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By:

Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Akash Deb
akash510@unionbankofindia.bank

Shreyas Bidarkar
shreyas.bidarkar@unionbankofindia.bank

*Last week where we saw the largest downward revision to US jobs data since 2009 which added fears that the job market was weaker than what market had anticipated earlier. The US home sales inched up in July alongside a modest dip in mortgage rates while jobless claims came in line with the market expectation. Attention last week was squarely focused on FED chair Powell speech at Jackson Hole Symposium, where he confirmed that the **"time has come"** for a monetary pivot as now that inflation is subsiding and the labor market is displaying signs of flattering the same were discussed during the recent FOMC meet. Also, from Japan the message from Ueda was clear that they want to continue normalizing monetary policy and will continue to **hike rates if economic trends aligned with central bank's forecast**. The yield on US10Y remained volatile while equity markets continued its winning streak.*

The key FX themes form last week are outlined below. Coming week the key focus remains on, PCE data on Friday and eurozone preliminary CPI data will drive the market forward. (**Pls refer**: Uni-Fx: Markets in Mayhem mode amid US recession fears & unwinding of carry trades)

- ♣ **Powell does victory lap at Jackson Hole Symposium indicates September rate cut**
- ♣ **FED might cut rates gradually by 25bps in September**
- ♣ **US recession risk continues to subside slowly**
- ♣ **BoJ will continue to hike rates if economic trends aligned with central bank's forecast**
- ♣ **Rupee makes the move but misses out the major currency rally**

Powell does victory lap at Jackson Hole Symposium indicates September rate cut

Powell stated that time has come for FED to cut rates

FED chair J Powell proclaimed victory in the fight against inflation and signalled that interest rates are likely to come down in much-anticipated speech last Friday in Jackson Hole, Wyoming. Under his tenure the FED has raised interest rates which are highest in 23 years to bring down inflation which was running at a pace highest in more than four decades.

Upside Risk to inflation has gown down

A September rate cut is coming, Powell tells that time has come to cut the key policy rates, making it clear his intentions to prevent any further weakness in jobs market. He stated that restrictive monetary policy has helped restore balance between aggregate supply and demand, easing inflationary pressures and ensuring that inflation expectations remained well anchored. Inflation is now much closer to FED's objective, with CPI having risen 2.5% over the past 12 months. After a pause since July 2023, progress toward 2% objective has resumed. His confidence has grown that inflation is on a sustainable path back to 2% the comfort level for central bank.

Risk to labor market has gone down

FED confident of achieving soft landing and containing inflation

While the most concerning factor for market is labor market on which Powell stated that the labor market has cooled considerably from its formerly overheated state. The unemployment rate began to rise over a year ago and is now at 4.3% which is still low by historical standards, but almost a full percentage point above its level in early 2023. Most of that increase has come over the past six months. So far, rising unemployment has not been the result of elevated layoffs, as is typically the case in an economic downturn. While pace of rate cut depends on incoming data he sounded confident that the FED would achieve soft landing containing inflation.

FED might cut rates gradually by 25 bps in September

FED would prefer to avoid 50bps rate cut in September meeting

Despite the dovish comments from Powell market is still pricing 29% probability of 50bps rate cut in September meeting and 71% probability of 25bps according to CME FedWatch, while 100bps by year end with further 125bps rate cut next year which seems reasonable. Between now and September meet we will have the core PCE deflator data on 30th August, which the market expects a 0.2% MoM print, then there is job data on 6th September which will be crucial. 50bps rate cut might be possible cutting rates by 50bps might set a bit of panic in the market as it would indicate that the FED is behind the cure of rate cut cycle and it expects hard landing.

Downward Revision of 818k jobs may pushed the FED to act

Downward revision of jobs indicates labor market is weaker than initially thought of

Earlier in the week the Bureau of labor service (BLS) acknowledged that its non-farm payroll estimate was above the level shown by tax records by 818k. This was the largest downward revision since 2009 and would bring the YoY payroll growth in March down from 1.9% to 1.4% which means that the labor market is in weaker position than originally thought of.

Stocks Rally while DXY sinks on Powell Pivot

After the crash in US equities and all around the world earlier in the month on US recession concern almost all the loss has been recovered since then. Last week saw Dow Jones gain by c.1.27% while tech heavy Nasdaq100 gained c.1.09%.

US dollar continues to weaken on rate cut expectation while yield remains volatile

The US dollar fell c.1.7% its fifth consecutive and largest weekly decline since July 2023 on the expectation that the FED to join other major central banker to start cutting rates, while sterling rose to its highest in more than two years and Euro hit 13-month high on Friday.

For the week gone by the front end and back end of yield remained volatile. On Wednesday after the revision of US payroll data which indicated the job market was weaker than market had thought the front end of the curve the US2Y yield fell by c.10bps from its high. Coming to the week we saw some stability return while yield rose once again as weekly job market provided some stability coming on expected lines. On Friday Jackson hole event drove the yield lower on anticipated rate cut in September.

US recession risk continues to subside slowly

The labor market data starting of the month delivered a negative shock, as NFP data grew by just 114k in July way below the market consensus of 185k. Above all the rise in unemployment rate at 4.3% in July raised serious concerns which spiked above the 4% mark which is FED's year end projection. Also, various analytical models indicate recession. But since then the market nerves have been calmed after the release of some positive US growth data. There remains divergence between the labor market data which indicate recession while data like retail sale, ISM services PMI and GDP have been relative resilient despite elevated policy rate and gives us soft landing signals. Powell and other FED member have also indicated at Jackson Hole Symposium that FED is confident of achieving soft landing while containing inflation.

Powell expects soft landing for US economy

BoJ will continue to hike rates if economic trends aligned with central bank's forecast

The BoJ wants to continue normalizing its monetary policy and will hike if economic trends aligned with central banks forecast. This was the message from Ueda in his testimony to the parliament where he was summoned to explain the BoJ's decision in July to raise interest rates. The JPY strengthened against the US dollar after this comment while continued to do so after Powell's speech in Jackson Hole Symposium. The Yen future rose by c.2.23% last week. The USD/JPY pair has been quite volatile as the pair fell to 141.68 levels on 5th August following the BoJ's rate hike, then bounced to 149.40 on 15th August but has eased back and closed at 144.38 levels last Friday.

Ueda remains hawkish in his testimony to the parliament

The rate hike from BoJ's sparked a massive unwinding of carry trade funded by Yen, that coupled with worries of a US recession triggered a global sell off in early August. Since then Nikkei has rallied nearly 24% off August 5 panic lows. The market is currently pricing 10bps rate hike by BoJ by this year end.

Japan's inflation continues to rise for third consecutive month in July despite lower core-core inflation

Japan's core inflation rate accelerated for the third consecutive month to 2.7% in July vis-à-vis 2.6% in June, which was in line with market expectations while supporting the BoJ's hawkish shift this year. The headline inflation clocked at 2.8% in July, unchanged from previous month. However, the **core-core inflation rate which strips out prices of both fresh food and energy and is watched** closely by BoJ, fell to 1.9% in July from 2.2% in June this is the lowest since September 2022.

Yen Short speculative position continued to convert to net long

Is Yen Carry Trade unwinding over?

It is very difficult to say how big the carry trade is. Looking at the size of potential for a short-term reversal, we can examine yen contracts tracked in Commodity Futures Trading Commission. The data in (Fig 3) shows JPY current net position, the most recent **announced was ¥23.6K**. On 8th July the speculative investors were holding net short position of -¥182K. By 2nd August after BoJ announced its rate hike decision the position got reduced significantly to -¥73K, while on week end 16th August it **turned from short to net long** at ¥23.1k.

Gold continues to shine while oil remains volatile on geopolitical risk and demand concern from China

Oil rallies after heightened geopolitical tension in middle east

Gold prices are trading above the psychological support of $2,500 per ounce. The uptick in gold is mainly due to increased probability of September rate cut by FED as lower interest rates are positive for gold, as it reduces the opportunity cost of holding the non-interest paying asset.

The silver attracted buyers recently as FED is expected to deliver at least 25bps rate cut in September meeting. Also escalating conflicts in middle east provides support to safe haven silver. Silver demand might be impacted in the futures as recent data from China indicating that the economy is struggling and silver plays a crucial in various industrial products as China remains largest manufacturing hub.

The base metal finished last week with slight gains after weeks of downward pressure. Aluminium has breached the threshold $2500/t mark while zinc and lead followed the suit. Copper remained suppressed below $9300/t mark. While metal prices have been dislocated from macroeconomics shifts like US recession fears and monetary policy actions from central bankers.

Oil prices (WTI) continued its rally after it made low of $71.94/bbl. after dovish comments from Powell. The fears of escalating conflict in Middle east could disrupt oil supply led to recovery in oil prices and are currently trading above $80/bbl. mark.

♣ Rupee makes the move but misses out the major currency rally

Rupee defied strong appreciation despite weak US dollar

In the first fortnight, when USD was trading at higher levels, Rupee hovered near to its all-time highs (On 06th Aug’24 @ 83.9850). The downside (Psychological barrier of 84.00) was mainly capped by continuous Dollar sales by FPIs in the domestic equity & debt market. However, last week the Dollar tested the lowest level since July 2023 (DXY: 100.66), we saw recovery in the domestic currency as well. However, it is key to note that the move in Rupee was the weakest compared to other Asian peers. Our analysis for the last week of August shows all Asian currencies appreciated, while Rupee saw the least appreciation next to Hong Kong Dollar which saw net depreciation last week.

FPI turned positive for equities last week

The local currency was on pressure amid month end Dollar bids from importers, oil buying and Dollar short squeeze as the inflows induced by JP Morgan index inclusion did not hit the market and hence dollar supply has taken a hit now. Rupee being a flow driven currency have been strongly supported by FPI flows. In this week, FPI flows changed direction in the equity segment, $584.10mln inflows gushed in vis-a-vis outflows of $(925.53) mln a week ago, although the debt has seen a marginal decrease of inflows of $268.83mln vis-à-vis $339.61mln a week ago.

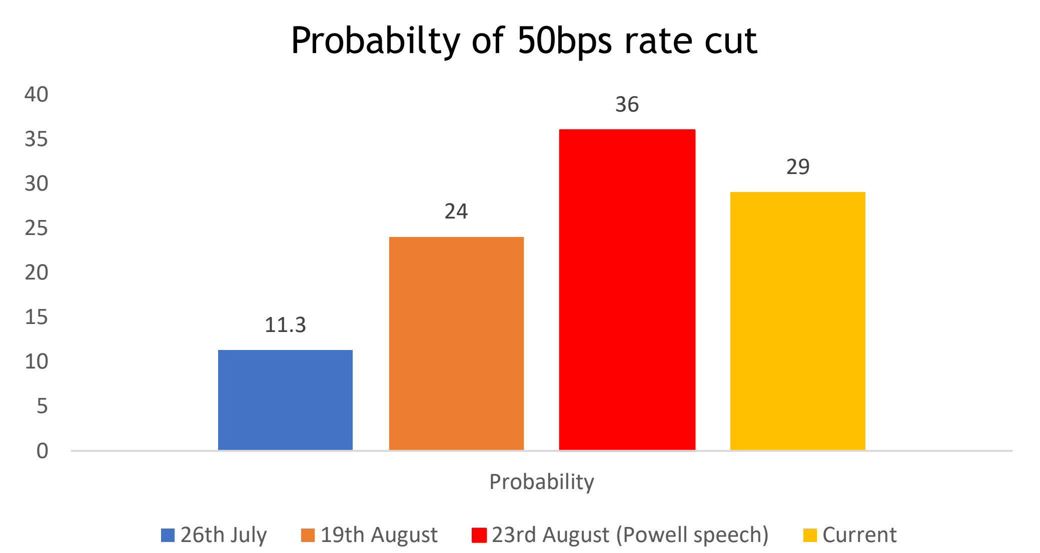
Along with increased pace of VRRR, RBI continued OMO sales for 6th consecutive week with a total sale of Rs 1,185crs in the week ended 16th August & cumulative of Rs. 15,390crs to absorb surplus liquidity amid FAR related inflows. Our analysis shows the record high forex reserves kitty have gone up by $4.50bln to $674.66bln for the week ended 16th August ($1.45bln rise was adjusted after valuation effects), signalling that the RBI has continued to beef up its accumulation strategy.

The rise in interest rate differential between US & India are likely to open doors for more FPI flows in the coming months which may provide support to Rupee, as FED is expected to start cutting rates from its September Policy; while **RBI will stay on its “Withdrawal of accommodation”** policy stance due to higher food inflation. Interestingly, RBI MPC minutes outcome came in line with market expectations & absence of drastic statements did not disrupt any market sentiments. In our view, the most important statement from Governor in the RBI MPC was, “During 2024-25 (up to August 7), [the Indian rupee (INR) remained largely range-bound.](#) The lower volatility of the INR bears testimony to India's macroeconomic and financial stability, and an improving external sector outlook"

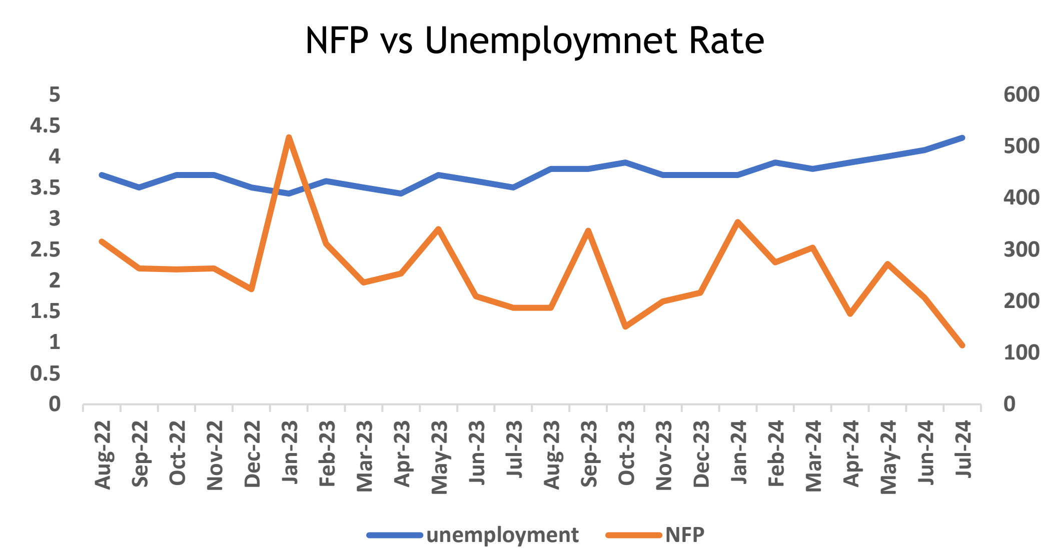
During this week, attention will shift to US PCE data and tension in the middle east, also month end Dollar demand can exert some pressure on INR. Last week, INR traded in a narrow range with an appreciating bias from 83.7625 to 83.9725. For this week, we expect the domestic currency to remain relatively stable, in the wake of weak dollar. We maintain our technical stance that INR should take support of 83.56 and will find a strong resistance around 83.98 levels, breach of which will test 84.16 levels (NDF highs). Meanwhile, in short term the current risk aversion scenario will strengthen US dollar on safe haven buying spree and drive depreciation pressure on rupee.

Next Week Economic Indicators						
Date	**Time (IST)**	**Country**	**Data**	**Month**	**Forecast**	**Previous**
28.Aug.24	20:00	US	US Crude Oil Inventories	Aug	-	-4.6M
29.Aug.24	18:00	US	US Prelim GDP (QoQ)	Q2	2.8	2.8
29.Aug.24	18:00	US	Initial Jobless Claims	Aug	234k	232k
30.Aug.24	14:30	EU	EZ Flash Estimate (YoY)	Aug	2.20%	2.60%
30.Aug.24	14:30	EU	EZ Core CPI Flash (YoY)	Aug	2.80%	2.90%
30.Aug.24	**18:00**	**US**	**Core PCE Price Index (MoM)**	**Aug**	**0.20%**	**0.20%**

The 50bps rate cut probability has increased since last one month on weaker US job data currently stand at 29% (Fig 1)

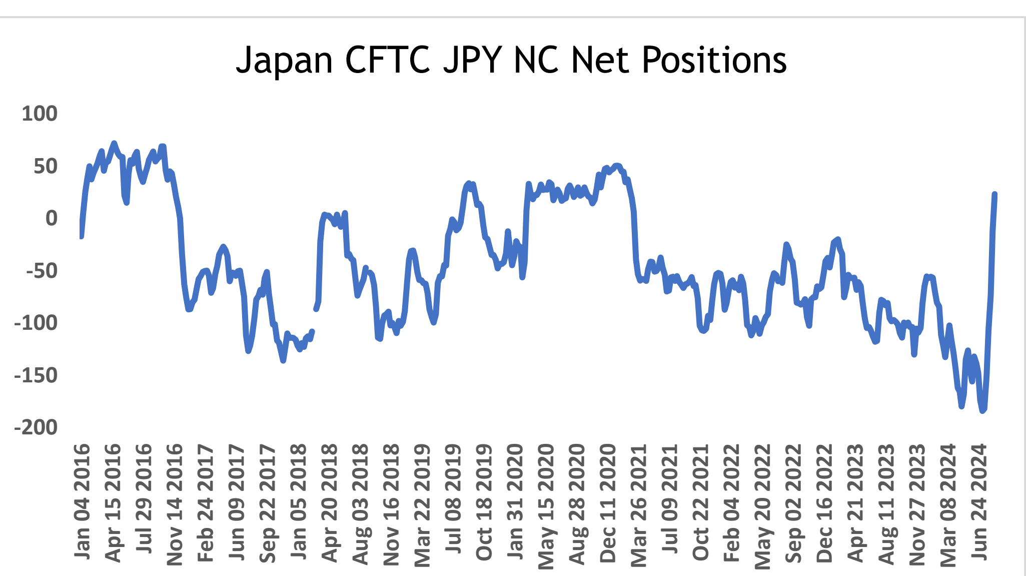


The US labor market is showing signs of weakness (Fig 2)

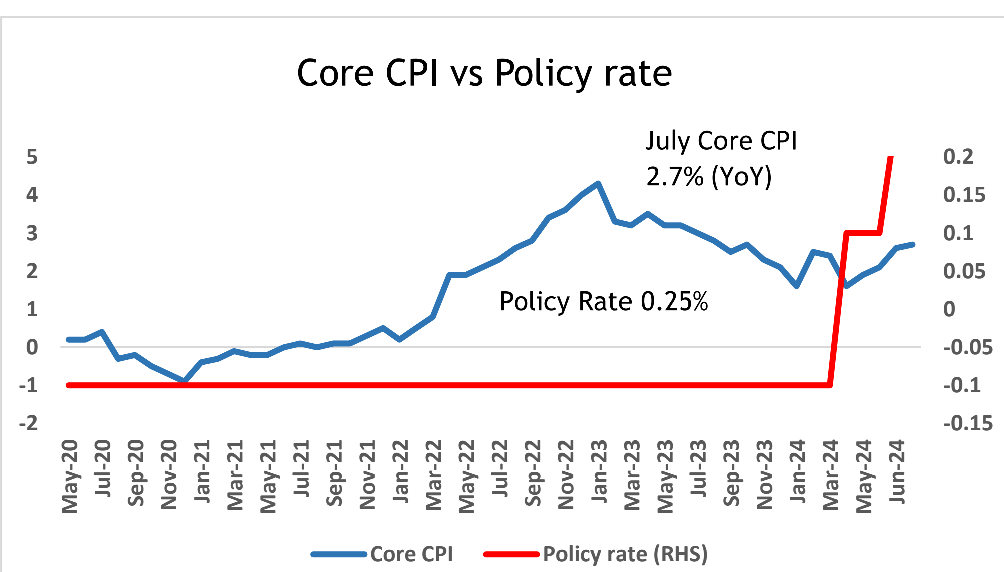


Source: Bloomberg, CME Fedwatch Tool, Federal Reserve of St Louis

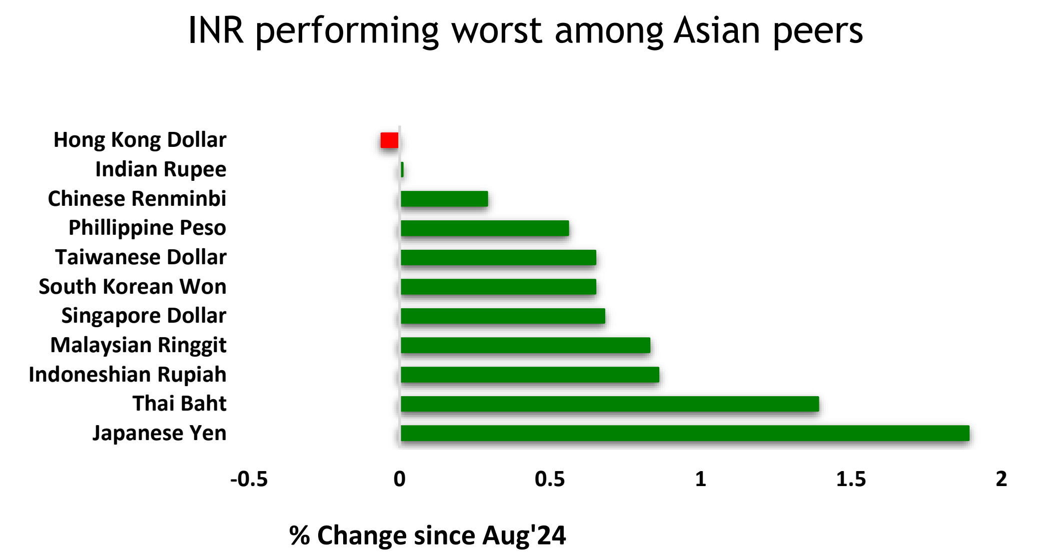
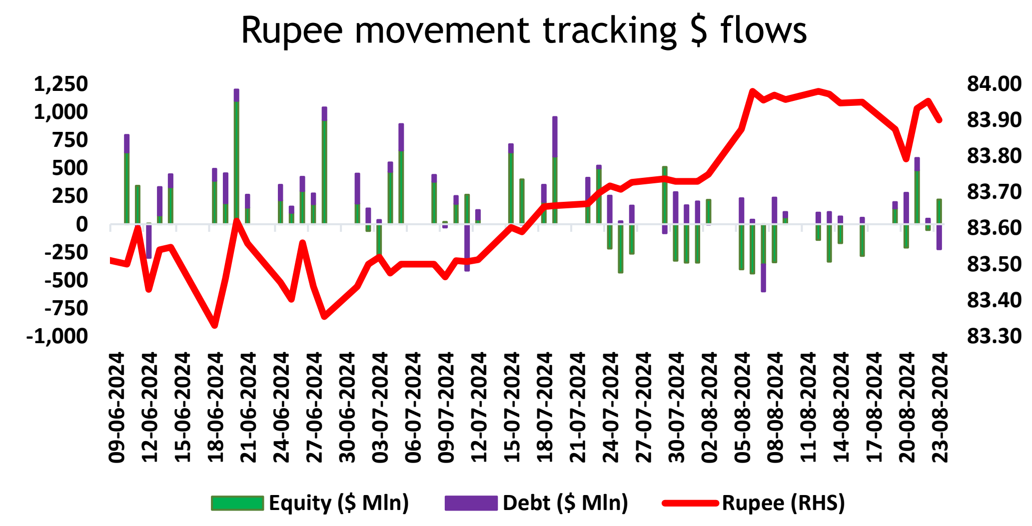
Yen speculative Short position has converted to net long; *LHS* units ¥ K *(Fig 3)*



Japan's July CPI rose; market pricing 10bps rate hike end 2024(Fig 4)



Source: Bloomberg, Reuters, CFTC

Despite US Dollar weakness Rupee did not appreciate much (Fig 5)	*Healthy FPI inflows supported Rupee (Fig 6)*
	

Source: Bloomberg, NDSL, UBI Research

Banking Research Team	
Kanika Pasricha **Chief Economic Advisor**	**kanika.pasricha@unionbankofindia.bank**
Suneesh K	suneeshk@unionbankofindia.bank
R Gunaseelan	gunaseelan@unionbankofindia.bank
Nidhi Arora	nidhiarora@unionbankofindia.bank
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank
Jovana Luke George	jovana.george@unionbankofindia.bank
Amit Srivastava	asrivastava@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank
S. Jaya Laxmi	s.jayalakshmi@unionbankofindia.bank
Dhiraj Kumar	dhirajkumar@unionbankofindia.bank
Akash Deb	akash510@unionbankofindia.bank
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank