Market comment_02Sep2023

Discussion on the relationship between "unemployment rate" and "inflation" in China and the United States; Goldman suggests the yen may weaken to 155 per dollar

Sandy Wang, September 2, 2023-6 PM SGT

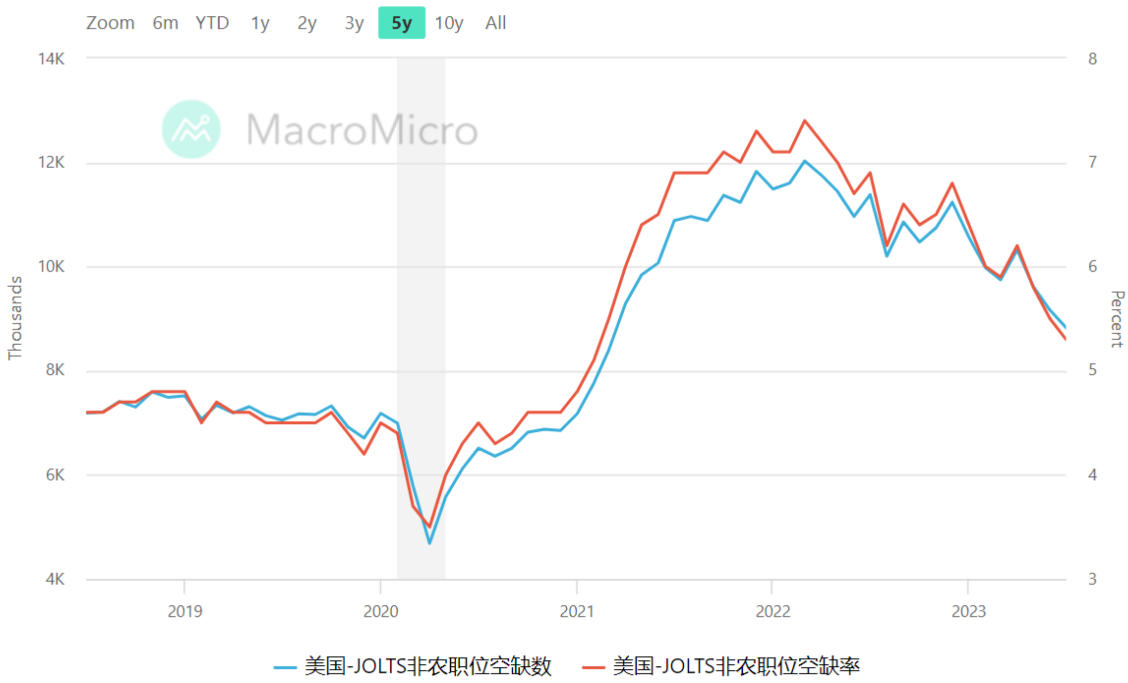
Key Takeaways:

- *Early this week, several critical economic data revisions weakened expectations of a Federal Reserve interest rate hike, impacting the dollar's upward momentum;*
- *The significant downward revision of US Job Openings in July, Weakened US Consumer Confidence in August and Substantial downward revision of US ADP Employment Change in August, puts pressure on the dollar;*
- *Weak US data stimulates a rise in US stock markets;*
- *The US July PCE inflation and August Non-Farm Payrolls boosted the dollar;*
- *The Possibility of a rate hike by the Federal Reserve in November is not ruled out;*
- *The People's Bank of China introduced a series of new policies, and USDCNH stabilized below 7.3000;*
- *The Chinese government officially announced on August 15 that they would temporarily suspend the publication of youth unemployment rates;*
- *Discussion on the relationship between "unemployment Rate" and "inflation" in China and the US;*
- *The People's Bank of China cut the FX reserve ratio, and lowed interest rates of existing mortgages for first-home purchases, to a surge in the renminbi in the short-term;*
- *US Commerce Secretary Raimondo visits China, boosting China's economic outlook;*
- *China's manufacturing sector remains weak but shows signs of stabilization;*
- *Goldman suggests the yen may weaken to 155 per dollar; BOJ Governor reiterates the accommodative stance;*
- *USDJPY touches highest at 147.30; Bank of Japan officials issue verbal intervention;*
- *China implemented economic stimulus policies, leading to a significant crude oil rebound.*

1. Several critical economic data revisions weakened expectations of a Federal Reserve interest rate hike, impacting the dollar's upward momentum.

1) The significant downward revision of US Job Openings in July weighed on the dollar.

On Tuesday, August 29, the US Department of Labor reported that the number of job openings in the United States in July, as measured by JOLTS (Job Openings and Labor Turnover Survey), stood at 8.827 million, significantly lower than the expected 9.465 million and the previous month's 9.165 million. This marked the lowest level in over two and a half years, dating back to March 2021. This indicator is considered one of the most closely watched financial indicators, particularly by former Federal Reserve Chair Janet Yellen, and is often referred to as a primary gauge. The data collected for this indicator encompasses job openings in various sectors, including retail, manufacturing, and different offices, providing insights into the "supply" situation in the US labour market. It can be viewed as a leading indicator for the entire labour market. Since falling below the 10 million mark in May of this year, this indicator has been on a continuous decline. The substantial drop in July's data has alleviated concerns in the market about the possibility of long-term structural inflation in the United States. It also suggests that the US labour market may be entering a sustained cooling period, which could help mitigate upward inflationary pressures. This, in turn, has weakened market expectations of the Federal Reserve, maintaining high interest rates for longer, resulting in downward pressure on the dollar.



Source: MacroMicro

The words in the picture above:
Blue: United States - JOLTS Nonfarm Job Openings
Red: United States - JOLTS Nonfarm Job Openings Rate

Both the US JOLTS Job Openings and the US Job Openings Rate have been on a downward trend, signalling a potential cooling of the US labour market and alleviating concerns in the market about the possibility of long-term structural inflation in the United States.

2) Weakened US Consumer Confidence in August pressures the dollar.

On the same day (August 29), the Conference Board in the United States released the Consumer Confidence Index for August, which recorded 106.1, lower than the expected 116 and the previous value of 117. This marked the first downward revision since May of this year. This index assesses consumer confidence in the business environment, employment, and personal income. University of Michigan Consumer Sentiment Index for August, released on the previous Friday (August 25), recorded 69.5, also lower than expected and the previous value of 71.2, indicating a downward revision. Consumer confidence is a crucial indicator of macroeconomic demand in the United States. A pessimistic consumer sentiment may imply the possibility of a contraction in US retail sales. Combined with the significant downward revision of job openings in the labour market, this has dampened market expectations regarding future economic momentum in the United States, leading to a decline in the dollar.

3) Substantial downward revision of US ADP Employment Change in August puts pressure on the dollar.

On Wednesday of this week (August 30), the US ADP Employment Change for August was recorded at 177,000, lower than the expected 195,000 and significantly lower than July's 371,000, marking the smallest increase in nearly five months. On the same day, the US GDP growth rate for the second quarter was also revised downward from 2.4% to 2.1%. The slowing of the US labour market has alleviated pressure on US inflation to continue rising. This may also weaken market expectations for the Federal Reserve to continue its tightening monetary policy by raising interest rates, resulting in downward pressure on the dollar. Consequently, the Dollar Index fell to as low as 102.95 on Wednesday (August 30), significantly below the low point after Federal Reserve Chair Powell's speech on the previous Friday (August 25) at 103.75. This also substantially pushed down the US 10Y Treasury yield to around 4.08%, the lowest level in recent times.

4) Weak US data stimulates a rise in US stock markets.

During the first three days of this week, several US economic data releases, including the significant slowdown in Job Openings and ADP Employment Change, suggested a cooling of the US labour market. Coupled with the softening of consumer confidence in August, this increased expectations of declining US inflation and hinted at the possibility of a slowdown in the US economic outlook. Poor US economic data could prompt the Federal Reserve to abandon its tightening monetary policy more quickly and shift to an expansionary monetary policy. This is a classic example of "bad news is good news" for the stock market. This was vividly demonstrated by the performance of the three major US stock indices this week, with the S&P 500 Index, Dow Jones Industrial Average, and Nasdaq Index ending their four-week consecutive declines since early August with significant rebounds, rising by 4.25%, 3.21%, and 6.21%, respectively, by around Thursday of this week. Other major stock markets in various countries have also generally followed the trend of fluctuating gains. Below is the performance record of the past week.

- *The Dow Jones Industrial Average fluctuated and rose by 1,090 pips (from 34,010 to 35,100) or 3.21%. It closed at 34,793 on September 1, compared to 34,314 on August 25, marking an increase of 479 pips.*
- *The S&P 500 Index fluctuated and rose by 185 pips (from 4,355 to 4,540) or 4.25%. It closed at 4,511 on September 1, compared to 4,403 on August 25, marking an increase of 108 pips.*
- *The Nasdaq Index fluctuated and rose by 913 pips (from 14,710 to 15,623) or 6.21%. It closed at 15,479 on September 1, compared to 14,927 on August 25, marking an increase of 552 pips.*

- *JP225 fluctuated and rose by 1,275 pips (from 31,560 to 32,835) or 4.04%. It closed at 32,756 on September 1, compared to 31,865 on August 25, marking an increase of 891 pips.*
- *S&P/ASX 200 Index fluctuated and rose by 210 pips (from 7,110 to 7,320) or 2.95%. It closed at 7,299 on September 1, compared to 7,131 on August 25, marking an increase of 168 pips.*
- *Germany's DAX Index fluctuated and rose by 365 pips (from 15,675 to 16,040) or 2.33%. It closed at 15,863 on September 1, compared to 15,681 on August 25, marking an increase of 182 pips.*
- *The Euro Stoxx 50 Index fluctuated and rose by 100 pips (from 4,250 to 4,350) or 2.35%. It closed at 4,292 on September 1, compared to 4,258 on August 25, marking an increase of 34 pips.*
- *The FTSE 100 Index in the UK fluctuated and rose by 180 pips (from 7,320 to 7,500) or 2.46%. It closed at 7,488 on September 1, compared to 7,358 on August 25, marking an increase of 130 pips.*
- *TWIX fluctuated within a 15-pips range (from 625 to 640). It closed at 629 on September 1, the same as its closing price on August 25.*
- *China A50 index fluctuated and rose by 530 pips (from 12,470 to 13,000) or 4.25%. It closed at 12,757 on September 1, compared to 12,466 on August 25, marking an increase of 291 pips.*
- *HK50 fluctuated and rose by 650 pips (from 18,100 to 18,750) or 3.59%. It closed at 18,347 on September 1, compared to 17,966 on August 25, marking an increase of 381 pips.*
- *Hang Seng China Enterprises Index fluctuated and rose by 230 pips (from 6,230 to 6,460) or 3.69%. It closed at 6,346 on September 1, compared to 6,180 on August 25, marking an increase of 166 pips.*

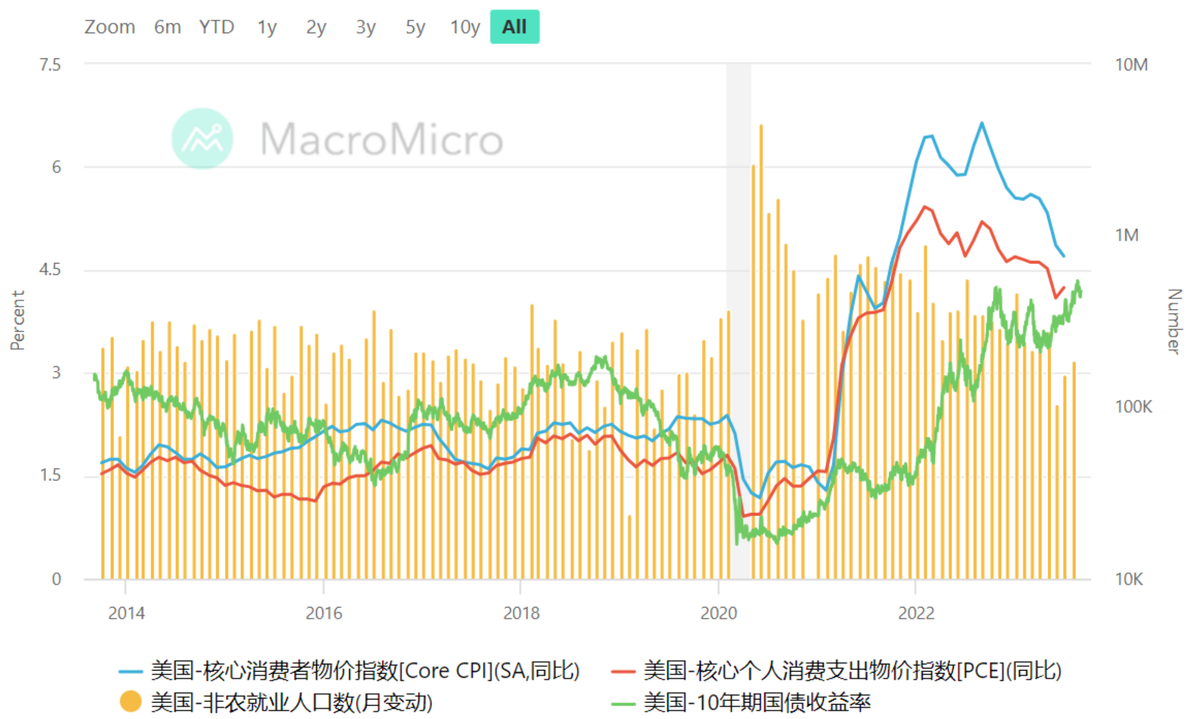
2. The US July PCE inflation and August Non-Farm Payrolls boosted the dollar.

Federal Reserve Chair Powell, in a press conference following the Fed's July interest rate meeting, stated, "We haven't made any decisions about, about any future meetings, including the pace at which we'd consider hiking. But we're going to be assessing the need for further tightening that may be appropriate, "Between now and the September meeting, we get two more job reports, two more CPI reports," and "it is certainly possible that we would raise funds again at the September meeting if the data warrant it." What he meant was that future policy decisions, especially the Federal Reserve meeting on September 21, will depend on data. I have summarised the following four data points, with three of them already released, including the US July PCE inflation released this Thursday and the US August Nonfarm Payrolls released this Friday, along with the US July Nonfarm Payroll, and the US August CPI scheduled for release on September 13. These four data points are as follows:

Key Data	PCE, CPI, and NFP	Actual	Forecast	Prev.
1	US July PCE Price Index (YoY)	3.30%	3.30%	3.00%
	US July Core PCE Price Index (YoY)	4.20%	4.20%	4.10%

2	US July Nonfarm Payrolls	187,000 (Revised down to 157,000)	200,000	209,000
3	US August Nonfarm Payrolls	187,000	170,000	157,000
4	US August CPI (YoY) (Released on September 13)			3.20%
	US August Core CPI (YoY) (Released on September 13)			4.70%

President of the Federal Reserve Bank of Atlanta Raphael Bostic said inflation in the United States is still at elevated levels. If inflation accelerates, it will support further policy tightening. "Monetary policy is already tight enough to bring inflation back down to 2% over a reasonable period." He does not expect the path to the 2% inflation target to be smooth. The US labour market is going through a period of policy calm. The current stance of the Federal Reserve's interest rates is moderately tightening. "We should be cautious and patient and let the restrictive policy continue to influence the economy, lest we risk tightening too much and inflicting unnecessary economic pain."



Source: MacroMicro

The words in the picture above:

Blue: United States - Core Consumer Price Index [Core CPI] (SA, YoY)
Yellow bar: United States - Nonfarm Employment Change (MoM)
Red: United States - Core Personal Consumption Expenditures Price Index [Core PCE] (YoY)
Green: United States - 10-Year Treasury Yield

Core CPI and Core PCE in the US still remain above 4%. From the chart, we can see that the latest data for Core Consumer Price Index (CPI) and Core Personal Consumption Expenditures

(PCE) Price Index in July stood at 4.7% and 4.2%, respectively. The current market fundamentals indicate a significant rebound in energy prices, such as crude oil, and the inflation related to the US real estate industry, especially rent inflation, has just begun to ease. Additionally, the recovery of the Chinese economy in the latter half of this year is yet to be observed. Overall, the risk of a rebound in inflation in the US still exists, and the possibility of further rate hikes by the Federal Reserve cannot be ruled out.

1) A slight rebound in US July PCE Inflation boosts the dollar.

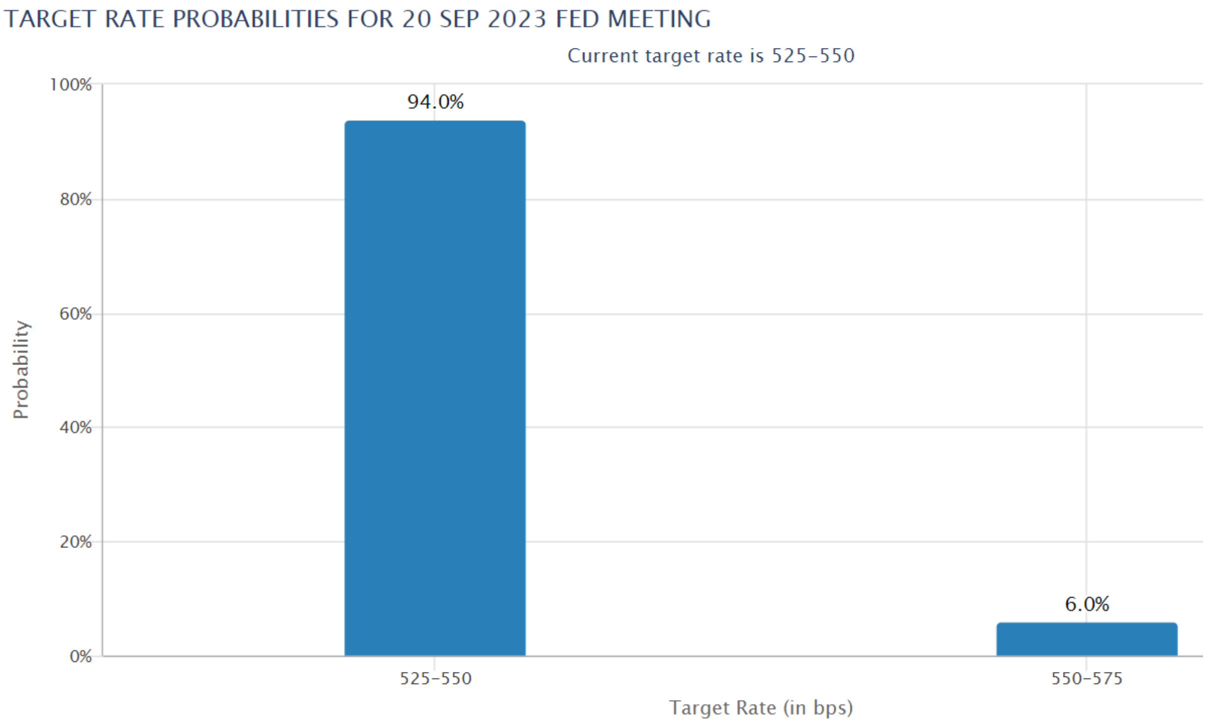
On Thursday (August 31), the US July Core Personal Consumption Expenditures Price Index (PCE) (YoY), excluding food and energy, came in at 4.2%, a slight increase from the previous 4.1% and in line with expectations of 4.2%. The US Personal Consumption Expenditures Price Index (PCE) (YoY) for July registered at 3.3%, higher than the previous 3.0% and matching the expected 3.3%. US Personal Spending for July (MoM) recorded 0.8%, surpassing both the expected and previous 0.6%, marking the largest increase since January 2023. However, US Personal Income for July (MoM) recorded 0.2%, lower than the expected value and the previous 0.3%. The US August Chicago Purchasing Managers' Index (PMI) came in at 48.7, significantly higher than the expected 44.1 and the previous 42.8, marking a new high since August 2022.

The US July Core PCE has risen slightly from 4.1% to 4.2%, consistent with the rebound in US July CPI and PPI data released in mid-August. The US July Consumer Price Index (CPI) (YoY) recorded 3.2%, a slight increase from June's 3.0%. The US July Producer Price Index (PPI) (YoY) recorded 0.8%, significantly higher than June's 0.2%. The US July Core PPI (YoY) (excluding food and energy) recorded 2.4%, slightly higher than the expected 2.3%. Despite the overall softening of US inflation data, July's CPI, PPI, and PCE all remain resilient, showing signs of a rebound, possibly indicating the Federal Reserve's potential for another rate hike before the end of the year.

2) Slight growth in the US August Nonfarm Payrolls boosts the dollar.

On Friday (September 1), the US Bureau of Labor Statistics reported that the US added 187,000 nonfarm payrolls in August, exceeding market expectations of 170,000 and the previous figure of 157,000. Additionally, the Bureau of Labor Statistics revised down the number of nonfarm jobs added in June from 185,000 to 105,000 and in July from 187,000 to 157,000. The unemployment rate for August in the US was reported at 3.8%, higher than both the expected and previous rates of 3.5%, marking a new high since February last year. Average hourly earnings in the US for August (YoY) recorded 4.3%, slightly lower than the expected and previous figures of 4.4%. On a monthly basis, average hourly earnings for August recorded 0.2%, lower than the expected 0.3% and the previous 0.4%.

The provided data for US July PCE inflation and August Nonfarm Payrolls reflect robust growth in the US job market, with a slight slowdown in wage growth, indicating that the US labour market remains resilient and appropriately cooling. This strengthens the Federal Reserve's confidence in a pause in rate hikes in September. According to the CME FedWatch Tool, the market currently anticipates a 6% probability of the Federal Reserve continuing to raise rates in September, down from last week's 20%. The probability of keeping the rates unchanged at 5.25%-5.50% has increased from 80% last week to 94%.



Source: CME

3) The Possibility of a rate hike by the Federal Reserve in November is not ruled out.

What remains fresh in the market's memory is that just last Friday (August 25), Federal Reserve Chair Powell delivered a hawkish speech at the Jackson Hole Symposium, stating that the good data in recent months, specifically in June and July, was just the beginning of building confidence in inflation moving towards the target. He expressed readiness to further raise rates when appropriate and to keep policy rates at levels that are restrictive to economic growth. The rebound in headline CPI, headline PPI, Core PCE, and robust personal spending data in July, combined with the recent surge in oil prices, suggests the risk of inflation resurging in the United States. This has increased expectations of the Federal Reserve continuing to raise rates in November this year, supporting the dollar's rebound that started this Thursday. Additionally, the latest release of the Chicago PMI for August, showing strong performance, has partly alleviated concerns in the market about the softening of the US economy caused by the significant downward revisions in July Job Opening and ADP Employment Change.

Source: TradingView

This week, the Dollar Index staged a "V-shaped" rebound. This was driven by disappointing US July JOLTs Job Openings released on Tuesday (August 29), which fell significantly below expectations and saw substantial downward revisions compared to previous figures. As a result, the dollar experienced a sharp decline of approximately 100 pips. However, on Thursday night, the release of the US July Core Personal Consumption Expenditures Price Index (YoY) rebounded from the previous 4.1% to 4.2%. Additionally, on Friday (September 1), the US August Nonfarm Payrolls showed unexpected growth, leading to a substantial rebound in the Dollar Index, recovering all of its losses from earlier in the week and closing at 104.26. Non-US currencies are moving sideways, with offshore yuan recording the largest gains, while crude oil has experienced a significant rally. Here is a summary of price movements over the past week:

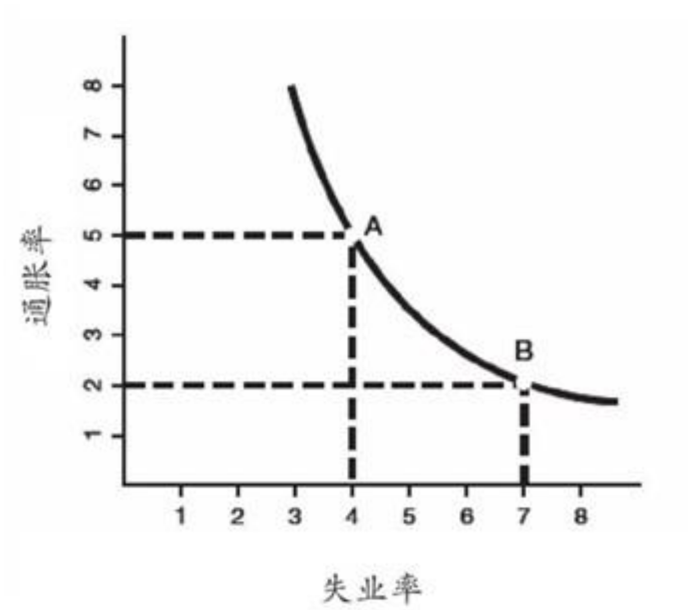
- *Dollar Index (DXY) saw a "V-shaped" oscillation, rising by 131 pips (104.10-102.95-104.26). It closed at 104.26 on September 1, a slight increase of 6 pips compared to the closing price of 104.19 on August 25.*
- *EURUSD experienced consolidation within a range of 172 pips (1.0793-1.0945-1.0773). On September 1, it closed at 1.0773, declining by 20 pips compared to the closing price of 1.0793 on August 25.*
- *GBPUSD traded within a 159-pip range (1.2576-1.2745-1.2586). It closed at 1.2586 on September 1, rising by 10 pips compared to the closing price of 1.2576 on August 25.*
- *AUDUSD consolidated within a 118-pip range (0.6402-0.6520). It closed at 0.6445 on September 1, gaining 43 pips compared to the closing price of 0.6402 on August 25.*
- *NZDUSD saw consolidation within a 115-pip range (0.5895-0.6010). It closed at 0.5938 on September 1, increasing by 43 pips compared to the closing price of 0.5895 on August 25.*
- *USDJPY oscillated and consolidated within a 280-pip range (144.50-147.30). It closed at 146.17 on September 1, declining by 23 pips compared to the closing price of 146.40 on August 25.*

- *USDCHF consolidated within a 120-pip range (0.8745-0.8865). It closed at 0.8856 on September 1, gaining 12 pips compared to the closing price of 0.8844 on August 25.*
- *USDCAD traded within a 150-pip range (1.3490-1.3640). It closed at 1.3589 on September 1, declining by 14 pips compared to the closing price of 1.3603 on August 25.*
- *USDCNH experienced a downward oscillation of 640 pips (7.3090-7.2450). It closed at 7.2632 on September 1, declining by 312 pips compared to the closing price of 7.2944 on August 25.*
- *USDSGD traded within a 110-pip range (1.3470-1.3580). It closed at 1.3540 on September 1, declining by 3 pips compared to the closing price of 1.3543 on August 25.*
- *Gold oscillated upward by $40 per ounce (1910.50-1950.50). It closed at $1939.69 on September 1, rising by $25.45 per ounce compared to the closing price of $1914.24 on August 25.*
- *Bitcoin traded within a range of 2825pips (28125-25300). It closed at 25723 on September 1, declining by 302 pips compared to the closing price of 26025 on August 25.*
- *WTI Oil increased by 830 pips (78.00-86.30). It closed at 86.30 on September 1, rising by 592 pips compared to the closing price of 80.38 on August 25.*
- *Brent Crude Oil increased by 706 pips (82.30-89.36). It closed at 89.36 on September 1, rising by 470 pips compared to the closing price of 84.66 on August 25.*

3. The People's Bank of China introduced a series of new policies; USDCNH stabilises below 7.3000.

1) Discussion on the relationship between "unemployment Rate" and "inflation" in China and the US.

The Phillips Curve, named after the economist William Phillips, illustrates a negative correlation between the unemployment rate and inflation. In other words, high inflation and high unemployment cannot coexist, or it suggests that the economy tends to move from "high inflation, low unemployment" to "low inflation, high unemployment," and vice versa. When the unemployment rate is low, wage growth may be pushed higher due to "excess money and excess demand" chasing goods that exceed societal output, leading to an increase in inflation. At the same time, under conditions of full employment, wage inflation and consumer price inflation can be triggered, with the economy operating at or above potential GDP levels. When the unemployment rate is high, wage growth is lower, and in the presence of significant unemployment, workers compete for jobs, keeping wages low. With less money chasing too many goods, it is highly unlikely for there to be any inflation or very low inflation in this scenario. The economic situation at this time is below potential GDP or in a recession. In a certain sense, allowing economic recession to occur and rising unemployment rates is also one of the effective methods of fighting inflation. It is important to note that fighting inflation comes at the cost of high unemployment rates. Moreover, lower unemployment rates are not always better because lowering the unemployment rate may come at the expense of tolerating high inflation rates.



Source: Phillips Curve

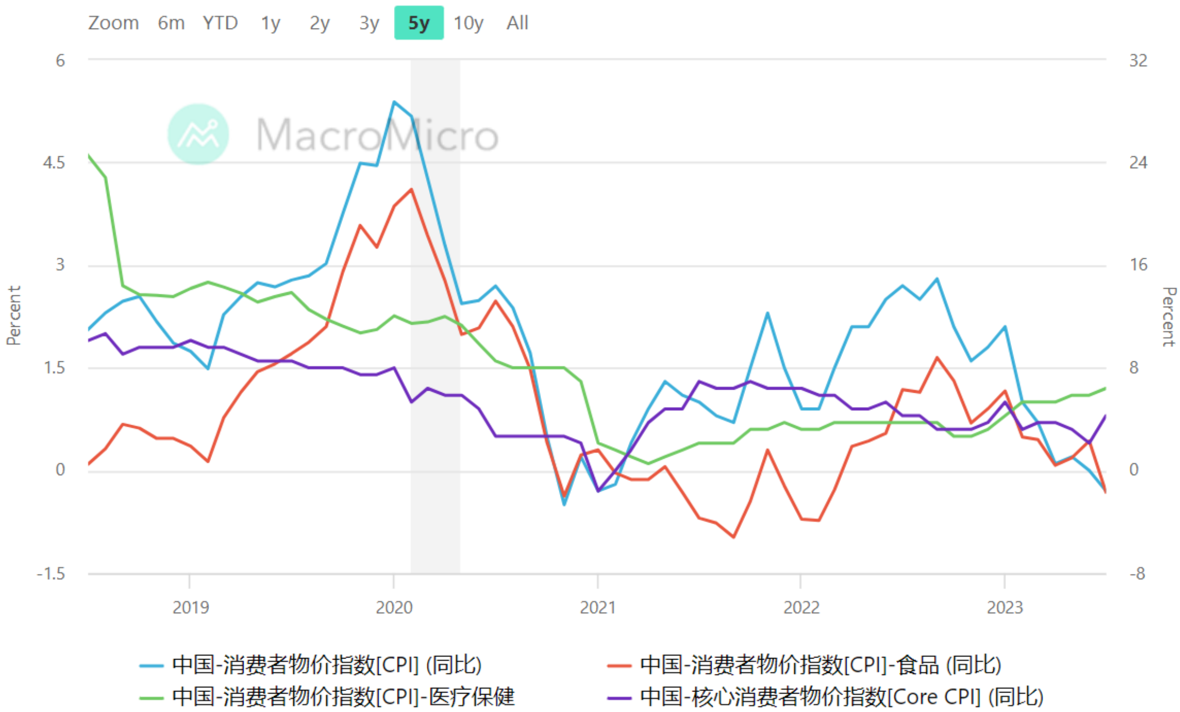
The words in the picture above:
Horizontal axis: Unemployment Rate
Vertical axis: Inflation Rate

Central Banks can adjust monetary policy according to the Phillips Curve, seeking dynamic equilibrium between economic output and inflation. In economic downturns, central banks can implement loose monetary policies to increase output and reduce unemployment. In times of economic overheating, they can implement tight monetary policies to weaken output and fight inflation.

<u>In the case of the United States</u>, the "Humphrey–Hawkins Full Employment Act" clearly states that the dual mandate of the Federal Reserve is to pursuing the economic goals of maximum employment and price stability. These two goals are quantified as maintaining an unemployment rate below 4.5% and keeping inflation below 2%. Therefore, when the United States Job Openings, released on Tuesday, August 29, was significantly revised downward, implying a cooling labour market, and when the US Nonfarm Payrolls for August, released on Friday, September 1, showed only a slight increase, with the US unemployment rate reaching 3.8%, a new high in the past year and a half (between April 2022 and July 2023, within the range of 3.4% to 3.7%), from the perspective of the Phillips Curve, it can be understood that inflation in the United States may be effectively contained under the backdrop of stable employment. In other words, the current contractionary monetary policy of the Federal Reserve may already be sufficiently restrictive. Therefore, we see market expectations for the Fed's September interest rate meeting leaning towards "standing pat" and maintaining the range of 5.25% to 5.50%.

<u>In the case of China</u>, the People's Bank of China follows a multi-objective system, which includes four annual objectives: ensuring price stability, boosting economic growth, promoting employment, and broadly maintaining balance of payment, as well as two

dynamic objectives: financial reform and opening up, and financial market development. In summary, the policy objectives of the People's Bank of China encompass three aspects: inflation, exchange rate stability, and employment. China's economic recovery in the first half of this year fell short of expectations, with financial data such as New Yuan Loans significantly below expectations, as well as potential deflation risks and a high youth unemployment rate of around 20% (since April of last year, this data has remained approximately 20%, and on August 15, the Chinese government announced that it would no longer release this data). China's overall unemployment rate is about 5.2% to 5.5%. If we take the average of China's overall unemployment rate of 5.5% and youth unemployment rate of 20%, we get an unemployment rate of approximately 12.75%. China's headline Consumer Price Index (CPI) has been steadily declining since September of last year, reaching -0.3% in the most recent July data, and there is a risk of deflation in the Chinese economy. If we look at China's current unemployment rate of 12.75% and -0.3% inflation rate, China's economy currently fits the "low inflation, high unemployment" scenario of the Phillips Curve, meaning that economic development is below potential GDP levels. It is for this reason that the Chinese government has recently introduced a series of monetary policies related to interest rate cuts, implemented a more relaxed financial policy, and reduced financing costs to support the real economy.



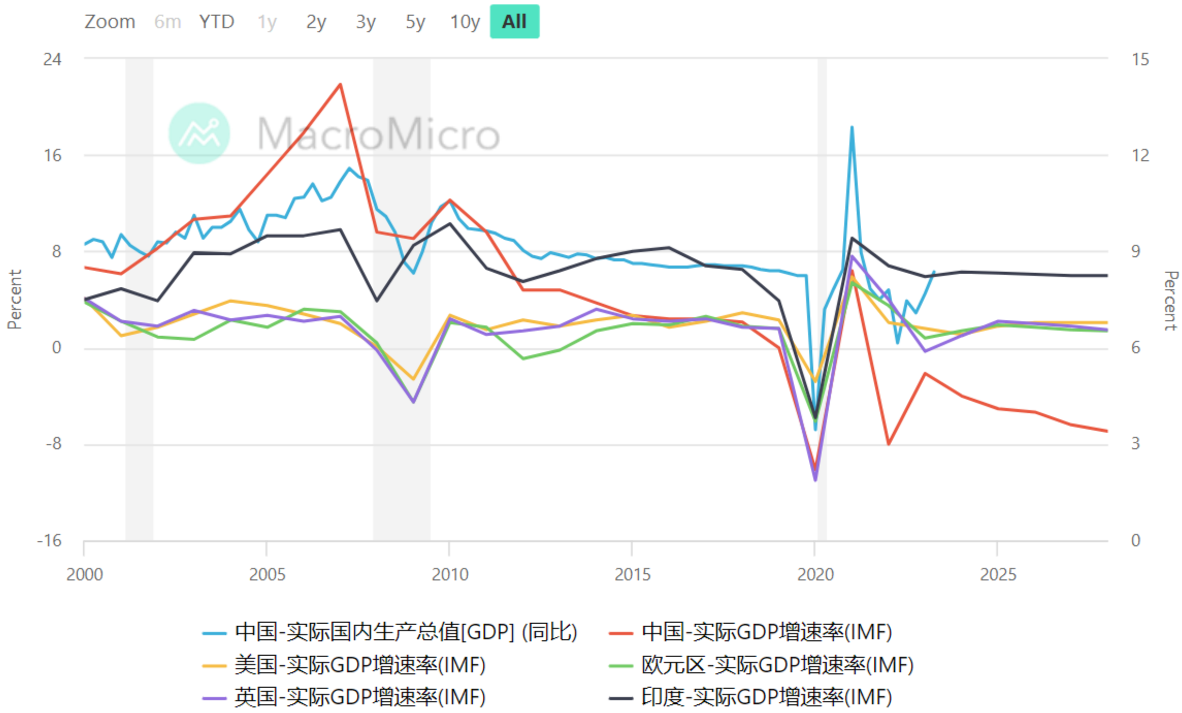
Source: MacroMicro

The words in the picture above:

Blue: China - Consumer Price Index [CPI] (YoY)
Green: China - Consumer Price Index [CPI] - Healthcare
Red: China - Consumer Price Index [CPI] - Food (YoY)

Purple China - Core Consumer Price Index [Core CPI] (YoY)

China's headline Consumer Price Index (CPI) (blue line) has been declining since September of last year, reaching as low as -0.3% in the latest data for July. CPI Food (red line) also dropped to -1.7% in July. This suggests that China may be facing potential deflation risks.



Source: MacroMicro

The words in the picture above:

Blue: China - Real Gross Domestic Product [GDP] (YoY)
Yellow: United States - Real GDP Growth Rate [IMF]
Purple: United Kingdom - Real GDP Growth Rate [IMF]
Red: China - Real GDP Growth Rate [IMF]
Green: Eurozone - Real GDP Growth Rate [IMF]
Black: India - Real GDP Growth Rate [IMF]

According to the IMF's actual GDP growth rate forecasts, China's economic growth rate for the current and foreseeable next five years is expected to undergo growth downgrades. Until 2028, China's economic growth rate is projected to be around 3.5%, while the economic growth rate of developed economies is expected to be approximately 4.5% or higher. Among the BRICS countries, India is expected to have a growth rate of over 5%. This also adds pressure to the depreciation of the yuan.

2)The People's Bank of China cut the FX reserve ratio, boosting the offshore renminbi.

On Friday, September 1, the People's Bank of China announced that it would cut the foreign exchange reserve ratio for financial institutions by two percentage points, from the current 6% to 4%, starting from September 15. This is the first time since 2023 that the People's Bank of China has lowered the foreign exchange reserve ratio. The primary purpose of this adjustment is to enhance the foreign exchange fund utilization capacity of financial institutions, provide more liquidity to the interbank foreign exchange market, and meet the supply and demand of foreign currencies in the banking industry.

Additionally, on Sunday, August 27, China reduced the stamp duty on stock trades. The State Taxation Administration announced a 50% reduction in stamp duty on stock trading, marking the first reduction since 2008. This reduction is favorable for substantially lowering transaction costs for investors and reducing market trading costs, thus alleviating the burden on investors, in line with the policy orientation of reducing taxes and fees, benefiting the people, and benefiting the market.

3) The People's Bank of China lowed interest rates of existing mortgages for first-home purchases, leading to a surge in the yuan in the short term.

On Thursday, August 31, the People's Bank of China announced that Starting from Sept 25, borrowers of existing mortgages for first-home purchases can seek to lower their interest rates by applying for a rate change in the contract or a swap for a new mortgage. At the same time, the People's Bank of China and the China Banking and Insurance Regulatory Commission issued a joint statement, stating that local authorities can autonomously determine the minimum down payment ratio and interest rate floor for first and second homes in their jurisdictions based on the "city-specific measures" principle. This move is not only a significant positive development for the real estate market but also has the potential to boost consumer spending and consequently drive overall economic growth. Following the announcement, both onshore and offshore renminbi experienced short-term surges. This week, the USDCNH exchange rate fell by 690 pips (from 7.3090 to 7.2400), with the closing price on Friday, September 1, settling at 7.2632.

Source: TradingView

Since mid-July 2023, as the dollar strengthened, the USDCNH rose to around 7.3500 in mid-August, approaching the high point of 7.3550-7.3750 reached by the USDCNH around October 2022, just a step away. Therefore, we have seen the People's Bank of China (PBOC) implement a series of new policies to stimulate economic growth and alleviate the pressure on the real estate industry since late August. These policies have supported the stability of the offshore renminbi (CNH), which has fallen below 7.3000. As of Friday, September 1, the USDCNH closed around 7.2650.

4) US Commerce Secretary Raimondo visits China, boosting China's economic outlook.

On Monday, August 28, US Commerce Secretary Gina Raimondo visited China, becoming the fourth US cabinet-level official to visit China since June. US Commerce Department lifted 27 Chinese entities from Unverified List (UVL) on August 21, which was interpreted by the market as a signal of increased communication between the two sides. China and the United States have communicated on issues of mutual concern, such as improving China-US economic and trade relations and effectively managing differences, in line with the critical consensus reached by the leaders of both countries at the Bali summit in November last year.

5) China's manufacturing sector remains weak but shows signs of stabilisation.

On Thursday, August 31, China official Manufacturing Purchasing Managers' Index (PMI) for August recorded 49.7, higher than the expected 49.4 and the previous reading of 49.3. This marks the third consecutive month of recovery from the low of 48.8 in May. China official Non-Manufacturing PMI for August recorded 51.0, slightly lower than the expected 51.1 and the previous reading of 51.5. On Friday, September 1, China Caixin Manufacturing PMI for August registered 51.0, surpassing expectations of 49.3 and the previous reading of 49.2. New Orders expanded for the first time in five months, indicating initial signs of stabilisation in manufacturing activity. However, these improvements are not enough to dispel concerns in the market regarding China's real estate industry.

4. Goldman suggests the yen may weaken to 155 per dollar; BOJ officials issue verbal intervention.

1) The Bank of Japan Governor reiterates the accommodative stance.

On Friday, September 1, Bank of Japan Governor Kazuo Ueda reaffirmed a dovish stance while attending the Jackson Hole Symposium. He stated that the annual inflation rate in July, excluding fresh food, was 3.1%, and it is expected to decline by the end of the year. He also mentioned that the pace of economic activity in China has been disappointing and could affect Japan's economic outlook. According to most BOJ watchers, no policy changes are expected from the central bank this year. Recent surveys among economists suggest that April next year is the most likely month for the BOJ to consider policy adjustments.

Bank of Japan Board Member Naoki Tamura (August 30) said: (Naoki Tamura is one of the main advocates within the Bank of Japan for exiting monetary stimulus policies) Decisions must be made based on data; the key is to take policy action promptly based on the actual situation. It takes some time to assess price targets; the timing of exiting accommodative policies should not be too late nor too early. Even if the Bank of Japan abandons negative interest rates, it does not mean monetary tightening or rate hikes because monetary conditions will remain accommodative; ending negative interest rates is an option when the time is right. The order and speed at which the Bank of Japan exits accommodative policies will depend on the economic conditions at that time. Ending negative interest rates and Yield Curve Control (YCC) are options for the Bank of Japan to exit accommodative policies; ending negative interest rates could become an option if it becomes possible to sustainably and stably achieve the 2% inflation target. The Bank of Japan's decision in July was not directly aimed at the foreign exchange market; the Bank of Japan will closely monitor the impact of exchange rate fluctuations on the Japanese economy and adjust monetary policy accordingly. The key to the monetary policy outlook is whether Japan can achieve a positive feedback loop between wages and inflation. It is expected that there will be higher wage growth in 'shunto' spring wage talks next year, and achieving the 2% inflation target consistently and stably is clearly in sight. If the target is reached between January and March, ending negative interest rates is an option. The Bank of Japan may finally achieve its long-pursued goal of a 2% inflation rate early next year, which could pave the way for rate hikes. He also stated that after a decade of large-scale monetary easing policies, the central bank's inflation target is within reach. Whether his views can gain consensus among board members remains to be seen.

Ex-board member Sayuri Shirai (August 31) said: It is premature for the Bank of Japan to tighten monetary policy. She expressed surprise at the Bank of Japan's move in July to allow long-term interest rates to rise further, but markets saw the move as another step towards the central bank dialling back its massive stimulus programme. The recent increases in inflation were mostly driven by higher import costs rather than wage gains, consistent with the views of Bank of Japan's moderate board member Toyosaki Nakamura. She expected another fine-tuning of the YCC tolerance band to plus or minus 1%, from plus or minus 0.5% currently, even before the BOJ begins an exit from its easy monetary policy. There was less pressure on the government to intervene to stop the Japanese currency from depreciating this time due to a combination of lower commodity prices and higher equity markets.

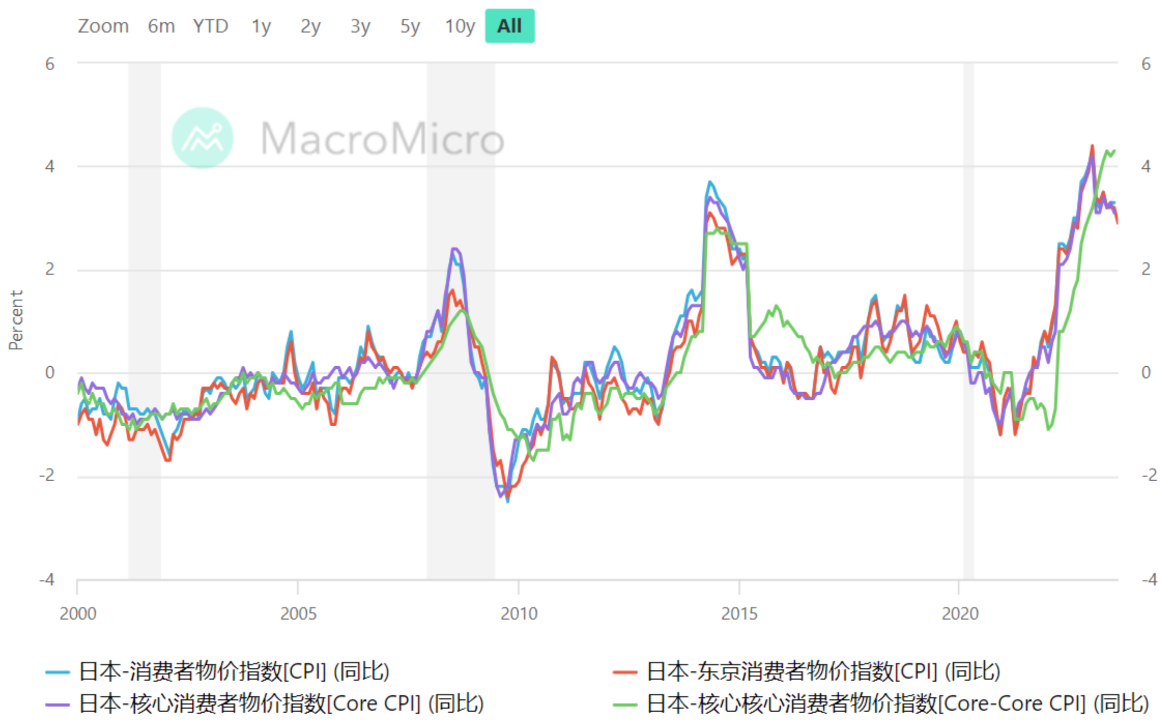
2) Goldman suggests the yen may weaken to 155 per dollar, and the yen could be the worst G10 currency of 2023.

According to Bloomberg's report on August 29, Goldman suggests that if the Bank of Japan sticks to a dovish stance, the yen will fall to its lowest level in over 30 years, which means the yen may fall to around 155 yen per dollar, a level not seen since 1990. Kamakshya Trivedi, Head of Global FX, Rates and EM strategy at Goldman Sachs, and other rate strategists recently (on August 29) made a prediction that the yen could fall to 155 per dollar in the next six months, up from their previous forecast of 135. These strategists wrote in a report on Friday, " As long as the BOJ remains far from hiking rates and equities stay reasonably well supported, the yen should continue to trend weaker." "The yen will weaken to levels last seen more than 30 years ago if the Bank of Japan sticks to its dovish stance." Improved prospects for the US economy are also a factor behind their bearish view on the yen, and they expect the yen to strengthen again by 2024, rising to 135 by the end of next year.

3) USDJPY touches the highest at 147.30; Bank of Japan officials issue verbal intervention.

Since mid-August, the USDCNY has been approaching the highest levels seen around October of the previous year, reaching approximately 7.3500. In other words, the offshore yuan (CNH) has come close to the lows reached last year. Multiple bearish signals have also been observed for the yen (JPY). Up to this point, the USDJPY has surged by over 14.90% (from 127.50 to 146.50) since mid-August, and it's approaching nearly half of the annual increase recorded last year, which was approximately 32.60% (from 113.50 to 150.50). On Tuesday, August 29, the USDJPY reached a peak of 147.30 before retracing, and it closed at 146.17 on Friday, September 1. In addition, on Tuesday, August 30, Bank of Japan board member Naoki Takamura issued a verbal intervention, stating that if speculative actions deviate from the fundamentals and cause excessive exchange rate volatility, the Bank of Japan will take measures such as increasing bond purchases to curb excessive interest rate rises.

In fact, Japan's inflation has been consistently above 2% for nearly a year, and the main reason why the Bank of Japan has not adjusted its monetary policy is due to concerns about the risk of deflation making a comeback. From the chart, we can see that over the past 20 years, from 2000 to 2020, Japan spent about half of the time with CPI below the 0 axis, meaning it was in a state of deflation. Therefore, the Bank of Japan's concerns are understandable. However, at the July monetary policy meeting, the Bank of Japan announced that it would maintain the yield curve control (YCC) target for ten-year government bond yields at around +/-0.5% but offer to purchase 10-year JGBs at 1% through fixed-rate operations, which is seen as initial preparation for dealing with the risk of rising inflation. Once the Bank of Japan confirms that inflation will not fall back below 2%, it may begin adjusting its monetary policy or even abandon the yield curve control (YCC). In the medium to long term, as the US10Y-JP10Y narrows, there may be limited room for further upward movement of the USDJPY, and there is a risk of a significant strengthening of the yen.

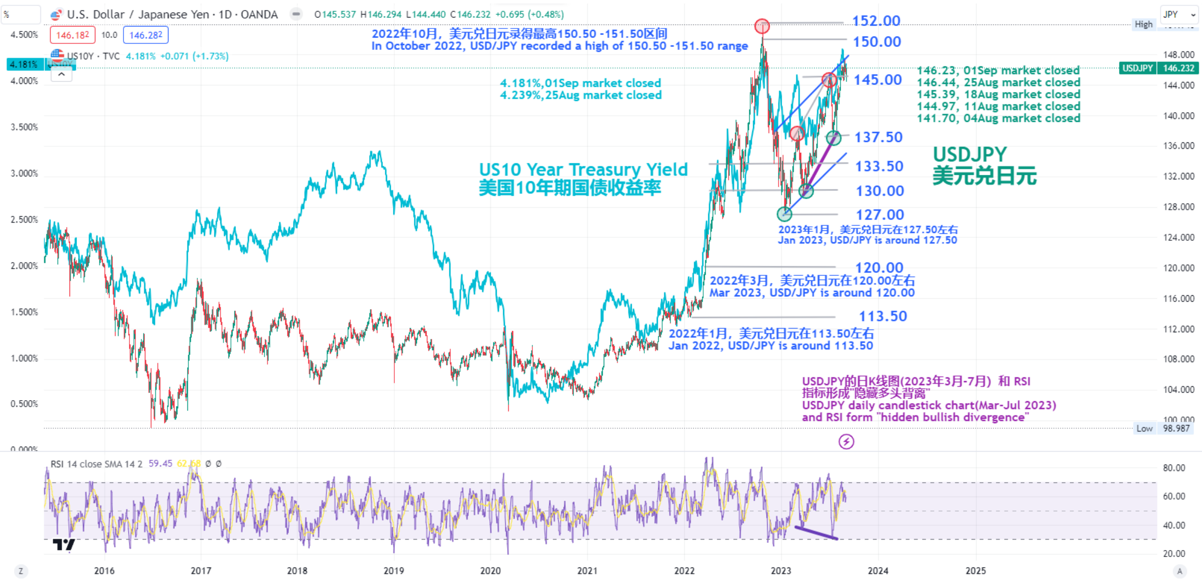


Source: MacroMicro

The words in the picture above:

Blue: Japan - Consumer Price Index [CPI] (YoY)
Purple: Japan - Core Consumer Price Index [Core CPI] - (YoY)
Red: Japan - Tokyo Consumer Price Index [CPI] (YoY)
Green: Japan - Core Core Consumer Price Index [Core Core CPI] (YoY)

Since October 2022, whether it's Japan's headline CPI (Consumer Price Index), the Core CPI (Consumer Price Index), excluding fresh food, which are significantly affected by weather and seasonal factors, or the Core-core CPI excluding fresh food and energy, all have consistently exceeded the 2% inflation target. Despite this prolonged period of inflation in Japan surpassing its target, the primary reason for the Bank of Japan's reluctance to adjust its monetary policy lies in its concerns over the risk of deflation making a comeback. As shown in the chart, over the past 20 years, from 2000 to 2020, Japan has spent about half of the time with CPI below the 0 axis, indicating a state of deflation. Therefore, the Bank of Japan's concerns are understandable.



Source: TradingView

Since March to mid-July 2023, the daily candlestick chart and RSI indicator for USDJPY have formed a hidden bullish divergence, suggesting further upward potential for USDJPY. As of this Friday's close on September 1, it was at 146.23, marking a slight decline compared to the previous week's closing price of 146.44.

Currently, the overall upward trend of the USDJPY is primarily supported by the dollar's strength. Throughout the week, the USDJPY has been consolidating and trading within a range of 144.50 to 147.30, with the noteworthy point being that USDJPY still reached a new high of 147.30. It closed at 146.17 on Friday. During the week, non-US currencies against the dollar have generally experienced range-bound fluctuations within the 100-200 pips range. Consequently, non-US currency pairs, including the USDJPY, have mostly seen range-bound trading activity. Here is a summary of the price fluctuations over the past week:

- *USDJPY has been fluctuating within a 280-pip range (144.50-147.30), with a closing price of 146.17 on September 1, compared to 146.40 on August 25, marking a 29-pip decline.*
- *GBPJPY has been trading within a 250-pip range (183.50-186.00), closing at 183.97 on September 1, compared to 184.15 on August 25, resulting in an 18-pip decrease.*
- *EURJPY has experienced fluctuations within a 275-pip range (159.75-157.00), closing at 157.48 on September 1, compared to 158.04 on August 25, indicating a 56-pip decline.*
- *AUDJPY has been range-bound within a 115-pip range (95.00-93.85), closing at 94.21 on September 1, compared to 93.73 on August 25, showing a 48-pip increase.*
- *NZDJPY has been trading within a 100-pip range (87.50-86.50), closing at 86.84 on September 1, compared to 86.32 on August 25, marking a 52-pip increase.*
- *CADJPY has experienced fluctuations within a 140-pip range (106.70-108.10), closing at 107.52 on September 1, compared to 107.63 on August 25, resulting in an 11-pip decline.*
- *CHFJPY has been fluctuating within a 220-pip range (166.50-164.30), closing at 164.99 on September 1, compared to 165.55 on August 25, indicating a 56-pip decrease.*

- *SGDJPY has been range-bound within a 130-pip range (108.50-107.20), closing at 107.83 on September 1, compared to 107.87 on August 25, remaining relatively unchanged.*

5. China implemented economic stimulus policies, leading to a significant crude oil rebound.

With the recent rollout of a new round of economic stimulus policies by the People's Bank of China, China's economic growth prospects have been boosted. Additionally, expectations that Saudi Arabia may extend its additional production cuts until October or the fourth quarter of this year have heated up. As a result, WTI crude oil surged by 10.64% over the past week, reaching a new high of $86.30, the highest level since November last year. According to the latest data from the US Commodity Futures Trading Commission (CFTC), as of the week ending August 29, speculative net long positions in WTI crude oil futures increased by 19,040 to 152,876.

Saudi has already begun implementing voluntary daily production cuts of 500,000 barrels of crude oil and resumed additional voluntary daily cuts of 1 million barrels of crude oil starting from July. After these two rounds of cuts, Saudi Arabia's daily crude oil production has dropped to 9 million barrels as of July this year. At the beginning of this month (August 3), the Saudi Ministry of Energy announced the extension of the additional voluntary daily cut of 1 million barrels of crude oil, initially implemented in July, for another month, extending until the end of September. It is possible that this measure may be further extended and the volume of cuts increased once more. On the same day (August 3), Deputy Prime Minister of Russia Alexander Novak stated that Russia would reduce its oil exports by 300,000 barrels per day in September. Market attention is focused on whether Saudi Arabia and Russia will continue to extend the additional production cuts beyond September. On Thursday of last week (August 31), Deputy Prime Minister of Russia Alexander Novak warned that Russia would announce the new number of agreements reached with OPEC next week. It is widely expected in the market that Saudi Arabia and Russia may continue their production-cut actions into the fourth quarter, and it is anticipated that future oil supply-side constraints will intensify further.

Source: TradingView

Since the beginning of August, WTI oil prices have experienced a slight retracement, falling below the $80.00 mark and reaching a low of around $77.90. On Friday, September 1, the closing price was $86.30, marking a 2.13% increase compared to the July high of $84.50. In the short term, there is still a possibility of further upward movement, especially now that oil prices have broken through the previous high of $83.50. If they continue to rise, they may target around $90.00. Conversely, there could be a retest of the $80.00 level.

While the outlook for oil prices remains positive in the medium to long term, considering the rest of the year, developed countries such as the Euro Area, the United States, and the United Kingdom may continue their tightening monetary policies or maintain their high-interest rate policies. Furthermore, the deteriorating economic data recently announced by these developed countries and China has heightened concerns about the global economic growth outlook, which has also constrained the growth in demand for crude oil. It is widely expected in the market that the Federal Reserve will maintain its high interest rate for longer, possibly until the first half of next year, which contributes to the dollar’s strength and does not bode well for oil prices. In particular, China, as the world's second-largest economy, is experiencing a slow economic recovery. China's demand growth for oil accounts for about 70% of global growth, and it is also the world's largest crude oil importer and consumer. Although the People's Bank of China has implemented a series of policies to stimulate the economy, the effects are still subject to observation and confirmation.

Furthermore, it is essential to be cautious as the rising oil prices are one of the potential driving forces for the Federal Reserve to continue raising interest rates to fight inflation. The recent increase in US stocks and simultaneous rebound in oil prices could be potential reasons for the Federal Reserve to continue pushing for rate hikes in November. Here are the price changes over the past week:

- *WTI Oil: Up 830 pips (from $78.00 to $86.30), closing at $86.30 on September 1, compared to $80.38 on August 25, an increase of 592 pips.*
- *Brent Crude Oil: Up 706 pips (from $82.30 to $89.36), closing at $89.36 on September 1, compared to $84.66 on August 25, an increase of 470 pips.*

6. Short-term risks

Next week, it's essential to pay close attention to the G20 Summit scheduled for September 9-10 in New Delhi, India. According to two US officials, US and Chinese leaders may hold a meeting during the Asia-Pacific Economic Cooperation (APEC) informal leaders' gathering in San Francisco in November this year rather than at the G20 Summit. However, as reported by Reuters, there is a possibility that President of the People's Republic of China Xi Jinping may not attend the upcoming G20 Summit, with Premier of the People's Republic of China Li

Qiang expected to represent China. Indian officials have reported that Xi Jinping has yet to confirm his attendance.

One of the current focal points in the market is whether the Federal Reserve will raise interest rates again during the November rate meeting. According to Federal Reserve Chair Jerome Powell, decisions will be made based on changes in economic data, so it's essential to continue monitoring economic data related to inflation in the coming weeks.

In Europe and the United States, it's crucial to watch for the release of the US ISM Non-Manufacturing Index for August on Wednesday, September 6, and the Federal Reserve Beige Book report on Thursday, September 7. Additionally, the Bank of Canada's interest rate decision will be announced on Wednesday, September 6, and Euro Area GDP data (seasonally adjusted) for the second quarter will be released on Thursday, September 7.

In the Asia-Pacific region, keep an eye on the Reserve Bank of Australia's September interest rate decision on Tuesday, September 5. Moreover, Japan GDP data for the second quarter will be released on Friday, September 8, while China August Caixin Services PMI data will be published on Tuesday, September 5, and consumer price index-related data will be released on Saturday, September 8.

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September 2, 2023-6 PM SGT