

Room for many Fed rate cuts



Sources: DBS Research, Bloomberg data

Waller's speech will likely emphasize the likelihood of a soft landing for the US economy, supporting the case for a normal 25 bps cut in September, rather than the 50 bps cut previously pushed by the futures market. **Waller may also offer insight into the Fed's future rate trajectory.** In the June Summary of Economic Projections, Fed officials called 25-50 bps of rate reductions in 2024, followed by a cumulative 200 bps cut through 2025-2026. These projections aligned with San Francisco Fed President Mary Daly's assessment, which estimated an inflation-adjusted neutral interest rate as high as 1%, considering July's PCE headline and core inflation at 2.5% YoY and 2.6%, respectively.

USD/CAD found support around 1.3450 ahead of the Bank of Canada's third consecutive rate cut expected this week. On September 4, we anticipate the overnight lending rate to fall another 25 bps to 4.25%. CPI core trimmed inflation extended its decline inside the official 1-3% target to 2.7% YoY in July, its lowest level since April 2021.

On September 6, consensus expects the **August unemployment rate to keep rising to 6.5%**, its highest level since January 2022. The Trudeau government has moved to protect Canadian jobs by halving the share of low-wage temporary foreign workers that employers can hire to 10% of their overall workforce, effective September 26. **However, Canada's GDP growth surprised by accelerating a third quarter** to an annualized 2.1% QoQ saar in 2Q24 vs. the 1.8% consensus; first quarter growth was also revised to 1.8% from 1.7%. Hence, we remain alert to any inclination by the BOC to pause after three consecutive rate cuts.

Philip Wee

Group Research

Economics & Strategy

Taimur BAIG, Ph.D.
Chief Economist
Global
taimurbaig@dbs.com

Wei Liang CHANG
FX & Credit Strategist
Global
weiliangchang@dbs.com

Tracy Li Jun LIM
Credit Analyst
USD Credit
tracylimt@dbs.com

Amanda SEAH
Credit Analyst
SGD Credit
amandaseah@dbs.com

Nathan CHOW
Senior Economist
China/HK SAR
nathanchow@dbs.com

Eugene LEOW
Senior Rates Strategist
G3 & Asia
eugeneleow@dbs.com

Daisy SHARMA
Analyst
Data Analytics
daisy@dbs.com

Han Teng CHUA, CFA
Economist
Asean
hantengchua@dbs.com

Teng Chong LIM
Credit Analyst
SGD Credit
tengchonglim@dbs.com

Joel SIEW, CFA
Credit Analyst
SGD Credit
joelsiew@dbs.com

Mo JI, Ph.D.
Chief Economist
China/HK SAR
mojim@dbs.com

Tieying MA, CFA
Senior Economist
Japan, South Korea, Taiwan
matieying@dbs.com

Mervyn TEO
Credit Strategist
USD Credit
mervynteo@dbs.com

Byron LAM
Economist
China/HK SAR
byronlamfc@dbs.com

Radhika RAO
Senior Economist
Eurozone, India, Indonesia
radhikarao@dbs.com

Samuel TSE
Economist/Strategist
China/HK SAR
samueltse@dbs.com

Violet LEE
Associate
Publications
violetleeyh@dbs.com

Philip WEE
Senior FX Strategist
Global
philipwee@dbs.com

Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)

GENERAL DISCLOSURE/ DISCLAIMER (For Macroeconomics, Currencies, Interest Rates)

The information herein is published by DBS Bank Ltd and/or DBS Bank (Hong Kong) Limited and distributed by AllianceDBS Research Sdn Bhd (ADBS), a subsidiary of Alliance Bank Malaysia Berhad (ABMB) (each and/or collectively, the "Company"). It is based on information obtained from sources believed to be reliable, but the Company does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. The information herein is published for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. The information herein is not to be construed as an offer or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. The Company and its associates, their directors, officers and/or employees may have positions or other interests in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking or financial services for these companies. The information herein is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident of or located in any locality, state, country, or other jurisdiction (including but not limited to citizens or residents of the United States of America) where such distribution, publication, availability or use would be contrary to law or regulation. The information is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction (including but not limited to the United States of America) where such an offer or solicitation would be contrary to law or regulation.

This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) which is Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Singapore recipients should contact DBS Bank Ltd at 65-6878-8888 for matters arising from, or in connection with the report. This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd.

DBS Bank Ltd., 12 Marina Boulevard, Marina Bay Financial Centre Tower 3, Singapore 018982. Tel: 65-6878-8888. Company Registration No. 196800306E.

DBS Bank Ltd., Hong Kong Branch, a company incorporated in Singapore with limited liability. 18th Floor, The Center, 99 Queen's Road Central, Central, Hong Kong SAR.

DBS Bank (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability. 13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong SAR

AllianceDBS Research Sdn Bhd (128540 U), 19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia. Tel.: +603 2604 3915.

Virtual currencies are highly speculative digital "virtual commodities", and are not currencies. It is not a financial product approved by the Taiwan Financial Supervisory Commission, and the safeguards of the existing investor protection regime does not apply. The prices of virtual currencies may fluctuate greatly, and the investment risk is high. Before engaging in such transactions, the investor should carefully assess the risks, and seek its own independent advice.