



## CIO OFFICE MORNING MARKET WRAP

26 August 2024

Chairman Powell's Pivot was the highlight of last week. Last Friday, during the Jackson Hole conference, he mentioned that "The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks." FOMC minutes released last week also indicated widespread support from the members for a rate-cut. The minutes mentioned that "Several observed that the recent progress on inflation and increases in the unemployment rate had provided a plausible case for reducing the target range 25 basis points at this meeting or that they could have supported such a decision,"

This clearly indicates the Fed is ready to cut rates in its 18th September FOMC meeting as the central bank prioritises its employment mandate over the price stability one. Meanwhile NFP revisions of 818k indicates that the US job growth was probably far less robust in the year through March than previously reported. It was the largest downward revision since 2009. However, as this decision comes merely weeks before the US election in November, this could give put political spotlight on the Fed with the republicans accusing the Fed of being biased.

Markets rejoiced with the S&P 500 and Nasdaq closing up by 1.2% and 1.5% respectively. The credit spreads have completed a round trip after widening significantly post the July Unemployment report. The market currently doesn't believe that the Fed is behind the curve. But, there are 4 rate cuts priced till the end of the year a total of 200 bps rate cuts in the next 12 months according to OIS swaps which seems a bit excessive if the widely held belief of soft landing takes place. Bond yields have continued to move down with the 10-year treasury yields below 3.8% in early trading this morning.

As we write, the Hong Kong stocks are up 0.8% whereas Japanese shares are down on account of Yen's strength trading at 143.9 this morning. Mainland China stocks are down 0.3%. PBOC kept the rate on its one-year policy loans, or the medium-term lending facility, at 2.3%. The PBOC is doing a balancing act of stimulating growth and cooling a government-bond buying spree to limit financial risks in recent months. Brent Crude is up at 79.55 as geopolitical tensions increases. Gold holds steady at \$2,510 near its record daily closing high of \$2,513 achieved on 20th Aug.

This week we have a light data dossier. From the US we have durable Goods order due today. Tomorrow, Conference Board Consumer Confidence would be out. Second estimate of Q2 GDP growth is expected on Thursday. From Europe, we have Germany's final Q2 GDP print due tomorrow which may indicate a contraction of 0.1%. Euro-Area consumer confidence and Germany's CPI come out on Thursday.

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Chief Investment Office  
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