

Jan 08, 2025

Three Take-Aways

- 1) UST yields climbed and US equities tumbled on expectations of a more protracted rate cut cycle as ISM services print fuelled inflation expectations.
- 2) China's data releases in the coming days is expected to show muted price pressures and mild growth recovery.
- 3) IDR weighed down as fiscal bugbear comes into the spotlight with watered-down VAT increase.

MACRO THEME: Long-Drawn

- UST yields climbed and US equities were hammered on expectations that the Fed may push out the next rate cut further as the disinflation progress looks to be a long-drawn one. Prices paid for ISM services was higher-than-expected, fuelling inflation expectations, while better-than-expected job openings affirmed the resiliency of the labour market

- There was nothing particularly new from FedSpeak. Fed Barkin repeated previous remarks that the Fed remains highly committed to 2% inflation target and they need to be tougher on rates if there were more price pressures. Barkin also noted that consumer debt nowhere near alarming levels of 2000s, suggesting that risk of a sudden turnaround in consumer exuberance may be managed.

Yields (2Y: +1.6bp; 10Y: +5.5bp, 30Y: +6.4bp)

- UST yields climbed in a steepening move.

Equities (Nasdaq: -1.9%; S&P: -1.1%; Dow: -0.4%)

- US equities tumbled.

FX (DXY: +0.3%)

- The USD strengthened against G10 currencies amid higher UST yields.

- JPY oscillated around 158 levels. The yen's fall to levels near mid-158 at the start of Asia session initially prompted Japanese Minister Kato to reiterate the government's existing stance on the FX market, warning that authorities will take appropriate action against excessive moves. JPY only pared some of its losses, and USD/JPY resumed its climb to above 158 levels later in the day.

- DKK underperformed G10 peers amid Trump's tariffs threats as he sought to bring Greenland under US control. Denmark PM ruled out the sale of Greenland.

- EUR moved below mid-1.03 levels after CPI printed in-line with expectations.

- Down under, AUD closed the day under mid-62 cents. Elsewhere, USD/SGD was mostly buoyant above 1.36 levels.

China: Muted Prices Pressures; Mild Growth Recovery

- A slew of data is expected in the coming days. We expect YoY growth in consumer prices (due 9 Jan) to be muted in December, with MoM growth remaining negative. High-frequency indicators suggest that YoY growth in wholesale prices for fresh vegetables and pork continued to

decline throughout December, while fuel prices held up from the previous months.

- Meanwhile, factory prices (also due 9 Jan) are also likely to see a renewed MoM drop in December, as both the producing and producer price indices in the PMI survey fell further.

- In terms of activity indicators, we project a mild growth recovery in both retail sales and fixed asset investment in December, benefiting from accelerated local government bond financing. The government's trade-in subsidies for durable goods are likely to support a further recovery in retail sales. In addition, passenger vehicle sales rose 25% YoY in the first three weeks of December, and the recent rise in cement prices bodes well for domestic construction activity.

IDR: Wrong-footed

- Indonesia looks to have kick-started 2025 on the wrong foot, with the announcement of a watered down VAT increase on 31 December 2024 amid concerns that the VAT increase would diminish purchasing power of the people. Specifically, President Prabowo stated that the VAT increase from 11% to 12% would only apply to luxury goods and services (e.g. private jets, cruise ships, yachts and luxurious houses). This contrasted with expectations of the VAT applying to a wider scope of goods and services, with only essential items like rice, sugar and eggs exempted.

- This round of VAT increase was scheduled back in October 2021, where prevailing tax laws were amended to incorporate VAT revisions. VAT was set to increase to 11% from 1 April 2022 and to a further 12% from 1 January 2025. The April 2022 VAT increase applied to all goods and services except for basic goods and services such as rice, meat and public transport.

- Admittedly, the impact of the change in scope of VAT increase is not outsized. Chairman of the Budget Agency of the House of Representatives Said Abdullah said back in March 2024 that the VAT increase, which presumably applied to a larger scope of goods and services*, was expected to increase state revenue by IDR350-375bn, which is <0.003% of GDP.

- But more importantly, the policy u-turn raises questions on political will to enact tough measures to control fiscal health amid higher expected expenditures.

- Point being, risk of fiscal slippages amid massive spending plans have cast an overhang on IDR. And such sudden policy shifts do not impart confidence, as it raises doubts on political will to enact subsidy rationalisation on planned fuel subsidies, of which history of successful reforms has been checkered.

- Amid apprehensiveness towards Indonesia's fiscal health, the IDR has been languishing at around 16,200 levels, with Bank Indonesia announcing interventions on the first trading day of the year. Regardless, fiscal woes is looking to become a bigger bugbear on the IDR in the year ahead, and would mean that Bank Indonesia's hands may be increasingly tied on IDR-stability concerns.

*Coordinating Minister for the Economy Airlangga Hartanto had only mentioned then that staple foods would be exempted from VAT.

DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(PH) CPI YoY (Dec)	2.9%	2.6%	2.5%
(TW) CPI/Core YoY (Dec)	2.1%/1.7%	2.1%/1.7%	2.1%/1.7%
(AU) Building Approvals MoM (Nov)	-3.6%	-1.0%	5.2%
(EZ) CPI/Core YoY (Dec P)	2.4%/2.7%	2.4%/2.7%	2.2%/2.7%
(US) JOLTS Job Openings (Nov)	8098k	7740k	7839k
(US)ISM Services/Prices Paid (Dec)	54.1/64.4	53.5/57.1	52.1/58.2
Today	Actual	Exp.	Prior
(SK) Current Account Balance (Nov)	\$9229.4m	--	\$9783.6m
(AU) CPI YoY (Nov)		2.2%	2.1%
(PH) Unemployment Rate (Nov)		--	3.9%
(EZ) Consumer Confidence (Dec F)		--	-14.5
(US) ADP Employment Change (Dec)		139k	146k
(US) Initial Jobless Claims		215k	211k
(US) Wholesale Inventories MoM (Nov F)		-0.2%	-0.2%
FOMC Meeting Minutes			

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	158.05	158.23	+0.27%	156.00 - 160.00
EURUSD	1.0340	1.0344	▼0.48%	1.0250 - 1.0450
GBPUSD	1.2477	1.2477	▼0.34%	1.2350 - 1.2600
AUDUSD	0.6230	0.6234	▼0.26%	0.6180 - 0.6300
DXY	108.5	--	+0.26%	107.7 - 109.1
USDCNY	7.3280	--	▼0.00%	7.3100 - 7.3500
USDCNH	7.3400	7.3419	▼0.08%	7.3200 - 7.3800
USDHKD	7.7768	7.7767	+0.02%	7.7600 - 7.7900
USDSGD	1.3642	1.3647	+0.06%	1.3560 - 1.3740
USDKRW	1452	1453	+0.00%	1445 - 1475
USDTWD	32.73	--	▼0.43%	32.60 - 32.95
USDINR	85.72	--	▼0.12%	85.50 - 86.00
USDIDR	16131	--	▼0.40%	16050 - 16250
USDMYR	4.487	4.488	▼0.52%	4.470 - 4.530
USDPHP	58.16	--	▼0.22%	58.00 - 58.80
USDTHB	34.48	34.57	▼0.42%	34.3 - 34.9
USDVND	25374	25374	▼0.06%	25320 - 25440

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.293	4.686	1.6	5.5
JGB (JP)	0.629	1.121	0.7	0.0
Bunds (GE)	2.191	2.446	0.1	0.0
Gilts (UK)	4.466	4.683	3.7	7.3
AGB (AU)	3.929	4.478	1.3	0.9
SGS (SG)	2.844	2.975	1.8	-0.7
CGB (CN)	1.048	1.601	2.8	0.8
KGB (KR)	2.803	2.668	6.4	1.6
SDL (IN)	6.748	6.668	-1.1	0.7

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	163.42	163.67	▼0.21%
GBP/JPY	197.206	197.409	▼0.08%
JPY/SGD (100yen)	0.8631	0.8625	▼0.20%
JPY/HKD (100yen)	4.9202	4.915	▼0.24%
CNH/JPY	21.54	21.592	+0.20%
CNH/HKD	1.0612	1.0612	+0.00%
EUR/GBP	0.82879	0.82908	▼0.13%
AUD/NZD	1.1058	1.1063	▼0.11%
EUR/CNH	7.5904	7.5945	▼0.56%
GBP/CNH	9.1598	9.1601	▼0.41%

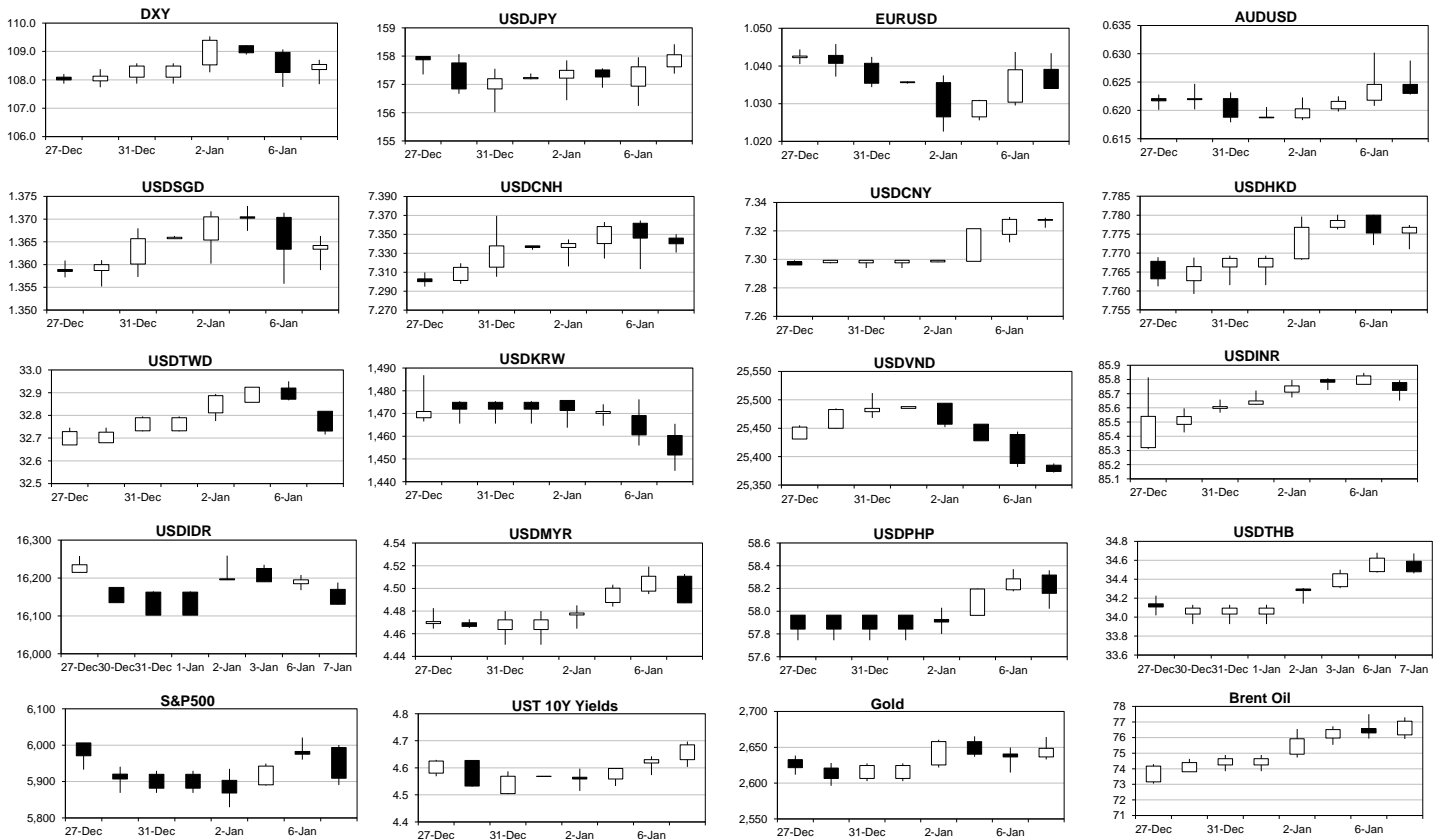
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5909.03	-66.35	▼1.11%
Nasdaq (US)	19489.68	-375.30	▼1.89%
DJIA (US)	42528.36	-178.20	▼0.42%
N225 (JP)	40083.3	776.25	+1.97%
STOXX50 (EU)	5011.82	25.18	+0.50%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4493.46	-10.10	▼0.22%
STI (SG)	3828.17	6.33	+0.17%
SHCOMP (CN)	3229.644	22.72	+0.71%
SZCOMP (CN)	1879.017	29.56	+1.60%
HSI (HK)	19447.58	-240.71	▼1.22%
SENSEX (IN)	78199.11	234.12	+0.30%
JSE (ID)	7083.284	2.81	+0.04%
KLSE (MY)	1629.79	4.32	+0.27%
PSE (PH)	6545.38	-79.79	▼1.20%
SET (TH)	1390.88	18.23	+1.33%
VNINDEX (VN)	1246.95	0.00	+0.05%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	8,886.89	-0.21	▼0.00%
IRON ORE (CN)	97.42	-6.19	+0.11%
GOLD	2,648.59	12.12	+0.46%
SILVER	30.05	-0.22	▼0.67%
OIL (BRENT)	77.05	0.75	+0.98%
OIL (WTI)	74.25	0.69	+0.94%
NATURAL GAS	3.45	0.09	+0.31%

CHARTS



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