



CIO OFFICE MORNING MARKET WRAP

10 September 2024

Asian stocks are trading within tight ranges in a lacklustre session, as investors await the important CPI release. A key Asian equity benchmark was little changed, while Hong Kong, mainland China and Korea put in modest declines. Tokyo and Sydney rose following Wall Street's positive session yesterday. The dollar advanced, and US futures are ticking lower.

After one of their worst starts to September US stocks rebounded on Monday, with the S&P 500 rising 1.2%, led higher by discretionaries and industrials and all sectors closing in positive territory. Traders will be looking to inflation data tomorrow and a likely interest rate cut next week to find cues for market direction. A 25bps cut by the Fed is now given 100% probability following the progressive weakening of the US economy, though traders still see a low chance of a larger move. The yield on the two-year Treasury note rose 3bps to 3.67%, suggesting the scaling back of bets of a jumbo rate reduction. Investors will also be gauging the first presidential debate between Donald Trump and Kamala Harris, that just concluded this morning. As for single stocks, Palantir and Dell Technologies soared on news that they will be joining the S&P 500. Apple was little changed despite the launch of the new iPhone16 at its "Glowtime" event. Some steel stocks weakened after iron ore sank below \$90 a ton for the first time since 2022 on tepid Chinese demand that pressured industrial commodities, while crypto-linked stocks gained in the wake of a 4.8% advance in bitcoin. The US dollar rose broadly against major peers as traders slightly revised down the basis-points-cuts seen for the forthcoming FOMC meeting. Gold traded in a holding pattern, while Brent crude, that recorded new lows for the year last week, failed to follow through yesterday.

On Monday Apple introduced the latest version of its flagship device, the iPhone16, betting it can entice customers with modest upgrades and not-quite-ready AI technology. Software upgrades enabling a suite of tools called Apple Intelligence will only be added gradually in the months to come. Although one can be willing to give the tech behemoth the benefit of the doubt for touting features yet to be released, the historical record is unfavourable, as it tends to see the stock rally into key events, to then trade quietly for some time. Apple is still playing catch up in the field of generative artificial intelligence as against major competitors as Google and Microsoft, and its new technology is not yet able to match the advanced capabilities of rival systems. The upgrade cycle to new devices must be expected to occur still way down the road. The company unveiled also new watches and AirPods earbuds.

Signs of deflation heightened in China. Yesterday's release showed core inflation cooling to the weakest in more than three years, rising just 0.3% from a year earlier, and the broader CPI missing expectations. Deflationary pressures getting more entrenched pointed once more to persistently weak consumer demand, prompting calls for more stimulus to stave off a cycle of declining corporate revenue, wages and spending. Despite state funds intervening in the domestic market, its performance has been dismal this year, negatively impacted by the growing malaise. The retail sales, industrial production and fixed-asset-investment print next Saturday will unlikely be delivering a different message.

Although Japan's economy expanded in Q2 at a pace slightly lower than the government's initial estimate, it still advanced enough to keep the Bank of Japan on track to raise interest rates later this year. The central bank will be concluding its policy meeting on Sept. 20, with the focus on the prospect for another rate increase in October or December. After the market rout that followed its July hike and historical tightening of overall policy, the BOJ proceeded with caution to avoid unintended consequences from the further possible unwinding of carry trades. Should the Fed cut by 50bps next week, the large change in interest rate differential not discounted by markets could significantly impact yen positioning.

Have a great day.

Chief Investment Office
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