

Macro Data, UST Yield Curve & EM Asian Currencies

- US nonfarm payrolls soar by 4.80 million in June with the unemployment rate falling to 11.1%, suggesting the US economy may have bottomed out while facing a long-term recovery
- The 2-10Y UST yield curve tends to bear-steepen somewhat further in the coming weeks given a nascent US economic recovery, weighing on the DXY Index; After that, the 2-10Y UST yield curve could flatten on market developments, boosting the DXY Index with renewed safe-haven demand
- EM Asian currencies are expected to extend their rally into July, with risks of paring their previous gains and weakening in late Q3/early Q4

Asia Overview - EM Asian currencies were mixed versus the dollar during Thursday's Asian session. The SGD declined 0.1%, while the JPY edged down despite a 0.7 bp dip in the 10Y UST yield.

The CNY inched up while the CNH closed flat on Thursday. USD/CNH is expected to resume its downward trend towards 7.00 after recent consolidation. China Association of Automobile Manufacturers (CAAM) said on Thursday that the nation's vehicle sales for June are set to rise 11% yoy to 2.28 million units. White House economic adviser Larry Kudlow told Fox Business News on Thursday that the trade deal is proceeding. The KRW advanced 0.3%. USD/KRW will likely retreat again towards 1,180 after fluctuating around the 1,200 mark. South Korean finance minister Hong Nam-ki said on Thursday that it's time for Japan to reply to Korea's efforts in a bid to resolve the export curb issue. The TWD rose 0.1%. USD/TWD will likely reach 29.4 gradually in the weeks ahead. The government aims to expand Taiwan's advanced semiconductor manufacturing capabilities by attracting more investment from foreign chip equipment and material suppliers. Taiwan said on Thursday that it would gradually lift border controls without compromising virus containment efforts, depending on the Covid-19 situation globally and domestically.

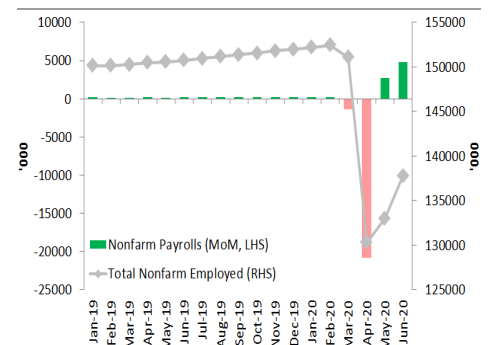
The INR rallied about 0.8%. USD/INR will likely stay in a familiar range of 75-76 at the moment, with risks of breaching the lower bound. China on Thursday said it had not taken any economic retribution against India following a deadly border clash between the two countries, while signaling it had little intention of engaging in a tit-for-tat trade dispute with its neighbor. The RBI bought INR 100bn of government bonds and sold an equivalent amount via Operation Twist on Thursday. The IDR dropped about 0.7%. USD/IDR is likely to trade between 14,000 and 14,500 at this stage. The Indonesian government has sold a total of IDR 651.05tn of sovereign securities in H1 and seeks to raise IDR 900.4tn in the remaining of the year. The MYR was little changed. USD/MYR is expected to trade between 4.25 and 4.30 for now. The PHP increased about 0.2%. USD/PHP will likely head for 49.6 after falling below the 49.8 support level. BSP Governor Benjamin Diokno said on Thursday that the central bank will gradually and prudently unwind support measures it had undertaken amid the pandemic. The THB weakened 0.4%. USD/THB will likely consolidate around 31.0 at this stage and then decline towards the 30.5 level. Thailand's consumer confidence rose to 49.2 in June from 48.2 the month before.

Regional equity indices resided in the green on Thursday. China's SHCOMP index rose 2.13% amid USD 2.42bn of equity inflows, while India's NIFTY50 index gained 1.17%. South Korea's KOSPI index increased 1.36% with foreign investors purchasing a net USD 114.9mn of Korean shares. In the meantime, Taiwan's TWSE index advanced 0.87% as global funds added to their holdings in local main board shares by USD 96.8mn on Thursday. Malaysia's KLCI index and Indonesia's JCI index closed up 1.44% and 1.07% respectively. Thailand's SET index ended 1.83% higher despite USD 19.8mn of equity outflows.

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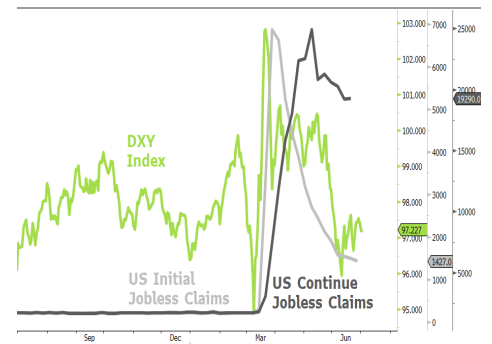
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Nonfarm Payrolls: MoM vs. Total



Source: Bloomberg & Scotiabank FICC Strategy

DXY Index vs. US Initial Jobless Claims (The 2020 Great Lockdown)



Source: Bloomberg & Scotiabank FICC Strategy

DXY Index vs. DXY Index 3M 25Delta Risk Reversal



Source: Bloomberg & Scotiabank FICC Strategy

EM Asia • US nonfarm payrolls soared by 4.80 million in June with the unemployment rate falling to 11.1% as the nation continued its reopening from the coronavirus pandemic. It followed an upwardly revised 2.70 million rise in May, suggesting the US economy may have bottomed out while facing a long-term recovery.

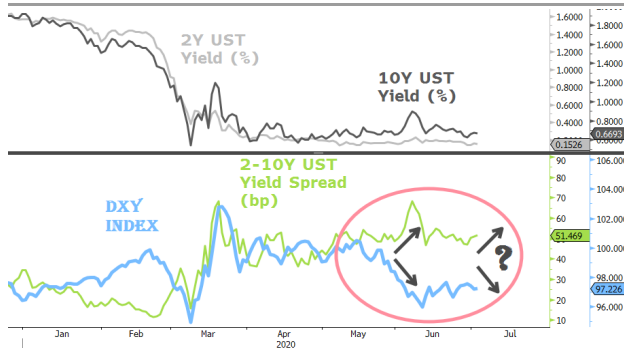
In addition, US workers filed 1.43 million unemployment claims last week, marking the 13th straight week that initial jobless filings declined from the peak of 6.87 million. In addition, continuing claims rose slightly to 19.29 million in the week ended 20 June from a downwardly revised 19.23 million the prior week. We expect the US economy to remain on track for recovery in the months ahead as weekly jobless claims are slowing. As we know, US factory activity expanded in June with the ISM's manufacturing PMI surging to 52.6 from 43.1 in May.

In our view, the 2-10Y UST yield tends to bear-steepen somewhat further in the coming weeks given a nascent US economic recovery, weighing on the DXY Index. Moreover, the June FOMC minutes skeptical of the yield caps or targets (YCT) policies could bolster UST yields in general. After that, the dollar will likely rally sharply and abruptly, 1) along with a bear-flattening 2-10Y UST yield curve if the US economic recovery accelerates before the Fed employs the YCT policies or; 2) together with a bull-flattening 2-10Y UST yield curve if risk-aversion escalates on renewed US-China conflicts/a resurgence of coronavirus infections, given the safe-haven status of the USD.

We maintain our short dollar positions versus the **CNH, KRW, MYR, SGD** and **THB** at this stage, as EM Asian currencies are expected to extend their rally into July on hopes for a sliding DXY Index and a bear-steepening 2-10Y UST yield curve.

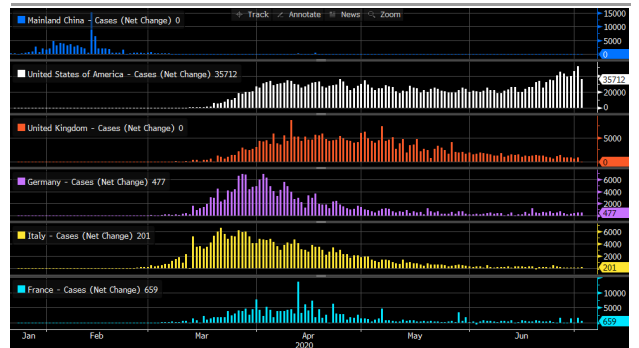
The three US presidential debates are scheduled for 29 September, 7 October and 15 October respectively, which could intensify market worries about US-China conflicts at that time. In late Q3/early Q4, EM Asian currencies will likely pare their previous gains and weaken on concerns over an escalation of US-China tensions in the run-up to the November President Election and/or a second wave of Covid-19 infections amid falling air temperature in the northern hemisphere if effective vaccines are still not ready yet then.

2-10Y UST Yield Curve vs. DXY Index (The 2020 Great Lockdown)



Source: Bloomberg & Scotiabank FICC Strategy

Global Covid-19 Situation: Cases Per Day in China, US, UK, Germany, Italy and France



Source: Bloomberg & Scotiabank FICC Strategy

TODAY'S CALENDAR

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
05:00	KR	DATA	Foreign Reserves	Jun		\$410.75bn	\$407.31bn	med
09:30	AU	DATA	Retail Sales MoM	May	16.3%		-17.7%	med-high
09:45	CN	PMI	Caixin China PMI Services	Jun	53.2		55.0	med-high
09:45	CN	PMI	Caixin China PMI Composite	Jun			54.5	med-high
11:30	TH	INFL	CPI YoY	Jun	-3.08%		-3.44%	high
11:30	TH	INFL	CPI NSA MoM	Jun	0.22%		0.01%	med-high
11:30	TH	INFL	CPI Core YoY	Jun	0.00%		0.01%	med-high
13:00	SG	DATA	Retail Sales SA MoM	May	-8.0%		-31.7%	med-high
13:00	SG	DATA	Retail Sales YoY	May	-47.0%		-40.5%	med-high
15:30	TH	DATA	Foreign Reserves	Jun 26			\$240.7bn	med
15:30	TH	DATA	Forward Contracts	Jun 26			\$25.9bn	med
21:00	SG	PMI	PMI	Jun	47.6		46.8	med-high
21:00	SG	PMI	Electronics Sector PMI	Jun			46.2	med

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