

Jan 13, 2025

Three Take-Aways

- 1) USD NFP outperformance and soaring inflation expectations sent UST yields and USD soaring and weighed on risk sentiments.
- 2) Oil prices rose on sanctions on Russia but has mitigating factors ahead.
- 3) BoK may embark on pre-emptive easing this week as growth indicators remain weak and inflation pressures contained.

MACRO THEME: NFP Surge

- Last Friday, US nonfarm payrolls outperformed with 256k jobs exceeding expectations. As we had warned, markets fretted about the Fed's propensity to keep policy restrictive and in turn risk sentiments were dented as US equities plunged.

- Admittedly, with unemployment rate declining to 4.1% in December from 4.2% in November amid a firm participation rate, the jobs report reflect a robust labour market.

- Furthermore, the Uni of Michigan survey showed soaring inflation expectations with both the 1Y and the 5-10 year expectations soaring to 3.3%. Consumer sentiments were also downbeat.

- Consequently, UST yields soared with 2Y yields rising 11.6bp and the USD strengthened. Markets are now pricing in just 1 cut in 2025.

- Fed officials were also rather cautious with St Louis Fed President Musalem stating that he had change his assessment of risks as economic data came in stronger and inflation numbers printed higher than expected. He said that he penciled in two cuts for the rest of this year during the December FOMC.

- Meanwhile Chicago Fed President Goolsbee lean more dovishly saying that rate will be a fair bit lower over the next 12 to 18 months as long as inflation doesn't move higher. This is perhaps a reminder to ponder about whether the market expected path is one of normalisation or for the economist to re-focus on the relationship between labour markets and inflation that is the slope of the Philips curve.

Yields (2Y: +11.6bp; 10Y: +7.0bp, 30Y: +1.6bp)

- Yield curve bear flattened as front end yields soared.

Equities (Nasdaq: -1.6%; S&P 500: -1.5%; Dow: -1.6%)

- Broad based decline across various sectors.

FX (DXY: +0.4%)

- USD soared against most G10 peers except the JPY as markets remain cautious on BoJ moves. EUR sank towards mid-1.02 while the AUD dropped towards mid-61 cents. In EM-Asia, the USD/SGD has soared to above 1.37.

- EM-Asia FX will come under pressure today and central bank intervention and jawboning is to be expected.

Five Mitigations for Russia Oil Sanctions

Brent crude has jumped some 5% to \$81+ on news of fresh Russia oil sanctions related to shipping, trading and insurance.

This is admittedly a serious upside risk to oil. But there are give mitigating factors to quell fears of unremitting bullish trend in oil.

First, the bigger picture is for aggregate global supply shifts to at least keep apace, if not comfortably outstrip, demand change.

Second, the degree of Russia's crude disruption may be comfortably offset elsewhere. Both by OPEC and non-OPEC producers.

Third, Russia's oil is expected to leech into global supplies in any case. And possibly at a deeper discount yet.

Fourth, US ambitions to materially lift energy output to deepen and solidify its position as a net energy exporter is yet another critical dynamic to check unmitigated upside in prices.

Fifth, China's inclination to stockpile during periods of softer prices, provides the inventory buffer to dampen (from the demand-end) bullish oil impulses.

China: Paradox Revealed?

- The PBoC suspended bond buying to stem the slump in bond yields.

- In turn, to anchor RMB stability, the PBoC raised its issuances of bills in Hong Kong to a record 60bn RMB.

- Amid fragile confidence, the need for firm policy supported was epitomized fall in China equities as companies on the US Pentagon blacklist was hit even though they had little business with the US Defense department.

Bank of Korea: Front Loading Flexibility

- We expect a 25bp rate cut at the BoK's upcoming meeting (16 Jan). While the KRW's recent weakness is indeed an impediment to ease policy, the **macro economic conditions remain appropriate for the BoK to pre-emptively support growth.**

- The BoK revised growth lower to 1.9% in 2025 at their last meeting in November 2024.

- Since then, domestic politics which hogged headlines present **more downside risks to growth** via a slower pace of fiscal support even though the trimmed Budget 2025 was passed by the opposition.

- Furthermore, despite strong export growth, **manufacturing PMI in December slipped back into contractionary territory** after a brief expansion in November.

- **Industrial production also contracted in November** on a seasonally adjusted basis reflecting the weak activity levels in the manufacturing sector as the semiconductor tailwinds had limited spillovers.

- On the inflation front, December's headline CPI inflation bump up to 1.9% from November's 1.5% is of little worry as **core inflation edged lower to 1.8% from 1.9% in November.** Furthermore, **housing price momentum in Seoul continued to wane** in December 2024 alongside softer mortgage loan growth in November.

- Given that markets have already priced in 2 cuts for 2025, there may be little surprise if Governor Rhee decides to ease rates in Q1. We expect him to **emphasize on a calibrated pace of cuts implemented flexibly as external and even domestic conditions remain highly volatile.**

FX OUTLOOK

DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(MY) Industrial Production YoY (Nov)	3.6%	2.5%	2.0%
(IN) Industrial Production YoY (Nov)	5.2%	4.1%	3.5%
(JP) Coincident Index (Nov P)	115.3	115.3	116.8
(JP) Leading Index CI (Nov P)	107.0	107.2	109.1
(US) Change in Nonfarm Payrolls (Dec)	256k	165k	227k
(US) Unemployment Rate (Dec)	4.1%	4.2%	4.2%
(US) UoM Sentiment/Expectations (Jan P)	73.2/70.2	74.0/72.7	74.0/73.3
(US) UoM 1/5-10Y Inflation (Jan P)	3.3%/3.3%	2.8%/3.0%	2.8%/3.0%
Today	Actual	Exp.	Prior
(CH) Exports/Imports YoY (Dec)		7.5%/-1.0%	6.7%/-3.9%
(IN) CPI YoY (Dec)		5.3%	5.5%

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	157.73	157.89	▼0.26%	156.00 - 160.50
EURUSD	1.0244	1.0244	▼0.54%	1.0190 - 1.0450
GBPUSD	1.2207	1.2205	▼0.82%	1.2100 - 1.2480
AUDUSD	0.6147	0.6154	▼0.79%	0.6100 - 0.6200
DXY	109.7	--	+0.43%	108.5 - 110.0
USDCNY	7.3326	--	+0.01%	7.3150 - 7.3500
USDCNH	7.3633	7.3616	+0.10%	7.3300 - 7.3800
USDHKD	7.7876	7.7869	+0.06%	7.7740 - 7.8000
USDSGD	1.3715	1.3714	+0.23%	1.3580 - 1.3800
USDKRW	1473	1474	+0.00%	1450 - 1480
USDTWD	32.98	--	+0.08%	32.70 - 33.30
USDINR	85.97	--	+0.13%	85.70 - 86.60
USDIDR	16185	--	▼0.09%	16150 - 16350
USDMYR	4.498	4.509	▼0.12%	4.480 - 4.580
USDPHP	58.36	--	▼0.24%	58.20 - 58.90
USDTHB	34.58	34.66	▼0.14%	34.4 - 35.0
USDVND	25371	25372	▼0.04%	25320 - 25580

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.381	4.760	11.6	7.0
JGB (JP)	0.643	1.194	0.1	1.8
Bunds (GE)	2.280	2.593	5.3	2.8
Gilts (UK)	4.532	4.836	2.2	2.7
AGB (AU)	3.913	4.545	3.4	5.9
SGS (SG)	2.883	3.013	2.4	3.2
CGB (CN)	1.199	1.643	5.8	1.9
KGB (KR)	2.823	2.644	1.6	11.6
SDL (IN)	6.772	6.699	-1.5	0.1

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	161.59	161.73	▼0.79%
GBP/JPY	192.55	192.697	▼1.07%
JPY/SGD (100yen)	0.8697	0.8686	+0.51%
JPY/HKD (100yen)	4.9379	4.9319	+0.33%
CNH/JPY	21.535	21.533	▼0.12%
CNH/HKD	1.062	1.062	+0.06%
EUR/GBP	0.83898	0.83932	+0.26%
AUD/NZD	1.106	1.1061	▼0.04%
EUR/CNH	7.5425	7.5409	▼0.46%
GBP/CNH	8.994	8.9845	▼0.65%

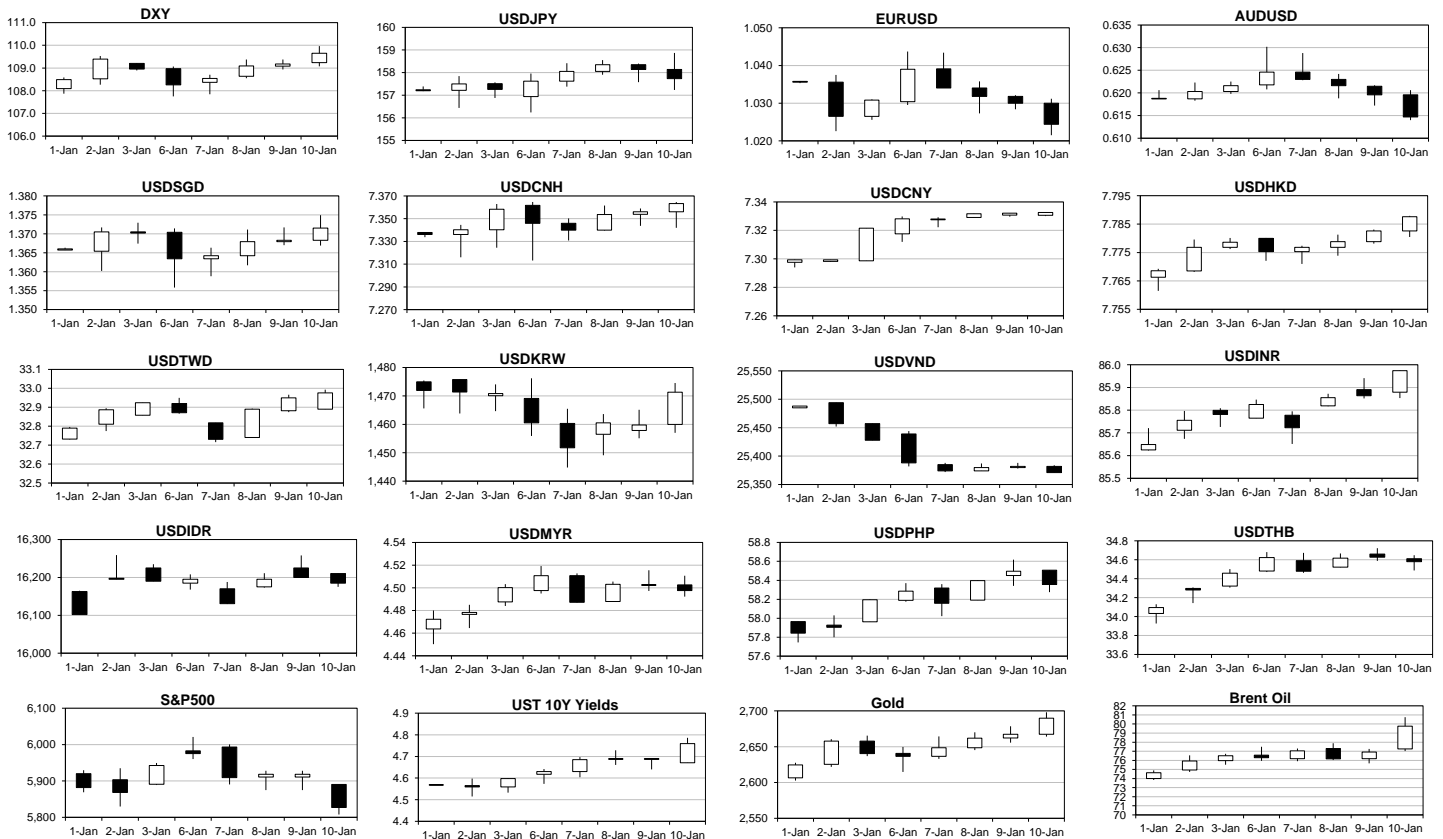
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G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5827.04	-91.21	▼1.54%
Nasdaq (US)	19161.63	-317.25	▼1.63%
DJIA (US)	41938.45	-696.75	▼1.63%
N225 (JP)	39190.4	-414.69	▼1.05%
STOXX50 (EU)	4977.26	-40.65	▼0.81%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4476.42	-41.51	▼0.92%
STI (SG)	3801.56	-61.04	▼1.58%
SHCOMP (CN)	3168.524	-42.87	▼1.33%
SZCOMP (CN)	1837.28	-41.66	▼2.22%
HSI (HK)	19064.29	-176.60	▼0.92%
SENSEX (IN)	77378.91	-241.30	▼0.31%
JSE (ID)	7088.866	24.28	+0.34%
KLSE (MY)	1602.41	1.60	+0.10%
PSE (PH)	6496.32	-15.25	▼0.23%
SET (TH)	1367.99	5.02	+0.37%
VNINDEX (VN)	1230.48	-0.01	▼1.23%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	8,991.86	20.29	+0.23%
IRON ORE (CN)	97.90	-0.93	+0.08%
GOLD	2,689.76	22.51	+0.84%
SILVER	30.41	0.29	+7.78%
OIL (BRENT)	79.76	2.84	+3.69%
OIL (WTI)	76.57	2.65	+3.58%
NATURAL GAS	3.99	0.27	+0.91%

CHARTS



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